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SA Future Economy

Repositioning State-Owned Enterprises (SOEs) and Development Finance Institutions (DFIs)

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1. Introduction

The purpose of this working paper is to examine three cross-cutting themes: the nature and purpose of State-Owned Enterprises (SOEs) and Development Finance Institutions (DFIs) in South Africa's political economy; their performance, with reference to their effectiveness and ability to deliver on their developmental mandates; and through enhanced cooperation with the private sector, how such triangular engagement could assist in addressing the country's low-growth trajectory and prospects for economic recovery.

The paper is informed by the country's critical social and economic context which is approaching crisis proportions and requires urgent redress. The economy is experiencing a technical recession—compounded by the impact of the Covid-19 pandemic. Growth was -0.5 per cent in the fourth quarter of 2019 and -0.1 per cent in the first quarter of 2020.[1] Even before the effects of the pandemic were recorded, the rate of unemployment was more than 30 per cent.[2] Almost 3 million people have lost their jobs between February and April 2020, with women in active employment the worst affected.[3] Moreover, the economy is projected to contract by 8 per cent in 2020 and will only reach 2019 levels in 2023.[4]

The purpose of this paper is to review role of DFIs and SOEs as strategic drivers of South Africa's developmental agenda. The National Development Plan (NDP) is explicit about the transformative role of SOEs in realising the government's development policy goals: "SOEs are central to advancing national objectives through providing economic and social infrastructure. By 2030, South Africa needs to be served by a set of efficient, financially sound and well-governed SOEs… These enterprises must deliver a quality and reliable service at a cost that enables South Africa to be globally competitive."[5] DFIs, in turn, provide investment finance and mobilise financial resources for strategic sectors of the economy. As such they expected not only to foster economic and social development that is welfare enhancing but also to address failures in financial markets in a manner that complement government resources and minimise fiscal risk.[6]

The paper argues that national objectives would be better met if SOEs and DFIs were consolidated under a single legal, policy, and operational ambit rather that treating them separately as seems to have been the case. There is significant overlap between SOEs and DFIs in their basic function

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[1] *Business Tech, "IMF slashes South Africa's growth outlook," 20 January 2020.*
[2] *Alexander Winning, "South Africa's unemployment rate reaches record high above 30%," Reuters, 12 November 2020.*
[3] *Polity, "Covid-19 cuts SA employment figures by three million, women worst affected," 15 July 2020.*
[4] *Stats SA, "Steep slump in GDP as COVID-19 takes its toll on the economy," 8 September 2020.*
[5] *National Planning Commission, National Development Plan—2030, Pretoria: NPC, 2012, 438.*
[6] *William Gumede, Melissa Govender and Kamo Motshidi, "The role of South Africa's state-owned development finance institutions in building a democratic developmental state," Development Bank of Southern Africa: Working Paper Series No. 29, 2011, 6.*

and strategic intent. Greater growth and development synergies can be unlocked by bringing them together rather than having them function in strategic and operational isolation from each other. DFIs could significantly enhance the effectiveness of SOEs by directly and indirectly supporting their development functions and funding models. Above all, the rationale for DFIs is their ability to command market-related revenues and maintain and replenish market capitalisation independently from the state. They typically must have bankable balance sheet capability and must be able to post a surplus.[7]

The research questions this paper sets out to address are how SOEs and DFIs could be brought together into a single system of oversight and management because they have essentially existed in separate realms as far as their focus, relevance and function are concerned yet serve similar and mutually reinforcing developmental purposes. The paper provides diagnostic assessments of SOEs and DFIs regarding their governance structures, mandated objectives, and operations and functions by drawing on relevant literature and official reports.

The paper further emphasises the extent to which the private sector could become an effective partner in South Africa's economic recovery, with an emphasis on addressing economic risk and contributing to resilient growth. The paper will thus offer modal considerations for how SOEs, DFIs, and the private sector could provide an innovative, adaptive, and competitive methodology for public-private partnerships and thereby assist in boosting state capacity and contributing to a more effective public sector. However, to encourage private sector participation there must be greater policy certainty regarding how the three-way partnership will work, with roles and expectations clearly defined and demarcated.

This must include allowing the private sector to assume strategic leadership roles and functions in project management that involve SOEs and DFIs. As Busi Mavuso, chief executive of Business Leadership South Africa, has asserted: "The private sector has the skills and capacity successfully to lead large-scale and small projects."[8] *This is critical for ensuring effective implementation and execution but also importantly for stimulating growth and relieving pressure on the fiscus.*

Crucially, the South African state cannot manage the challenges of economic recovery on its own, especially in infrastructure. Busi Mavuso has further pointed out: "With the global economic environment unlikely to provide easy wins for emerging market nations such as ours in the medium term, it's imperative that we work to unlock infrastructure opportunities that will stimulate the economy in a fiscally neutral manner."[9] *The government's intention is to allocate 23 per cent of GDP towards infrastructure development by 2024, of which 8 percent is expected to come from the public sector and 15 per cent from the private sector.*[10] *This spending ambition provides a great opportunity to demonstrate the effectiveness of a public-private cooperative framework.*

[7] *Pietro Calice, "African Development Finance Institutions," African Development Bank: Working paper Series, No. 174, May 2013.*
[8] *Busi Mavuso, "Infrastructure projects need effective execution," The Star: Business Report, 5 November 2020, 12.*
[9] *Ibid.*
[10] *Ibid.*

The paper begins with an overview in Section 2 of the state of SOEs and DFIs in order to highlight their relevant characteristics, focusing on their structural features and functional designs and is based on official evaluations and assessments. This is followed in Section 3 by an overview of comparative country experiences and international best practice metrics that are relevant as indicative lessons for South Africa. Section 4 develops a framework for better understanding the triangular relationship between SOEs, DFIs, and the private sector, drawing on OECD guidelines for public-private partnerships. Section 5 then suggests several policy recommendations that constitute an agenda for reforming SOEs and DFIs and which could open opportunities for private sector participation. Finally, section 6 makes some concluding remarks about the social and economic challenges that South Africa now confronts and the potential for SOEs, DFIs, and the private sector to address these and thus make a significant contribution to the country's economic recovery.

2. Assessing the State of SOEs and DFIs

This assessment is not intended to be exhaustive but will be illustrate the major themes, focal areas, and challenges that have shaped the discourse about the status and purpose of SOEs and DFIs in South Africa.

SOEs have been the subject of careful examination, detailed analysis, and sustained scrutiny, presumably because of their strategic importance to the state's growth and development agenda. The most authoritative and comprehensive was released in 2013 and is titled, Presidential Review Committee on State-Owned Entities: Growing the Economy, Bridging the Gap (hereafter the PRC).[11] In addition, in 2019 the National Planning Commission (NPC) in the Presidency commissioned five working papers under the general theme, "The role of SOEs in achieving economic transformation and inclusive growth".[12] Then in June 2020, President Ramaphosa established a "Presidential State-Owned Enterprises Council" (PSEC) to help his government turn SOEs into "effective instruments of economic transformation and development".[13]

The common threads of investigation and assessment that run through the PRC and NPC reports are firstly, how SOEs could better serve the ends of South Africa's developmental state ambitions, especially in addressing the following: high levels of poverty and unemployment; the skewed distribution and maintenance of infrastructure; the unequal distribution of land and capital; and growing disparities between rich and poor. Secondly, how well-positioned and ready are they to play prominent, appropriate, and leading roles in achieving the economic transformation goals and meeting the competitiveness objectives of the National Development Plan in terms of their current performance, structure, governance, and funding strategies.

However, it is noteworthy that DFIs have not been the focus of the same level of scrutiny and

[11] *Presidential Review Committee on State-Owned Entities: Growing the Economy, Bridging the Gap, Pretoria, 2013 (also known as the "Phiyega Report" named after the chairperson of the Committee Ms Mangwashi Victoria Phiyega) at http://www.gov.za/sites/www.gov.za/files/presreview.pdf.*
[12] *Under this theme "The role of SOEs in achieving economic transformation and inclusive growth", paper 1 is titled "An outcomes framework to link SOEs to the National Development Plan"; paper 2 "Framework for the suitability of SOEs"; paper 3 "Institutional Governance"; paper 4 "A Synthesis Report"; and paper 5 "The contribution of SOEs to Vision 2030: Case Studies of Eskom, Transnet and PRASA". The case studies in the papers exclusively focus on a sample of three apex SOEs, namely, Eskom, Transnet, and PRASA.*
[13] *SA News, "President appoints members of SOE Council," 12 June 2020.*

examination, given their complementary, symbiotic, and mutually supportive roles to SOEs.[14] *DFIs are no less important when it comes to job creation, promoting shared and sustainable economic growth, contributing to the pro-poor expansion of infrastructure, and increased service delivery. DFIs also occupy significant areas of strategic activity in the economy. This includes financing entrepreneurship in competitive industries; providing physical, social and economic infrastructure; promoting Black Economic Empowerment in asset and fund management; alleviating poverty in rural communities; providing financial services to the commercial farming sector; advancing youth development; and building sustainable human settlements.*[15]

2.1 An Overview of SOEs

According to the PRC's consolidated data base, at the end of May 2012 there were 715 SOEs that exist across all levels of government.[16] *A more recent figure claims that there are "about 800 SOEs in South Africa".*[17] *The PRC was particularly concerned about how such as large portfolio of SOEs was responding to the government's development agenda. These include commercial and non-commercial SOEs, their subsidiaries, and Chapter 9 institutions. The subsidiaries carry out public functions and include research entities, regulatory agencies, and advisory bodies. Taken all together, the asset base of all SOEs in South Africa is said to be over R1 trillion.*[18] *They contribute about 8.5 per cent of GDP and employ more than 250 000 people.*[19]

Commercial SOEs include four types of incorporated and non-incorporated entities:

- *State-owned companies (SOCs) which function under the Companies Act and have been the focus of the enquiries referred to;*
- *State-interest companies (SICs) in which the state has a material interest but no control;*
- *Statutory corporations (SCs) that provide goods and services of a strategic nature; and*
- *Financial intermediaries*

The most important commercial SOEs are the 20-plus national state-owned companies (listed under Schedule 2 of the 1999 Public Finance Management Act (PFMA)); and the 14 Water Boards and water companies (listed under Schedule 3 of the PFMA). Together they play a significant and direct role in the economy by maintaining networks and services in strategic areas such as infrastructure, finance, national security, and social sectors. The most important infrastructure SOEs are Eskom, Transnet, South African Airways, PRASA, SANRAL, Water Boards, and the Airport Corporation of South Africa (ACSA).

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[14] *As far as can be determined, there has been only one official enquiry into the roles, functions, and performance of DFIs by the National Treasury in 2008, Review of Development Finance Institutions, Pretoria: National Treasury, 2008. There are also DFI capital allocation and expenditure references in National Treasury Annual Reports and Budget Reviews. Beyond this, two commissioned studies exist: one by Gilbert Khadiagala, "The Role of DFIs in Building South Africa's Democratic Developmental State," Report to the DBSA, Midrand, February 2011; and the other by William Gumede, Melissa Govender and Kamo Motshidi, "The role of South Africa's state-owned development finance institutions in building a democratic developmental state," DBSA: Development Planning Division Working Paper Series No. 29, 2011.*
A recent comprehensive working paper focuses on three leading DFIs, the Industrial Development Corporation (IDC); the Development Bank of Southern Africa (DBSA); and the National Empowerment Fund (NEF). See Summaya Goga, Teboho Bosiu, and Jason Ball, "The Role of Development Finance in the Industrialisation of the South African Economy," University of Johannesburg: Centre for Competition, Regulation, and Economic Development, Working Paper 9, 2019.
[15] *Global Impact Investing Network, The Landscape for Impact Investing in Southern Africa: Development Finance Institutions, GIIN, 2016, 12-13.*
[16] *PRC Report, 8*
[17] *NPC, Paper 3 "Institutional Governance Review," Pretoria: NPC, 2019, 6.*
[18] *David Fourie, "The Role of Public Sector Enterprises in the South African Economy," 34.*
[19] *National Planning Commission, "The Contribution of SOEs to Vision 2030: Case Studies of Eskom, Transnet and PRASA," Pretoria: NPC, 8 June 2020, 8.*

Other SOEs in this group of state-owned companies include:

- *Financial SOEs such as the Development Bank of Southern Africa (DBSA), Industrial Development Corporation (IDC), and the Land Bank;*
- *SOEs in the national economic security sector such as Denel (defence), the Central Energy Fund, PetroSA, Armscor, and the Trans Caledon Tunnel Authority; and*
- *SOEs that have social and developmental mandates such as the SA Post Office, Post Bank, SABC, and the SA Forestry Company Ltd.*

2.1.1 The PRC Assessment

The PRC made several important observations about the conduct of SOE's which can be summarised as follows:[20]

- *There is an absence of a universal long-term vision and clear strategic plan of the roles that SOEs are expected to play. This is indicative of no common agenda and understanding of SOEs, different terminology for defining SOEs, no commonly agreed strategic sectors and priorities, and challenges of how to balance the trade-offs between the commercial and non-commercial objectives of SOEs.*
- *The legislative framework, governance, ownership policy, and oversight systems for SOEs are inadequate, pointing to conflicts of interest and duplication. These challenges are compounded by the quality of boards, the way executives are recruited, and how remuneration frameworks and practices are implemented. These challenges have direct impacts on the governance and operational management of SOEs.*
- *SOEs struggle to contribute to meeting the government's development agenda because of the massive capital injections they require, leading to a mixed record of service delivery performance. The funding models for social and economic development mandates of SOEs often result in undercapitalisation and are blurred and confusing.*
- *SOEs suffer from a lack of strong and robust leadership, especially in meeting the development objectives of shareholder compacts. There is poor collaboration and cooperation among SOEs in service delivery, with direct consequences for broad transformation objectives such as black economic empowerment, employment, and skills development.*

These generic problems and challenges have resulted in "socialising" the costs through government bail-outs and other forms of state rescue.[21] *According to the PRC Report, "SOEs should have a business structure with a mix of features from public and private sector institutions."*[22] *This brings into stark relief the difficulty of balancing economic imperatives with socio-political objectives; or the interests of the public against revenue and profitability targets. Consequently, implementing performance management models and enhancing clarity of definition and purpose of SOEs are especially important in striking the correct balance. The absence of a correct business structure helps to explain weak governance frameworks and practices which are at the root of the operational*

[20] PRC Report, 8.
[21] Bowman, "Parastatals and Economic Transformation in South Africa," 4.
[22] PRC Report, 13.

malaise among SOEs. The result is an "oversight matrix that is convoluted and overbearing," and lacking in transparency when it comes to defining output indicators, especially those of a socio-political nature.[23]

SOE performance is further hindered by poor technical and management skills; lack of financing capacity to sustain their operations; and poor strategic foresight to plan for the road ahead. What is clear from the PRC Report is that SOEs are managed more like departments of government rather than public entities that conform with the letter and spirit of Chapter 10 of the Constitution which sets out basic values and principles for public administration. These include a high standard of professional ethics; efficient and effective use of public resources; the impartial and fair delivery of services; accountable and transparent management and administration; and maximising human potential.[24]

The PRC Report thus devotes significant attention to providing diagnostic assessments and recommendations for reform in three critical areas. The first is creating an enabling environment for SOEs[25] *with reference to legislation, corporate governance, ownership, the establishment and disestablishment of SOEs; board and executive management appointments and prospects for closer SOE collaboration; and systems of SOE remuneration and economic regulation. The second examines the performance of SOEs,*[26] *with a focus on their efficiency and effectiveness in service delivery; as well as their funding models and financial viability. The third is concerned with enhancing state capacity,*[27] *with an emphasis on developing competences in strategic management, legislation, and policy; improving human and financial resources; and putting in place systems for better collaboration and oversight.*

2.1.2 The NPC Assessment

The commissioned NPC papers seek to provide a conceptual framework for examining the interface between the NDP and SOEs and how SOEs can better contribute to the goals and objectives of the NDP. The papers are especially concerned with an evidence-based audit and review of the performance of three entities in three strategic areas of state-owned activity: Eskom and the provision of electricity; Transnet and the provision of freight logistics; and the Passenger Rail Agency of South Africa (PRASA) and the provision of commuter and passenger rail services.

The conceptual framework defines six operational themes for Eskom, Transnet, and PRASA which are relevant and important to their contribution for achieving the developmental outcomes of the NDP.[28]

- *Commercial economic mandate: they must provide economic infrastructure and services efficiently, cost-effectively, and reliably;*
- *Non-commercial developmental mandate: they must provide social services to excluded groups*

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[23] *PRC Report, 56.*
[24] *The Constitution of the Republic of South Africa, 1996, Ch 10, 107-112.*
[25] *PRC Report, Part 2, 67-128.*
[26] *PRC Report, Part 3, 130-190.*
[27] *PRC Report, Part 4, 192-202.*
[28] *Paper 1, "An outcomes framework to link SOEs to the National Development Plan," n/d, 11.*

efficiently, cost-effectively, and reliably;

- *Financial viability: they must sustain an asset base and balance sheet to make the necessary capital investment and must maintain and expand services;*
- *Environmental sustainability: they must support the transition to a low-carbon economy and observe environmental standards;*
- *Specific projects: they must be able to undertake specific projects as defined in the NDP;*
- *Transformation responsibility: they must promote equitable participation in the economy through employment equity, training, and supplier development.*

The achievement of these six operational themes must be predicated on putting in place governance enablers which include a clear mandate, strong and competent leadership, technical and managerial expertise, and an effective framework of partnerships with the private sector.

When examining the intersections between the operational themes and governance enablers, the overall finding is that Eskom, Transnet, and PRASA "…are not performing well in delivering to the aspirations of the NDP" although progress has been registered in some areas such as black economic empowerment. This is largely ascribed to "years of uncertain policy expectations; precarious funding strategies; poor institutional accountability and poor governance; and political interference."[29] This record has direct implications for economic growth, government debt, and spill-overs into national credit risk, which in turn have adverse effects on improving welfare and reducing poverty and unemployment.

Paper 2 in the NPC series explores the market structure and socio-economic conditions firstly, under which government intervention through a state-owned entity makes sense; and secondly, the extent to which SOEs can create material operational, financial, and operational risks for the government as shareholder. Recent experience has revealed that the three SOEs investigated are costly, inefficient, and poorly managed and there have been instances where the government had to provide significant bailouts and substantial debt guarantees in the face of them underperforming or failing to meet their financial obligations.[30]

Paper 3 explores modes of institutional governance in the government-SOE interface and focuses on improving oversight and performance of Eskom, Transnet, and PRASA. While there might be a comprehensive institutional framework for SOEs, the political appointment of boards and senior management do not conform with internationally accepted rules and standards for corporate governance. This has severe and direct impacts on company performance and procurement practices. The paper finds that Eskom and PRASA are loss making, while all three have struggled to balance broader public policy objectives with being commercially viable. Accordingly, they operate "…in an environment where market discipline is replaced by bureaucratic, regulatory and administrative scrutiny that in the past was susceptible to "capture" by interest groups."[31]This has

[29]NPC, "The Contribution of SOEs to Vision 2030," 4.
[30]NPC, Paper 2, "Framework for the suitability of SOEs," Pretoria: NPC, 13 December 2019, v.
[31]NPC, Paper 3, "Institutional Governance Review," 2019, xi.

led to a current system where decisions regarding boards and governance are politicised, and where commercial objectives and development goals are weakly coordinated.

When it comes to oversight, the system is effectively run and managed by civil servants "…who are by definition more vulnerable to direct political pressure and less inclined to be practical in addressing emerging problems; at the same time, they are less accountable in their relatively protected positions and not incentivised to pursue stewardship performance for which they would be accountable." The government has made recent changes and instituted reform in governance processes and board appointments in SOEs. These are a consequence of the ongoing weaknesses in institutional oversight which have resulted in corruption and mismanagement.[32] All three SOEs face growing uncertainty on funding strategies and tariff policies that result in poor financial sustainability; and there is a distinct lack of lack of proper performance management systems and disclosure practices to ensure transparency and accountability.[33]

In view of these considerations and to better align the performance of the three SOEs with relevant NDP objectives, the NPC makes recommendations in four areas of reform: governance, finance, structure, and policy and process. Governance reforms should include a better alignment of shareholder compacts with the NDP, such that 70-80 per cent of the weighting of shareholder compacts should focus on the core economic mandate, improved governance and sustainable funding. Financial reforms should concentrate on providing greater clarity on the balance between commercial and development objectives and how each will be funded and costed. Where there are repeated failures in operational, governance and financial performance, financial reform should open the provision of the service or infrastructure to other economic actors and/or change the structure of state ownership. Policy and process reform should be informed by introducing a single policy of state ownership, supported by improved transparency and strengthened regulatory capacity.[34]

2.2 An Overview of DFIs

Like SOEs, historically DFIs in South Africa were integral to the apartheid state's project in state-led industrialisation. They were engaged in and helped to shape the private enterprise arena but with a specific role of lowering the strategic costs of business and providing public finance and cheap access to network infrastructure.[35] It was especially the pressures of increasing international isolation and the debilitating effects of sanctions that saw the successive apartheid regimes increasingly resort to DFIs as part of increasing the state's presence in the economy and, thereby enhancing its ability to tightly control the highly-concentrated private sphere. DFIs were thus critical components of the state machinery in developing a racially-based industrial economy, which later helped to provide the necessary shock-absorbing capacity against sanctions.[36]

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[32] NPC, Paper 3, "Institutional Governance Review," vi.
[33] NPC, Paper 3, "Institutional Governance Review," 49-53.
[34] NPC, "The contribution of SOEs to Vision 2030," 5-6.
[35] Bowman, "Parastatals and Economic Transformation in South Africa," 6.
[36] Nancy Clark, Manufacturing Apartheid: State Corporations in South Africa, New Haven, CT: Yale University, Press, 1994.

Since 1994 however, the DFIs have been repurposed as part of the government's developmental agenda, especially in improving social welfare and addressing the deprivations of the apartheid era. There are two categories of DFIs that characterise the post-1994 order: those providing loan and equity financing as an integral part of their development activity; and those providing grant-based funding and other forms of non-financial assistance to support development.[37] Though the ethos of DFI investments have evolved with the development priorities of government, DFIs have specific targets by sector and planning cycles. In addition, public scrutiny and parliamentary oversight require that DFIs consider reputational risk while trying to achieve maximum investment returns.

DFI mandates are based on three principles: additionality, where DFIs are only active in sectors and activity that are difficult for private sector capital sources to address; as catalysts for accelerated industrialisation, job creation, economic growth, and human capital development; and being anchors of sustainability for bridging investment gaps.[38]

In total, there are 16 DFIs, equally split between national and provincial levels[39] and they conform to the essential rationale of serving the disadvantaged and economically marginal sections of the population by improving access to financial services, supporting job creation, small business development, and industrial and infrastructure development. Along with SOEs, they are the government's means of promoting a quasi-welfare state through the benefits which DFIs derive from concessionary financial sources as a means for uplifting the standard of living of those affected by racialised poverty, unemployment and inequality.

The concessionary financial resources that are made available to DFIs include cheap borrowing, under-priced guarantees, exemptions from reserve requirements and taxes, and government coverage of a part or all of their operational costs and capital transfers. DFIs are thus essential for providing strategic finance to sectors and areas of social and economic activity that are typically not attractive to private and commercial banks; or what has been called "patient capital" required to build scale economies necessary for developing competitive industries and encouraging new market entrants.[40]

The key DFIs that serve South Africa's developmental agenda such as the Industrial Development Corporation (IDC), the Development Bank of Southern Africa (DBSA), and the National Empowerment Fund (NEF) differ substantially in their cost structures, cost-effectiveness, clientele served, loan losses, and organisational efficiency. Importantly, they also invest across the SADC region and in the case of the DBSA, on the African continent. However, they share a common feature in that the public funds entrusted to them are subsidised. Since 1994 and because of this inherent

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[35] Bowman, "Parastatals and Economic Transformation in South Africa," 6.
[36] Nancy Clark, Manufacturing Apartheid: State Corporations in South Africa, New Haven, CT: Yale University, Press, 1994.
[37] Summaya Goga et al., "The role of development finance in the industrialisation of the South African economy," 9.
[38] Global Impact Investment Network, The Landscape for Impact Investing in Southern Africa: Development Finance Institutions, GIIN, 2016, 4-6.
[39] Summaya Goga et al., "The role of development finance…," 9. The eight national DFIs are the Development Bank of Southern Africa; the Industrial Development Corporation; the Land Bank; the National Empowerment Fund; the National Housing Finance Corporation; the National Urban Reconstruction and Housing Agency; the Rural Housing Loan Fund; and the Small Enterprise Finance Agency. The eight at provincial level are the Eastern Cape Development Corporation; the Eastern Cape Rural Development Agency; the Free State Development Corporation; the Gauteng Enterprise Propeller; Ithala (Ithala Development Finance Corporation; the Limpopo Economic Development Agency; the Mpumalanga Economic Growth Agency; and the North West Development Corporation.
[40] William Gumede et al., "The role of South Africa's state-owned development finance institutions in building a democratic developmental state," 5-7; and Summaya Goga et al. "The role of development finance…," 3.

advantage, the objectives of DFIs have been considerably broadened and expanded to include addressing market failure by helping to develop private enterprise, promoting employment and business opportunities especially via Black Economic Empowerment, enhancing the bases of human capital and institutional capacity, contributing to local production and beneficiation, and financing infrastructure development.

These expanded mandates of DFIs have, however, translated poorly in terms of their costs and benefits to society and the economy, especially in diversifying productive activity. Capital-intensive upstream industries that draw on the country's abundant resources continue to dominate production. This comes at the expense of developing downstream linkages which remain weak, even though the government has stressed the need for increasing beneficiation, strengthening local value chains, and supporting more downstream, labour intensive growth.

Moreover, there have been worrisome trends about the financial performance of DFIs as a distinct class of state entities. Their financial performance has been characterised by mounting losses, poor loan recovery, and continued dependence on the state to underwrite their operational costs, despite disbursing R275 billion annually.[41] They have hardly helped to mitigate market failure but have rather allocated their resources in a very inefficient manner. If standard indicators such as return on assets, return on equity, and non-performing loan ratios are used, DFIs have underperformed when it comes to advancing their explicitly defined social purposes and objectives.

In short, the self-sustainability of DFIs has been their Achilles heel and a major source of their institutional and financial vulnerability. As has been observed, South Africa's DFIs "…have operated in the difficult circumstances of heightened expectations to redress existing inequities and spur economic growth. These roles are made more difficult by the fact that some private sector actors often perceive interventions by DFIs as running counter to principles of sustainable economic viability".[42] The existential plight of DFIs is compounded by ideological and political contestation in the ruling ANC alliance about their appropriate role and function in society. This plays out in a manner consistent with two contending and diametrically opposed perspectives about the roles and activities of DFIs in Africa: one preferring a strong role for the state in turning DFIs into engines for guiding market forces; and another taking a less interventionist view based on the belief that market rationality works better in allocating resources.[43] The NDP provides a policy and intellectual compromise between these positions by insisting that public-private partnerships are key ingredients of economic transformation, most crucially in meeting the 14 outcomes of the NDP's Medium-Term Strategic Framework for 2014-2019.[44]

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[41] *Global Impact Investment Network, The Landscape for Impact Investing in Southern Africa, 13.*
[42] *Gilbert Khadiagala, "The Role of DFIs in Building South Africa's Democratic Developmental State," 17.*
[43] *Pietro Calice, "African Development Finance Institutions: Unlocking the Potential," 6-10. See also Joel Netshitenzshe, "State Ownership and the National Democratic Revolution," 158-160.*
[44] *These are 1. Quality basic education; 2. A long and healthy life for all; 3. safety and security for all; 4. Decent jobs through inclusive growth; 5. A skilled and capable workforce; 6. An efficient, competitive and responsive economic infrastructure network; 7. Vibrant, equitable rural communities; 8. Sustainable human settlements; 9. Comprehensive, sustainable and responsible social protection systems; 10. Responsive, accountable, and efficient local government; 11. Protected and enhanced environmental assets and natural resources; 12. An efficient, effective, and development-oriented public service; 13. A diverse, socially cohesive society with a common identity; and 14. A better South Africa contributing to a better Africa and a better world.*

2.2.1 A Sample of DFIs: Profiles, Mandates, and Scope

Below we provide a schematic sampling of DFI profiles, their mandates, and the scope of their activity:[45]

The Industrial Development Corporation (IDC): Established in the 1940s, the IDC initially provided financing for manufacturing, but this was later expanded to include energy and minerals beneficiation. Under sanctions in the 1970s and 1980s, there was further diversification into resource-based, high-technology, and import-substituting industries. Since 1994 and with 52 per cent of the asset base of all DFIs, the IDC has focused on developing and promoting black entrepreneurship, skills transfer, employment and gender equity in competitive industries, that include metal products and minerals; agriculture and agro-processing; clothing and textiles; and heavy manufacturing.

- *The Development Bank of Southern Africa (DBSA): Created in 1983 to promote and coordinate growth and development of the homelands, the DBSA has mainly focused on investing in and financing of physical, social, and economic infrastructure since 1994. Its mandate has been expanded to the entire continent and consequently, it has taken on multiple roles, not only providing finance but also advisory services, opportunities for joint ventures and partnerships, and managing and implementing projects. It is self-financing, has retained a strong balance sheet, and enjoys sound domestic and international credit ratings.*
- *The Land and Agricultural Development Bank of SA: Established in 1912 as a means for financing rural and agricultural development, particularly for white commercial farmers. However, its mandate has shifted since 1994 to empower and encourage historically disadvantaged groups to enter the commercial farming and agri-processing sectors via a Special Mortgage Bond. Small-scale farmers and cooperatives were assisted through a Micro-Agricultural Finance Initiative. It is one of the largest DFIs in the country, having disbursed R200 billion in loans from 2011 to 2016.*[46]
- *Khula Enterprise Finance (KEF): Established in 1996 by the DTI to promote the development and sustainability of small, medium, and emerging businesses. KEF does not provide direct financing but does so through financial intermediaries and banks by providing collateral and guarantees for its clientele who apply for commercial loans from banks. This changed in 2009 in the context of growing demand when KEF set up Khula Direct with a capital base of R3 billion for making direct loans to SMMEs. In addition, KEF provides mentorship services and low-rental, start-up premises for its clientele.*
- *The National Housing Finance Corporation (NHFC): Set up in 1996, with oversight from the Department of Human Settlements (DHS), the NHFC provides affordable housing and finance across low-to-middle-income groups who have a regular source of income. Its mandate includes finance for home improvement for such groups. Its major programme, Breaking New Ground, is intended to provide finance for upgrading and eventually eradicating informal settlements. As a wholesale funding and risk-managing corporate entity, the NHFC was changed into a full-fledged bank in 2006. It has built partnerships with the private sector as well as with the DBSA in pursuit of its mission to address the housing backlog in the country.*

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[45] *This information has been gleaned from official websites and Gilbert Khadiagala, "The Role of DFIs in Building South Africa's Democratic Developmental State."*
[46] *Global Impact Investment Network, The Landscape for Impact Investing in Southern Africa, 12.*

- *Rural Housing Loan Fund (RHLF): Also falling under the DHS, its core business is to generate social venture capital and provide loans through intermediaries to low-income households for what is called "incremental housing purposes". With RHLF providing strategic guidance, this is a people-driven process to empower low-income families in rural areas so that they can acquire ready access to credit. Such ready access is meant to develop and unlock the potential of beneficiaries for self-help, savings, and local ingenuity for improving and building their own houses and shelters over time. In October 2018, the RHLF was merged with the NHFC.*
- *National Urban Reconstruction and Housing Agency (Nurcha): Established to initiate programmes to ensure the sustainable flow of finance to build low-income and affordable housing, community facilities, and infrastructure in urban and peri-urban areas. Its basic aim is to extend the housing market for poor people; maximise options for the construction and financing of housing, related facilities, and infrastructure; promote synergy and cooperation between the public and private sectors; and contribute to the emergence and further development of black-owned construction companies, Like the RHLF, it was also merged with the NHFC in October 2018.*
- *National Empowerment Fund (NEF): Established by the NEF Act in 1998 and falling under DTI, its basic objective is to promote BEE and innovative solutions for greater economic inclusion. It provides financial and non-financial support to meet this objective. Financial support is provided through five financing vehicles which includes rural and community development and a women's empowerment fund. Non-financial support takes place through mechanisms such as pre- and post-investment, workouts and restructures, socio-economic development, and asset management.*
- *The SA Micro-Finance Apex Fund (SAMAF): Launched in 2006 to provide accessible and affordable financial services through sustainable financial intermediaries that benefit micro- and small-businesses run by the poorest of the poor by growing their own income and asset bases; and thereby, assist in alleviating poverty and reducing unemployment. In addition, SAMAF facilitates training and capacity building for micro-entrepreneurs and intermediaries as well as ensuring effective financial intermediation and making markets work for the poor who are enterprising. It has delivery networks, borrowers, and savers across all provinces.*

2.2.2 Assessing DFIs Roles and Functions

The existence of these DFIs in South Africa's political economy—both inherited from the apartheid era and created since the democratic transition—is consistent with three imperatives about their roles and functions. These are development, social, and political which are germane to the risk and resilience argument we advance about how, firstly, DFIs and SOEs together can be repositioned to provide salutary interventions for better managing the dimensions of the country's intersecting economic and social crises; and secondly, how their potential synergies could be considerably enhanced by drawing on the technical and financial capacities of the private sector.

The development imperative derives from the thinking of early development economists from the 1950s and 1960s who advocated government ownership of DFIs as part of a broader sentiment that *defended public ownership of strategic economic sectors.[47] They were particularly concerned about matters such as national environments where capital was scarce, the public not trusting the private sector, and extensive fraudulent practices among debtors who discouraged long-term credit—all of which had a negative impact on economic growth. Grounded in the same lineage is the social imperative which sees market failures in financial markets as justifying the need to establish DFIs.[48]*

As the argument goes, market failures occur because commercial banks are essentially driven by the profit motive and hence, have little or no incentive to provide public goods; or to finance projects that do not yield profit but have positive social externalities. By contrast, the political imperative takes a dim view of DFIs in the sense that they are created to serve the partisan ends of politicians, state elites, and their sectarian agendas.[49] However, even though they can and do serve a social purpose, this is compromised and undermined by weak oversight and poor managerial practices, such that they are prone to dysfunction, corruption, and misallocation.

The development, social, and political imperatives are especially relevant in addressing the deprivations of the past and challenges of the current crisis juncture.[50] For example, both the DBSA and IDC return on assets have been greater than that of private banks. This is a function of DFI pricing policies following the principle of high risk and high return, very similar to private financial institutions. Since both the DBSA and IDC are Schedule 2 entities under the PFMA, they are expected to be profitable, declare dividends, and operate efficiently. In terms of operational efficiency, DBSA performs very well: its operating expenses as a percentage of revenue have been below 30 per cent from 1997 to 2017. While those of the IDC increased to a high of 80 per cent in 2006, this has declined markedly to below 30 per cent in 2011, and further to below 20 per cent in 2017.

The NEF's by contrast, which is a Schedule 3A entity under the PFMA (thus enjoying subsidies from government), has remained high. Its operating expenses as a percentage of revenue reached 85 per cent in 2004 and retained an average of 49 per cent between 2001 and 2017.[51] This, however, should not reflect negatively on the performance of the NEF, especially since the setting up of the Strategic Projects Fund in 2008 whose projects are of a greenfield nature and directed to business process outsourcing; mining and mineral beneficiation; renewable energy; and agro-processing and tourism.

These snapshots suggest that DFIs are well placed to play a transformative role that could support the functional effectiveness of SOEs while both leverage the capital and managerial assets of the private sector in a manner that delivers developmental spinoffs and meets the objectives of the NDP.

[47]For example, W Arthur Lewis, The Theory of Economic Growth, Homewood, Ill.: Irwin Publishers 1955; Gunnar Myