



Growing the Economy - Bridging the Gap

Presidential Review Committee on State-Owned Entities

Volume 1

Executive summary of the final report

Submitted to:

H.E. Mr J.G. Zuma

President of the Republic of South Africa



THE PRESIDENCY
REPUBLIC OF SOUTH AFRICA



PRESIDENTIAL SOE REVIEW COMMITTEE



**In this report, we make
recommendations for
State-owned Entities to be
reshaped and made relevant
to the developmental needs
of South Africa.**

This report is the outcome of the work of the Presidential Review Committee (PRC) on State-owned Entities (SOEs). The members of the committee are:

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DISCLAIMER

This report has been produced independently by the PRC as commissioned by the President of the Republic of South Africa.

The review of State-owned Entities (SOE) in South Africa was not a micro audit or review of individual SOEs, but a macro review of all SOEs and their environment. Every consideration and care was taken by the PRC to consult stakeholders and gain insight into SOEs in different spheres of Government and various categories of SOEs in order to inform the macro perspective findings and recommendations presented in this report.

The information, commentary and statistical data have been prepared by the PRC and supplied by service providers appointed by the PRC. The use of such data by the PRC in this report is without prejudice to the SOEs and other stakeholders that participated in the different studies concerned.

Information supplied to the PRC is assumed to be factually correct and complete as the PRC could only work with the information provided.

This report is secret and confidential and is intended only for the President of the Republic of South Africa.

FOREWORD BY THE CHAIRPERSON OF THE PRESIDENTIAL REVIEW COMMITTEE ON STATE-OWNED ENTITIES

GROWING THE ECONOMY – BRIDGING THE GAP

The review of State-owned Entities (SOEs) in South Africa took place at a time that was characterised by enormous challenges and great opportunities. The economy is in a fragile period, which was threatening the growth and development plans of the country is threatened. Societal challenges such as poverty, unemployment, skills development, and job creation demands attention. Infrastructure development plans are being marshalled to contribute to inclusive development and growth of the economy. Demands for improved service delivery are pronounced and Government is hard at work charting the country's long-term development plan.

The PRC on State-owned Entities was appointed to review ALL state entities and make recommendations on aligning these entities at all spheres of Government in order to achieve the developmental objectives and aspirations of South Africa.

The PRC understood its task as primarily that of making recommendations that would ensure that reforms are affected for SOEs to be more efficient and effective in accelerating the country's growth and development aspirations. The committee's enormous task entailed 21 terms of reference and was executed by a committee of 12, which was assisted by a limited secretariat team. It had very limited resources and had to complete its mandate within a short time frame. The team that was brought together was dedicated, professional and possessed expertise in diverse fields, making the review work possible.

In this report, we make recommendations for South Africa's State-owned entities to be reshaped and made relevant to the developmental needs of South Africa.

Traditionally, governments of large and emerging economies have depended on the performance of the private sector and SOEs to drive their economic agendas and enhance competitiveness of their countries. With regards to the private sector, the Government's role has generally been to reduce red tape, encourage investment including foreign direct investment, provide stable tax, legal and statutory environments to drive growth, as well as support and facilitate activities of the private sector.

The SOE environment is an area where the Government as key stakeholder and in some instances sole shareholder should be able to drive the country's national strategic economic agenda. In pre-1994 South Africa, the Government's approach to SOEs was instrumental in propping up the apartheid state to survive sanctions and embargoes and to continue to grow the economy, albeit to the benefit of a minority and detriment of the majority.

Several nations across the world have grown their economies through the effective performance management and appropriate governance of SOEs. For South Africa, it was crucial for the PRC to interrogate what the role and contribution of SOEs should be in the new democratic dispensation. The key questions related to how SOEs should be managed, the objectives they should strive for towards in order to achieve the State's economic, developmental and transformational objectives, and whether the existing portfolios of SOEs meet the future long-term needs of South Africa.

Governments the world over are faced by similar questions as those facing South Africa. They constantly have to answer questions around how State-owned enterprises should be harnessed in order to promote economic development; what the relationship between SOEs and the State as owner should be; and what criteria should be used to assess options for establishing, investing in or disposing of SOEs.



In 24 months the PRC undertook a macro review of all entities. The Committee reflected on the past history of SOEs, going back to the 1900s when the first SOE was established through to the 18 years since 1994 when a democratic South Africa came into being. The review required a forward-looking approach in the context of South Africa's aspirations as a Developmental State, and the potential for SOEs to contribute to the realisation of such an aspiration. The first phase of the review culminated in the crafting of emerging principles based on observations gleaned in the initial stages of the investigation.

Given the wide scope of the PRC's brief, it was crucial to determine what and how many entities we were to review. Early observations indicated that there were an estimated 300 SOEs in the country. We observed that the initial estimation did not take into account SOE subsidiaries and other forms of establishment. It also became evident that while good progress had been made in documenting national entities, the same did hold true for those pertaining to the provinces and municipalities. Having taken some of the omissions mentioned into account, we observed that there are approximately 715 entities serving various social and commercial objectives at different spheres of Government. The committee's preliminary findings, contained in the progress report submitted to The President in July 2011,

were further researched, tested, and refined to the point where the PRC is now in a position to make final recommendations.

As a result of the large number of entities, it was not possible to undertake a micro study of each of the entities. Through the assistance of our primary research advisors, the HSRC, the PRC developed a scientific representative sample of entities to study. The recommendations contained in this report were enhanced by the scientific research, literature review, and various stakeholder engagements undertaken by the PRC during the review. Public submissions, an SOE survey, policy dialogues, provincial dialogues, as well as international benchmarking were some of the initiatives undertaken to gather data.

A database of SOEs was developed by the PRC comprising information on SOEs at all three spheres of Government. The information was largely obtained from publicly available sources as well as through the SOE survey conducted by the HSRC on behalf of the PRC. We hope we have provided a sound basis for the administration of a management information system on SOEs going forward. The database should have a host and should be kept live and be updated regularly.

The PRC calls for continued in-depth micro assessment of SOEs to assist the merging and rationalisation of the many entities, a requirement

FOREWORD BY THE CHAIRPERSON OF THE PRESIDENTIAL REVIEW COMMITTEE ON STATE-OWNED ENTITIES *continued*

that is supported by some of our review findings. This will assist in positioning SOEs as efficient vehicles of social and commercial delivery for the State.

The PRC was also encouraged by the emerging focus by the Auditor General's office on the evaluation of performance objectives of SOEs which beyond the normal performance audit on financial efficiency and effectiveness. We believe that such a move is essential if the unique performance requirements of SOEs are to be realised. The ability of SOEs to remain viable while delivering on determined socioeconomic imperatives should be transparently measured.

This report highlights the following critical factors that the State should give consideration to in order to reposition SOEs:

- The State should **clearly define and communicate a consistent strategy for SOEs** (including definition, purpose, role, function and objectives). In addition, it is necessary to create and maintain a portfolio of SOEs, which should be periodically reviewed.
- The State should ensure that **governance policies and practices are in place** and that streamlined points of contact between regulators, agencies, Government and SOE are maintained. Appropriate legal frameworks to support and enable SOE performance should also be in place.
- The State, as owner should define the purpose of SOEs. Standardised monitoring and evaluation criteria modelled on best practice should be adopted to make performance monitoring more effective. Such performance criteria should be supported by **relevant economic and socio-political Key Performance Indicators (KPIs)** that are commonly embraced by SOEs and the State, as owner.
- The State should enable high operational performance of SOEs so that they are able to meet economic and developmental objectives

in a cost effective manner. SOEs should have sufficient operational independence, which should be articulated in the shareholder compact. The State, as owner should **ensure SOE access to adequate funding**. The entities should possess the capacity to attract and retain human resources as well as scarce skills.

In conclusion, we thank all stakeholders including the Government, SOEs, business, civil society organisations, international partners, as well as all our service providers, expert writers and researchers, for having tirelessly assisted us in the review task. Sincere appreciation is also extended to the members that served on the PRC selflessly and the Secretariat that worked far beyond what was asked of them.

Lastly, I thank The President of the Republic of South Africa, His Excellency Mr JG Zuma, for having entrusted the committee with a task of such national importance.



Ms Mangwashi Victoria Phiyega
Chairperson

ACKNOWLEDGEMENTS

The PRC acknowledges all the Presidency officials who were involved in support of the project, including and in particular the Presidency PRC Steering Committee that comprised of the following members: Honourable Minister Collins Chabane, Minister in the Presidency for Performance, Monitoring and Evaluation as well as Administration; Dr Cassius Reginald Lubisi, Director-General in the Presidency and Secretary to Cabinet; and Advocate Bonisiwe Makhene, Legal Advisor to the President.

The PRC also wishes to acknowledge the Office of the Deputy President's recognition for the work done by it.

The resource and project partnerships as well as support made available by various stakeholders are also recognised. The Presidency, the Organisation for Economic Cooperation and Development (OECD), the Royal Netherlands Embassy, Department of Public Enterprises, Eskom, Transnet, PRASA, PetroSA, the DBSA, SAA as well as the Belgian Study Fund, through the International Donors unit of National Treasury.

Various participants at the PRC seminars, policy dialogues, round-tables, public submissions, as well as direct stakeholder engagements made possible the collation of various literature, perspectives, information, and insights into the SOE landscape of South Africa, which assisted the review process of the PRC. Further, the contribution of the following stakeholders was invaluable to the PRC: the Organisation for Economic Cooperation and Development (OECD); the National Planning Commission (NPC); the SOE Procurement Forum (SOEPF); Parliament Portfolio Committees; all national departments that participated in the consultations of the PRC, all Provincial Governments, through their Departments of Economic Development; Local Governments including SALGA; business organisations including BUSA, SACCI, BASA, and the JSE; political parties including the Economic

Transformation Committee of the African National Congress (ANC) the Democratic Alliance (DA), as well as South African Communist Party (SACP); organised labour including NUM, and NACTU; civil society organisations; and the School of Oriental and African Studies (SOAS) and the University of London.

The benchmarking of South Africa's SOE landscape against global trends and lessons was crucial to ensuring that the PRC makes relevant recommendations sensitive to both local and global dynamics. The PRC recognises the collaboration with OECD, in hosting a delegation from UK, Malaysia, Finland, Namibia, China, and NEPAD for the PRC's International Benchmarking Seminar. The following countries' contribution during further international benchmarking by the committee is acknowledged and appreciated: Netherlands (Ministry of Infrastructure and the Environment and Ministry of Finance); Germany (SOE Legal Framework); Norway (Ministry of Trade and Industry); Poland (Treasury Ministry); and France (Agences des participations de l'Etat APE).

Lastly, the PRC acknowledges the work of various research partners and service providers, expert researchers, expert writers, and the quality assurance team for going beyond the call of duty in providing service to it.

TERMS OF REFERENCE

The following are the twenty-one (21) terms of reference (ToR) upon which the PRC made recommendations:

1. A common understanding and definition of SOEs;
2. The place of SOEs in a Developmental State;
3. The strategic importance and value creation of SOEs;
4. The viability and funding of SOEs;
5. The existing portfolio of investments by the State in strategic businesses;
6. The efficiency and effectiveness of SOEs with respect to service delivery;
7. Current policy and regulatory framework and the impact thereof on the management of SOEs;
8. The balance of social, political and economic imperatives in delivering objectives for SOEs;
9. Harmonisation of performance measurements among SOEs;
10. Standardisation of accounting and reporting processes for SOEs;
11. Owner/shareholder oversight and governance of SOEs;
12. Recruitment, selection and appointment of boards and executive management of SOEs;
13. Remuneration policies of SOEs taking into account wage differential aspects;
14. Current restructuring initiatives (privatisation, retrenchments, Public Private Partnerships, etc.) of SOEs, and implications thereof;
15. SOEs as a platform for sustainable human capital development and a catalyst for scarce skills;
16. Establishment of a comprehensive database of SOEs across all spheres of Government;
17. Policy for the establishment and disestablishment of SOEs;
18. Criteria and framework for identifying and establishing priority SOEs, as well as relevant global benchmarking and best practices;
19. Alignment, collaboration and cooperation among SOEs for the purpose of optimising State resources;
20. Relationship and collaboration between Government Ministries to facilitate achievement of SOEs objectives; and
21. Compliance of SOEs with the Government's development and transformation agenda.

EXECUTIVE SUMMARY

The review of SOEs provides an opportunity for post-1994 South Africa to redefine the configuration and the role of its SOEs to address economic, social and service delivery challenges facing the country. These challenges include access to quality service delivery, globalisation, unemployment, skewed distribution of income, access to land and housing, access to finance and poor infrastructure – the burden of which is disproportionately borne by the majority of the population.

South Africa aspires to be Developmental State. This review provides an opportunity to align the SOEs to this agenda. Chapter two of this report explores the common understanding of the concept of a Developmental State as well as the associated plans and programmes. In particular, SOEs are expected to assist the State in addressing issues of social and economic transformation and in bridging the gap between rich and poor; black and white; rural and urban and other divisions in our society. If the country is to attain improved quality of life underpinned by a robust democracy and a just society, along with other initiatives, the State must preside over viable, efficient, effective and competitive SOEs.

The Presidential Review Committee (PRC) of SOEs was established to address the question of whether SOEs are responding appropriately to the Developmental State agenda. This implies that the review should ascertain the extent to which the State must be an active, effective and decisive owner/shareholder; playing a leadership role in providing strategic direction, creating an enabling environment, and being at the forefront of ensuring that SOEs are vibrant and execute their mandate effectively.

In its comprehensive review, the PRC has ascertained that while SOEs have an indispensable role to play in service delivery and have crucial performance and transformation potential, they are nevertheless faced with significant weaknesses and threats that might become grave impediments to their optimum contribution. This

report accordingly recommends major reforms to strengthen SOEs. These reforms address matters of oversight for SOEs, establishment/disestablishment of SOEs; strategic planning, funding, legal and regulatory policy, institutional structures, systems, capacity, as well as critical performance evaluation measures.

CONTEXT FOR THE REVIEW

The review of South Africa's SOEs needs to be understood as a sequel and was framed by numerous existing strategic and policy imperatives. Among these are the outcomes of the 52nd Conference of the ANC in Polokwane in December 2007 (Polokwane Conference); the Medium-Term Strategic Framework (2009–2014) and the stipulations of the Constitution of the Republic of South Africa, Act No. 108 of 1996 (in particular chapters 2, 3, and 10).

- The Polokwane Conference of the ANC (the ruling political party) called for a review of the performance of SOEs and for policy options regarding the role of SOEs in the Developmental State. The aim is to ensure that SOEs remain viable, whilst they deliver on their Developmental State mandate.
- At the State level, the review was framed by strategic policy documents emanating from the Medium-Term Strategy Framework such as the New Growth Path, National Industrial Policy Framework, National Delivery Outcomes, and the draft National Development Plan.
- Chapter 10 of section 195 of the Constitution requires all organs of the State, including SOEs, to deliver services to the people in a particular manner. Thus the President's brief for this review calls not only for a review of their financial performance but also for consideration of whether these entities are meeting their Constitutional responsibilities.
- The review was guided by broad principles, which included macro examination of all types of entities in all spheres of Government (commercial and non-commercial); taking into account previous reviews and international experience.

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- The PRC was required to respond to terms of reference comprising twenty-one (21) elements categorised into four themes, namely, development and transformation; governance and ownership; business case and viability; and strategic management and operational effectiveness.

The observations and recommendations contained in this report draw on extensive secondary and primary research, stakeholder engagement as well as policy dialogues, seminars, and focus groups conducted by the PRC.

CHALLENGES IDENTIFIED

The PRC found 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. For the sake of completeness, 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). This figure may increase as further investigations are conducted. With such a large portfolio of SOEs, the PRC had to pay particular attention to the capacity and capability of the State to effectively oversee these SOEs and identify the best options to manage SOEs without compromising their service delivery and financial performance.

The main problem under investigation was whether SOEs were responding to the State's developmental agenda. This requires that the State be an active and decisive shareholder, that it plays a leadership role in creating an enabling environment to drive the performance of SOEs in delivering their mandate.

The PRC made a number of observations and findings regarding strategic, environmental, and

operational considerations. These can be found in the following four parts of the report (volume 2) dealing with Strategy for SOEs; Creating an enabling environment; SOE performance; and State capacity enhancement.

Notable observations and findings are that **South Africa has no common agenda for and understanding of SOEs**. This diversity ranges from varying terminology used to denote SOEs to the perceived absence of a universal and obligatory long-term vision and plan for SOEs that clarifies their role in the country at large. **There are no commonly agreed strategic sectors and priorities**. In addition to the **absence of a consolidated national repository for all SOEs**, there is confusion regarding SOEs categorisation. There are also **challenges with regard to balancing the trade-offs between commercial and non-commercial objectives of SOEs**.

The legislative framework for SOEs was found to be inadequate, displaying evidence of conflict and duplication. **The governance, ownership policy, and oversight systems were found to be inadequate**. **The quality of the board and executives' recruitment was found to be inadequate**. There is no **clarity on the role of the executive authority; boards; and the Chief Executive in the governance and operational management of SOEs**.

The remuneration frameworks and practices are inconsistent. They require urgent reconsideration because they impact directly on the performance of SOEs and influence the supply and demand for skilled personnel in the market.

Many SOEs currently require a massive injection of capital and finance policies require close re-examination. **Funding models for social and economic development mandates of SOEs are blurred and confusing, leading in some instances to undercapitalisation**, which impedes the SOE's ability to contribute to meeting national challenges.

The **service delivery performance of SOEs was found to be mixed**, some exhibiting excellence

and providing high quality services, while in other areas there are deficiencies characterised by low levels of customer satisfaction, complaints and service delivery civil protests.

Finally, the performance of SOEs is subject to a number of variables, including the performance contracts between the executive authority and the board of SOEs. **Despite the importance of these shareholder compacts, they are often not signed on time and make insufficient provision for objectives beyond the narrow goal of profitability**. Generally, **SOEs tend to lack robust leadership and initiative on crucial transformation imperatives such as broad-based black economic empowerment, the creation of meaningful employment opportunities and comprehensive skills development**. **Collaboration and coordination among SOEs and their oversight is poor**. This reduces the impact made by SOEs in service delivery and it increases their costs.

KEY INTERNATIONAL LESSONS FROM SOE GOVERNANCE REFORMS

As the world becomes more interconnected and faces similar challenges, governments are learning from each other, while at the same time striving to deal with their unique conditions through innovative approaches. International experience shows that governments worldwide are increasingly making use of SOEs as catalysts of growth, development, employment generation and transformation of economies and societies. Similarly, in South Africa, SOEs are seen as important agents of change that are able to contribute positively to economic and social transformation, the creation of decent work, growth and development of society.

Many of the countries evaluated have embarked on review processes to investigate and reformulate the specific goals, rationale and mission of SOEs, individually and collectively, in terms of accelerating wider economic growth, expanding industrialisation, providing infrastructure, and ensuring quality and timely public service delivery. These countries have formulated a clear

national policy on the role of SOEs in driving the objectives of a national development plan. Some countries have standing processes in place to regularly review the rationale, goals, mission and performance of SOEs.

- In countries, such as Canada, New Zealand and Sweden, SOE reforms have proved reasonably successful. They were amongst the first to focus on formulating a clear overarching legislative framework for SOEs and setting out objectives for the management of SOEs.

- Many successful reformers have focused on clarifying the multiplicity of roles of the State, whether as shareholder, policymaker, regulator, operator etc. Some countries have consolidated the ownership and monitoring of SOEs in a single central agency. In this way, one government agency acts as the 'owner' on behalf of the State and 'exercises the shareholder rights'. Related to this is the reality that many governments have formulated an explicit 'ownership policy' that defines the overall objectives of State ownership; the State's specific role in the corporate governance of SOEs; and how the State will implement such ownership policy efficiently.

- China, for example, established the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) to oversee the ownership, supervision and monitoring of SOEs. Singapore, on the other hand, formed a separate company, Temasek Holdings, to serve as the central ownership and monitoring agency for SOEs. Similarly, France established the Agence des Participations de l'Etat to oversee SOEs.

The PRC found that where the formation of a single entity was not politically feasible, a separate State agency was set up to monitor the performance of SOEs. This is the case in New Zealand, where ensuring the accountability of SOEs was split between line-function ministers and a semi-independent Crown Company Monitoring Advisory Unit, which not only monitors the

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performance of SOEs but also provides strategic advice to line ministers on how to maximise the resources of SOEs.

Reforms have also focused on clarifying interactive roles between governments as shareholders; entity boards; executive management; and regulators. Some governments have attempted to set clearer objectives and performance targets for SOEs, including financial targets, developmental impact and employment creation. In the case of multiple objectives – which are often the case, the State should rank them in order of importance.

A strong focus has been on developing less opaque mandates and creating vigorous monitoring and evaluation policies and systems. The idea has generally been to set clearer ‘objectives and targets, which can be monitored and reported on over time’.

Furthermore, reforms have focused on improving overall State capacity in the SOE as well as in the SOE oversight institutions such as Parliament and the executive authority, including State independent governance and oversight agencies. These governments and their parliamentary oversight organs have tried to bring more transparency into the operations of SOEs i.e., transparency similar to that of listed companies. As an example, Sweden has a requirement for SOEs to provide quarterly reports, which must include financial statements. In addition the State has to make a public disclosure of the goals, assessments, and guidelines for oversight of SOEs.

Various countries have also made robust efforts to improve performance and initiated groundbreaking policies to attract and retain those with the requisite talent, expertise and innovative ideas to serve on SOE executive management and boards.

MOVING FORWARD

With South Africa aspiring to be a Developmental State, the PRC envisioned a framework for SOE reforms and optimal contribution to equitable growth, development, transformation, and

service delivery in South Africa. The framework takes into account international experience and encapsulates the following principles that enhance the SOE environment. The PRC suggests that these principles should be endorsed by Government to guide SOE reforms:

- 1. The Government must have a vision and strategy for the Developmental State.** The Government must develop a shared understanding of the objectives of the Developmental State and must stipulate how it should inform the strategies of key stakeholders in the country, including SOEs
- 2. The Government must identify strategic sectors.** The Government should identify strategic sectors that will support the vision and strategy of a Developmental State and within which SOEs will play a role.
- 3. There must be recognition that SOEs are critical in attaining the objectives of the Developmental State.** SOEs are instruments of the State and all have the primary imperative of assisting the State in achieving its developmental objectives. The different types of SOEs – commercial, non-commercial, constitutional, regulators, agencies and other – each have a defined contribution to make. Clarity should be provided on the role of each entity in achieving developmental objectives as well as how resourcing, governance and performance management will be conducted.
- 4. Profit and non-profit objectives of SOEs must be clearly defined.** This principle embodies the unique nature of SOEs, embracing their need to service social-objectives. These objectives should be clearly defined articulating trade-offs between profit and non-profit objectives. The primary and core mandate of entities and their viability should be prioritised.
- 5. The Government must maintain a consolidated SOEs database.** There should also be comprehensive strategic categorisation and standardised terminology and definitions.

- 6. The Government must strive to create legislative clarity.** There must be an enabling environment for SOEs.
- 7. The Government must delineate the separate roles of Government as owner, policy-maker, regulator and implementer.** In the legislative environment that should be created for SOEs, the role and function of the owner/executive authority should be clearly defined. Separation of policy, regulation, operations and performance monitoring should be implemented and a proper framework established to balance governance and financial oversight of the SOEs. This principle should facilitate competitive neutrality and also allow for sound decisions on what should be centralised and what should be/remain decentralised.
- 8. The Government should adopt a policy for mandatory periodic reviews of SOEs.** International best practice dictates that the mandates of the SOEs are rigorously reviewed by Parliament and the shareholder/owners periodically.
- 9. The owner or executive authority must play a stronger role in setting the strategic direction and framework for SOEs.** Owner/executive authority must be active (shareholder activism) in performance monitoring of SOEs. If the Government oversees service delivery that falls short of the realistic expectations of the people it serves it will incur significant reputational damage.
- 10. The Government should adopt appropriate funding principles and models.** There must be clarity on the use of funding instruments to fund SOEs and public infrastructure to achieve viable and sustainable development and service delivery.
- 11. The Government should ensure consolidation of the SOEs.** Clustering and centralising should be in the following groupings:

- i. Commercial:** The rationale for the commercial SOEs is their ability to command market-related revenues, having a bankable balance sheet, the ability to post profits, and the ability to maintain and replenish market capitalisation autonomously from the State. In cases where the State requires these entities to undertake non-commercial mandates, then the State should contract and fund them for these mandates.
- ii. Development finance institutions:** The rationale for development finance institutions is their ability to command market-related revenues, having a bankable balance sheet capability, the ability to post surplus, and the ability to maintain and replenish market capitalisation autonomously from the State. In cases where the State requires these entities to undertake non-commercial mandates, then the State should contract and fund them for these mandates.
- iii. Statutory corporations:** The rationale for statutory corporations rests in their ability to provide basic and essential services. Statutory corporations manifest a hybrid of commercial and non-commercial characteristics. The entities lend themselves to a cross-subsidisation mandate. These entities should remain wholly State-owned. From an ownership perspective, statutory corporations should remain in the line function.
- iv. Non-commercial SOE.** These entities are predominantly dependent on State funding through budget vote transfers as well as State subsidies and grants. In certain instances, special tax arrangements are made to support the income of entities. Additional resources can be attained through donor funding and in kind support by multilateral institutions as well as fundraising or sponsorships. Some of

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these entities may have a limited income stream. A significant number of these entities are established in response to constitutional or State policy mandates. These entities should remain under the full control and ownership of the State and should remain in the line function.

- 12. Performance should be assessed on the basis of efficiency and effectiveness as well as service delivery.** The balance of socioeconomic imperatives should inform articulation of performance indicators as well as pre-determined objectives.
- 13. Financial information should be improved.** A good accounting system should be established. Furthermore, the flow of information to the supervisory agencies must be improved by requiring regular and detailed reporting from the SOEs.
- 14. SOEs must play a leadership and catalytic role in transformation and development.** This should be achieved through transparent and development-focused procurement processes; gender parity and progression; targeted skills development in collaboration with other stakeholders (State, business and the community); as well as focused and coordinated social development.
- 15. Financial viability.** The principles should measure how well a SOE delivers on its core mandates as well as meeting its determined developmental objectives. The principles should take into account the fact that in some SOEs, viability will have a bottom line or commercial orientation, while in some SOE's entities other attributes will have equal or even more importance in determining viability. Adequate funding is necessary to ensure viability.
- 16. SOE remuneration principles.** These should ensure competitiveness and optimum retention by improving remuneration policies and practices to ensure alignment

and harmonisation across SOEs as well as improving governance and oversight of SOE remuneration by the executive authority.

- 17. Invest in human resources. Good enterprises require capable people to run them.** Investment should be made in training at all levels, from managers and research scientists down to the level of ordinary workers to improve skills. Incentive systems should be related to performance.
- 18. SOE collaboration and coordination principles.** These should focus on breaking down silos and ensuring collective responsibility. They should enable different SOEs to be measured and held accountable collectively for their contribution to achievement of a national objective where they need to co-operate to achieve optimal outputs/results.
- 19. SOEs should champion relevant skills and human resources development.** To drive success of entities in skills development, collaboration with the State and industry is vital.
- 20. Reduce the number of SOEs and streamline where appropriate.** This will mean better synergy and efficiency and it will reduce the demand on monitoring resources.
- 21. The Government should enhance its capacity.** The Government should be sufficiently capacitated with appropriate and specialised skills and expertise to successfully manage the State's SOE portfolio. Likewise, the entire SOE including boards and executives must be appropriately skilled in understanding the unique role they play in society. Specialised capacity-building interventions for SOEs such as SOE board training, and executives training programmes should be developed to position them to fulfil their strategies.

CONCLUSION

The SOEs reform principles supported in this report are designed to guide South Africa towards comprehensive reforms in the SOE environment to deal with current and future challenges facing the nation. SOEs are not regarded as a panacea for solving all challenges of South Africa but are an added strategic and catalytic State instrument for transformation, growth, development, service delivery and employment creation. They can make a significant contribution towards attainment of the Developmental State. However, without strong vision and committed leadership; an enabling legal environment; effective performance evaluation; and appropriate competencies and capacities, effective and sustainable change will not occur in the SOE environment and, accordingly, the objectives of the Developmental State will not be realised.

For South Africa to have optimally performing SOEs that contribute to transformation, growth, development, and service delivery, the proposed reform principles and recommendations in this report must be implemented from the highest office in the land throughout all Government structures and in all spheres in partnership with all formations of the society.

The principles include, among others, the separation of roles by Government; the formulation of a strategy for SOEs; creation of an enabling environment; and ensuring adequate performance evaluation and monitoring of SOEs. The State must have the requisite capacities to implement these reforms including visioning and strategy-setting, appropriate human capital and structures, as well as efficient and electronic oversight systems to enabling monitoring and evaluation of SOEs. We propose that Government should establish a transitional SOEs Reforms Committee to drive implementation of the recommendations of the PRC. It should also form an SOE Council of Ministers to capacitate effective oversight of SOEs. Commercial SOEs and DFIs should be overseen by a Central SOE Authorities

and a Central Remuneration Authority for SOEs is recommended to ensure consistency and accountability of remuneration frameworks and practices in SOEs.

RECOMMENDATIONS

RECOMMENDATION 1:

The Government should develop an overarching, long-term strategy for SOEs.

The strategy must:

- be aligned to the objectives of the Developmental State that South Africa aspires to become;
- find articulation in a White Paper on SOEs based on further recommendations herein contained, which White Paper should aim to inform a comprehensive SOE Act that we propose (see recommendation 2);
- be periodically reviewed and evaluated, at least every five years to ensure long-term alignment with the objectives and circumstances of South Africa's Developmental State.

The SOE strategy and a White Paper will contain the following elements:

- (a) A categorisation framework for SOEs which must be applicable to all three spheres of Government.
- A naming and terminology standard for SOEs must be developed and adopted, in accordance with the recommended categorisation.
 - All current and future legislation should conform to the single naming and definition standard.
- (b) A thorough examination and identification of strategic sectors for South Africa's Developmental State, and the role of SOEs therein.
- The identified strategic sectors should be either legislated or policy-led.
 - The sectors should be subjected to a periodic review process by some designated authority (e.g. the Executive Authority and Parliament).
- (c) A framework should be developed for identifying priority and strategic SOEs with a potential for increased impact on economic

growth, development and employment creation.

- (d) A comprehensive SOE approach on regional and international trade and development should be incorporated into the overarching strategy for SOEs.
- (e) SOEs should be consolidated and rationalised as and where needed.
- Consolidate SOEs that operate in similar sectors and industries, e.g. SETAs, Water Boards and DFIs;
 - Rationalise the number of SOEs so that focus can be placed on the most strategic sectors and industries.
 - Re-incorporate those functions that can be optimally performed by Government Departments.
- (f) Adopt a portfolio management approach to SOEs, particularly in commercial entities and DFIs.
- (g) Develop a structured framework for balancing commercial and socio-economic priorities.
- Periodically review and balance the social, political and economic priorities of SOEs.
 - Ensure commensurate resourcing and funding for additional socio-economic priorities.

RECOMMENDATION 2

The Government should enact a single overarching law ('State Owned Entities Act') governing all State Owned Entities.

The State Owned Entities Act must:

- supersede all current legislation governing SOEs;
- reduce the current burden of compliance with multiple laws and regulations; and
- include all subsidiaries of SOEs.

The proposed legislation will aim to address the duplication, conflicting provisions, different founding legislation, and in some cases, the serious omissions. The legislation should provide for:

- (a) The mandatory requirement to undertake a critical review of the overarching strategy and mandates of SOEs every five years;
- (b) An SOE Council of Ministers (comprising DPE, Treasury, DTI, EDD, the National Planning Ministry and other relevant Government stakeholders) whose functions shall entail oversight over the implementation of the Act in relation to strategic joint planning as well as collaboration between SOEs and Government Departments at all spheres of Government;
- (c) The establishment of a Central Remuneration Authority which will set guidelines and standards for remuneration of boards and executives in SOEs;
- (d) The extent and nature of ownership, corporate type as well as categorisation;
- (e) The mandatory registration of all State-owned Entities and subsidiaries in every sphere of Government;
- (f) The protocols and processes for establishment and disestablishment of SOEs in all spheres of Government;
- (g) The establishment of two Central SOE Authorities, one for Commercial Entities, and the other for Development Finance Institutions;
- (h) A determination of the role and responsibility of the owner/Executive Authority;
- (i) Prohibition of the creation and proliferation of non-compliant structures e.g. Section 21 companies and other prohibited forms:
- The Municipal Finance Management Act (MFMA), Municipal Systems Act and any other overlapping legislation should be aligned with this principle.
 - Sanctions should be introduced in the proposed new SOE Act in order to address issues of non-compliance. (See Recommendation 16.)
- (j) Outline principles of an SOE performance framework to measure and evaluate the performance of an SOE;
- (k) Develop a Corporate Governance Framework for all SOEs, which should:
- embrace the Developmental State agenda and the unique positioning of State-owned Entities;
 - encompass principles of ethical leadership, transformative corporate citizenship, service delivery, viability and sustainability; and
 - outline principles of collaboration among SOEs.
- (l) Development of an SOE Ownership Framework;
- (m) A centralised ownership model for commercial entities and Development Finance Institutions (DFIs) and a decentralised ownership/shareholder model for statutory and non-commercial entities. The ownership model should:
- apply to all spheres of Government, taking into account constitutional requirements;
 - be included in the SOE Act; and
 - clearly delineate the separate roles of Government as owner, policy-maker, regulator and implementer.
- (n) The establishment of a consolidated SOE Database for all SOEs and their subsidiaries (as defined in the PFMA) of all three spheres of Government, controlled by the central authority responsible for commercial entities; The HSRC is recommended by the PRC to host the pilot database as well as to handle the transition for permanent hosting of the database.
- (o) An SOE Oversight Framework should be developed by the central authority responsible for commercial entities; and
- (p) Mandatory collaboration among SOEs.

RECOMMENDATIONS continued

RECOMMENDATION 3(a):

Board Appointments

The Government should develop a framework for the appointment of SOE Boards.

The framework should be set out in a Handbook on Board Appointments, which should define the rules for the selection of candidates. The rules should cover the following:

- Clarification of roles for the Executive Authority, the entity board and the CEO.
 - The role of the Minister in relation to Cabinet and to Parliament should be clarified.
 - Clarification of the Board appointment process. The PRC recommends the guidelines for Board appointments outlined by the DPE. See Table 13 below.
 - The appointment of an independent Board should be made in writing by the Executive Authority, and should be duly gazetted.
 - Provisions for Board appointment should take into account the following:
 - o ensuring a transparent and merit-based recruitment and appointment process;
 - o transparent determination of board fees/remuneration in accordance with recommendations of the Central Remuneration Authority as recommended by the PRC;
 - o Board composition and representativity, taking into account race, disability and gender. The targets endorsed by the B-BBEE and the Department of Women, Children and People with Disabilities should be duly considered
 - o Confirmation of the term of office for Board members;
 - o Stipulation of the number of Boards on which a member should serve;
 - o Clear articulation of performance indicators in writing, for which there should be mandatory annual evaluations;
 - o Board training and development programmes (both induction and further ongoing development); and
- o Building succession planning for new directors and preparing next generation directors.

RECOMMENDATION 3(b):

CEO Appointments

The appointment of the CEO shall be done by the Minister in concurrence with cabinet, at the recommendation of the Board.

The following is the recommended process:

- The Board is responsible for the process of recruitment and assessment of the nominated candidates.
- The Board recommends to the Executive Authority two or three 'appointable' candidates for approval.
- The Executive Authority confirms the appointment in writing.

To manage sustainable development and retention of skills, the PRC recommends longer-term employment contracts.

The Board should adopt a structured and intensive performance management system for SOE executive management.

Incentives should be strictly aligned to performance.

RECOMMENDATION 4

The Government should develop a mandatory framework for effective collaboration among SOEs, and between SOEs and national, provincial as well as municipal authorities.

The collaboration framework should:

- be in line with the constitutional requirements for collaboration;
- consist of a common plan, derived from the overarching Developmental State strategy;
- strengthen partnerships between SOEs to drive Government priorities; and

- establish and strengthen partnership between Government and the private sector to drive the Developmental State agenda and priority projects.

RECOMMENDATION 5

The Government should establish a Central Remuneration Authority (CRA).

The CRA should:

- be allocated a strong degree of independence as well as the necessary authority to develop an overarching framework for remuneration in SOEs;
- provide guidelines and parameters within which the Board may apply its discretion on remuneration;
- provide direction on remuneration of SOEs' Boards and Executives;
- advise Government on the appropriateness of the remuneration policies, practices and both short and long-term incentive approaches developed by the SOEs;
- periodically review the relevance and appropriateness of executive perks or benefits paid outside the executive's total package.
- conduct benchmarking and set standards for annual remuneration; and
- produce an annual SOE remuneration update for Government to encourage transparent processes.

RECOMMENDATION 6(a)

Government should develop a uniform framework for economic regulation.

- An Executive Authority should be appointed to establish a framework for economic regulation and to oversee the implementation of core regulatory principles. This framework for Economic Regulation should immediately tackle the following:
 - o develop a regulatory strategy that will create credibility, bring stability and attract investors to the utility sectors;

- o as an intermediate phase, develop a blueprint that will act as a guide to all the sectors on how to improve the existing regulatory designs;
 - o start a process of overhauling the current array of sector-specific statutory provision for economic regulation in order to create an economic regulator that will immediately regulate all of South Africa's network industries; and
 - o develop action plans that will reinforce regulators' independence, accountability, and transparency by building the professional and technical capabilities of regulators.
- A uniform regulatory framework must:
 - o promote the independence of regulators – to have independent autonomy
 - o be competent – have the means to acquire the resources necessary to do the job properly;
 - o adopt principles to guide their independence taking into account the Developmental State objectives. The principles should be based on the following:
 - autonomy to make regulatory decisions;
 - powers to appoint and dismiss the regulatory staff to reside with Parliament;
 - funding must be independent of the relevant line or shareholding Ministry and raised either through industry levies (or licensing fees) or an independent budget vote;
 - reporting line and performance oversight should reside with Parliament;
 - the regulator should be granted organisational autonomy in terms of its legal identity, physical location, and staffing pool;
 - the decision-making process of the regulator should be transparent to demonstrate that there is no manipulation by any external forces; and
 - a focus on competitive neutrality.

RECOMMENDATIONS continued

RECOMMENDATION 6(b)

Government should undertake a process of identifying policy inconsistencies and policy conflicts; clarify the role of economic regulators; and develop a blueprint to guide regulatory designs.

RECOMMENDATION 7

The Government should develop a common performance management system.

The common performance management system should:

- be based on an SOE performance scorecard which should be developed by the central authority responsible for commercial entities;
- be aligned to the Developmental State principles;
- be linked to the performance reporting systems of the oversight authority;
- standardised reporting guidelines for SOEs taking into account SOE categorisation;
- be based on the mandates and strategic objectives of SOEs;
- include monitoring and evaluation of collaboration amongst SOEs;
- include customer (user) satisfaction indices customised for each SOE, measured regularly (annually) through independent surveys conducted by independent auditing or research entities; and
- assess SOEs on the basis of outputs of the value chain that the particular SOE contributes to through its activities (total impact assessment).

RECOMMENDATION 8

The mandates of SOEs should be subject to critical strategic review every five years, and the requirement thereof should be factored into the SOE Act.

Changes to mandates should be:

- aligned with the SOEs' overarching strategy;
- approved in concurrence with the SOE Council of Ministers;

- subjected to Parliamentary oversight; and
- formulated to include a strong element of measurability.

RECOMMENDATION 9

The agreement and sign-off of statements of strategic intent and corporate performance plans should be:

- made mandatory for every executive oversight authority; and
- developed within a specified time-line.

There should be a focus on a dedicated, deliberate training and development programme for oversight functionaries.

In addition, strong sanctions and accountability measures should be in place to deal with non-compliance and ensure accountability and productivity.

RECOMMENDATION 10

All Government entities and SOEs should be required to develop transformation plans.

The transformation plans for SOEs should:

- have implementation time frames;
 - be included in the performance contracts of executives and management;
 - require boards to establish transformation sub-committees or add the transformation function in a dedicated fashion to an existing sub-committee; and
 - include Broad-Based Black Economic Empowerment performance indicators as part of the pre-determined objectives to be assessed by the Auditor General.
- Include the review of the current BBBEE initiatives including Charters, Preferential Procurement to determine their successes or failures.

RECOMMENDATION 11

SOEs should lead the South African economy in prioritising skills development.

This must be done by:

- each SOE contributing to adequate sectorial skilling;
- the development of skills needs - assessment by every SOE to contribute to a national register of skills needs;
- collaborating with tertiary and further education institutions as well as private industry;
- the setting aside of dedicated funds as a percentage of total revenue to target staff/professional development from top to bottom;
- championing and driving development of the technical, artisanal and managerial skills they require;
- focusing on the development of scarce intermediate and high-level knowledge-based skills;
- continuing support for work-based training programmes;
- implementing structured and effective internships in collaboration with educational institutions;
- establishing specialised and dedicated SOE sector academies;
- implementing structured and effective learnerships that should be extended to at least two years;
- being proactively involved in career guidance support services.
- developing and implementing monitoring and evaluation guidelines for skills development; and
- reviewing and augmenting the skills development funding model for SOEs to accommodate the extended training requirements. This must be done considering the following sources:
 - o National Treasury;
 - o SETA discretionary grants; and
 - o the National Skills Fund.

RECOMMENDATION 12

SOEs should ensure that the procurement process is transformational.

This should be done by:

- taking into account local and historical factors;
- monitoring the suppliers' commitment to B-BBEE elements to ensure compliance by suppliers (this information should be shared among SOEs);
- tracking and monitoring spend on black rural, disabled and women-owned businesses;
- identifying opportunities within the value chain of SOEs that could be relevant to young people and companies owned by the targeted beneficiaries of B-BBEE;
- creating an SOE network that would aggregate purchasing opportunities arising for SOEs;
- creating an agenda for transformation in the sectors of the economy in which they operate and use these as leverage to drive transformation;
- enhancing other elements of the B-BBEE Scorecard by emulating the State Owned Entities Procurement Forum (SOEPF), which is a group of SOEs that voluntarily collaborate in procurement;
- encouraging Government to recognise and leverage SOE procurement networks like SOEPF; and
- playing a greater role in enterprise development through the establishment of dedicated enterprise development units.

RECOMMENDATION 13

SOEs should play a leading role in socio-economic development.

This should be done by:

- identify the pool of beneficiaries that could participate in a suite of Socio-Economic Development (SED) initiatives within the SOE;

RECOMMENDATIONS continued

- directing those beneficiaries seeking to be employed towards skills development initiatives such as learnerships, internships or mentorship programmes;
- directing beneficiaries who might be school-leavers to a further education and training track;
- directing beneficiaries interested in self-employment on how to benefit from the Enterprise Development (ED) initiatives; and
- creating a consolidated SOEs Corporate Social Investment Fund to drive the macro-impact and scale of social investments.

RECOMMENDATION 14

Transformation should be an integral part of the contractual agreement between the Executive Authority and SOEs.

This should be done by:

- formalising contracting on transformation plans, including targets and delivery.
- ensuring that at a governance level the boards are structured to give primary attention to transformation delivery;
- ensuring continual monitoring of transformation in SOEs; and
- ensuring compliance monitoring of SOEs by the B-BBEE Commission and the Auditor General.

RECOMMENDATION 15

Sanctions for corrupt activities as well as fronting should be supplemented by a register of delinquent individuals and companies that are involved in corruption practices. The common register should be made available to SOEs.

RECOMMENDATION 16

The empowerment framework and legislation should be streamlined to facilitate substantial contribution towards transformation as opposed to box-ticking compliance.

This should be done by:

- harmonising the Preferential Procurement Policy Framework Act (PPPFA) and the B-BBEE Act;
- implementing changes proposed by the B-BBEE Advisory Council in the B-BBEE Amendment Bill emphasising compliance with the B-BBEE Act by organs of the state;
- regulating verification agencies;
- implementing sanctions and penalties for non-compliance;
- making BEE compliance certificates compulsory for all SOEs;
- implementing the appointment of the B-BBEE Commission as proposed by the Amendment Bill;
- revising the thresholds applicable from the 80/20 and 90/10 preference point systems to a uniformed 70/30 system;
- extending the current SOE exemption from PPPFA indefinitely until the legislative conflicts in the PPPFA and the B-BBEE Act are resolved;
- enacting provisions that enable targeted set-asides for marginalised groups such as cooperatives, SMMEs, women, the disabled, youth, and rural participants; and
- the Department of Trade and Industry developing capacity to enforce and monitor implementation of B-BBEE of SOEs on an ongoing basis.

RECOMMENDATION 17

Government should rationalise its holdings by focusing on those SOEs that provide public goods and those deemed to be strategic, namely serving national interests, national security and priority sectors.

This must be done either by:

- exiting from those sectors where market failure no longer exists and/or that can be adequately provided for by the private sector, or the mandate is no longer justifiable; or
- divesting either fully or partially from those SOEs observed to be under-performing that

are competing unsuccessfully against private operators; or

- absorbing those entities whose functions can be cost-effectively carried out by Government departments by incorporating them into line function department programmes.

RECOMMENDATION 18

The Government should develop a consolidated funding model for commercial SOEs and DFIs.

- This should be done collectively by the Central Authorities for commercial entities and DFIs as well as National Treasury, with the concurrence of the SOE Council of Ministers.
- National Treasury, in terms of its mandate, must exclusively marshal and manage all liabilities of SOEs, both commercial and non-commercial, because they are in the end the State's contingent liabilities.

RECOMMENDATION 19

The Government should develop and adopt a policy shift towards a greater mix of debt finance and equity finance.

This must be done by:

- where relevant, and after consideration by the SOE Council of Ministers and approval by Cabinet, considering possibilities of listing select SOEs on the JSE whilst astutely preserving Government control and maximising investor participation in SOEs; and
- instituting a flexible policy that discourages the raising of private funds to provide capital to those SOEs where private sector involvement is not desirable (e.g. natural monopolies).

RECOMMENDATION 20

Private sector participation in partnering with SOEs to deliver on the provision of both economic and social infrastructure should be encouraged and expanded.

This involvement must be through direct partnerships between the private sector and the SOEs or the Government, such as Public Private Partnerships, joint ventures, or other forms of public-private collaboration.

RECOMMENDATION 21

A funding model for the funding of public infrastructure based on a distinction between economic and social infrastructure must be developed.

The following principles must apply:

- Economic infrastructure, where relevant, must be funded on a 'user pays' basis. Such a funding approach should be complemented by, for example, a portion of the proposed resources tax.
- Funding of social infrastructure, including roads, should have less reliance on the 'user pays' principle, and more on taxes.
- The emphasis on taxes and the 'user pays' funding model as the only sources of generating capital for infrastructure must be reviewed, moderated and blended with other diverse policy options. Such funding should be considered and approved by the SOE Council of Ministers guided by National Treasury.
- To adopt a relatively expansionary gearing policy, the Government must signal unambiguously to financial markets its implicit backing of this form of SOE debt because SOEs are strategic.
- The future pricing of services and retention of earnings must take into account ongoing maintenance requirements and the eventual need to replace obsolete infrastructure to avoid future scrambles for capital to address deterioration.

RECOMMENDATIONS continued

RECOMMENDATION 22

Mining as a strategic sector and a significant economic user of infrastructure in line with practices from other mining communities around the world should contribute fairly to the development of infrastructure for economic use. This entails that in addition to tariffs that are based on user pay principle for economic use of infrastructure, consideration of the use of various policy tools to achieve fair contribution by the mining sector should be examined; these could include mandatory local beneficiation and ring-fencing of a portion of the proposed resources tax to develop infrastructure.

RECOMMENDATION 23

The Government should turn selected SOEs into national world-class state commercial (industrial and economic) flagships.

This must be done:

- on the basis of overall performance with respect to service delivery and financial returns;
- by adequately capitalising them; and
- by structurally and managerially consolidating them;
- by focusing their operations on core strategic objectives in the context of the Developmental State; and
- by setting their targets for financial and operational performance comparatively with their domestic and global peers.

RECOMMENDATION 24

Government should address the issue of non-financially viable commercial SOEs.

This must be done by considering some of the following options:

- rationalisation of SOE's based on certain criteria
- limit State involvement where technology disrupts Natural Monopolies
- retaining and adequately funding them as non-commercial entities; or

- injecting private sector practices and therefore gradually phasing them into commercial entities with a mix of public and private equity ownership; or
- completely disposing of them as state entities; or
- absorbing them into the line function department where there is a case for running them at less costly as a Government line function.

The final determination should be done in concurrence with the SOE Council of Ministers.

RECOMMENDATION 25

The Government should actively promote a common national understanding and commitment to a Developmental State vision.

Thus should be done by:

- a strong communication and popularisation drive;
- reaching a clear determination and understanding of the role of SOEs in the Developmental State agenda; and
- monitoring and evaluating the implementation of the vision by Government departments and SOEs.

To undertake the above successfully, the State needs comprehensive enablement and capacity.

RECOMMENDATION 26

The Government should build its capacity to develop and implement an overarching strategy for SOEs.

This must be done by:

- structurally empowering the Central SOEs Authorities to formulate, monitor and facilitate implementation of the SOE overarching strategy;
- capacitating the Central SOE Authorities (as recommended in this report) with sufficient funding and highly qualified and competent individuals with specialised experience in the SOE sector;

- ensuring collaboration of the Central SOE Authorities with international institutions such as the OECD, African Development Bank (ADB), and the UN, and with countries that have successfully managed visioning and strategy-setting for SOEs;
- providing for the representation of the Central SOEs Authorities in the National Planning Commission and any other agency whose responsibility it is to drive the planning and implementation of the Developmental State vision and plan; and
- targeting capacity development at all three spheres of Government.

RECOMMENDATION 27

A transitional SOEs Reforms Committee [Execution Management and Monitoring Task Team] must be established to drive the implementation of the PRC's recommendations.

Appointment to this committee must:

- be effected as soon as the PRC recommendations are adopted and continue until the SOE reforms are fully implemented and/or handed over to the responsible Executive Authority;
- be experts nominated by the President and the central authorities, namely DPE, Treasury, DTI, EDD, the National Planning Ministry and other relevant Government stakeholders.

The committee must:

- be provided with the commensurate powers and funding to effect its mandate; and
- report progress to the President.

RECOMMENDATION 28

The proposed SOE Council of Ministers and the Central SOEs Authorities should develop customised human capacity building programmes.

This must target the following areas:

- the State as an owner;
- the State Ownership representative (Executive Authority);

- the Board (appointed by the Executive Authority to give externalised oversight); and
- operations (Executive and Operational Management).

RECOMMENDATION 29

The Government should ensure that the Executive Authorities' SOE strategic management and relationships are professional by aiming at the following:

- maintaining strategic relations and exchange within and between the Executive Authorities and the management of the entities;
- improving the governance of the SOEs;
- enhancing the capacity of the State to act as an effective owner;
- being an effective State advisor on the affairs of the SOEs;
- ensuring transparency in dealing with Parliament, and other Ministries and stakeholders;
- ensuring quality delivery of services in line with the Developmental State agenda; and
- ensuring accountability and safeguarding of the Government's assets.

Such processes should take into account balance of merit and transformation.

RECOMMENDATION 30

The Government should improve financial decision-making capacity in all departments dealing with SOEs.

This must be done in the following areas, among others:

- facilitate optimisation of overall financial and social benefits and returns from the SOEs assets;
- capacity to make decisions in budget allocation that is always congruent with any evolutions in the mandates of the SOEs;
- exploration of alternative funding sources; and
- capacity to leverage funding from equity finance, PPPs and multi-lateral institutional funding sources.

RECOMMENDATIONS continued

RECOMMENDATION 31

The Government should develop an integrated reporting, monitoring and evaluation capacity for SOEs across all spheres of Government.

This should be done by:

- introducing a compulsory electronic reporting and performance management system with access to verifiable source documents for monitors and evaluators;
- providing commensurate skills and funding to undertake these tasks;
- ensuring optimum information access and transparency; and
- including essential information such as mandates; shareholder compacts/statements of intent; corporate plans; key performance indicators; asset base; equity and liabilities; income; the total Return on Capital (RoC); Return on Equity (RoE); Operating Margin; Net Debt/EBIDTA or Net Debt/Equity; profits if any; dividends paid to the Government; and the total number of employees by gender, race and disability employed by each SOE.

IMPLEMENTATION

The implementation of the PRC recommendations should be viewed as a reform process or programme, not as a once-off event. Hence, the PRC proposes phased implementation processes of SOE reforms as detailed below. There are three phases proposed:

- Phase one – implementation of short-term recommendations
- Phase two – implementation of medium-term recommendations
- Phase three – implementation of long-term recommendations

Appropriate institutional arrangements would have to be put in place to ensure effective implementation across all spheres of Government and departments. The PRC recommends that the President of the Republic of South Africa appoints a SOE Reforms Committee (or Execution Management and Monitoring Task Team) after the PRC Report is approved or adopted.

The entire proposed SOE reforms process is illustrated in the table below:



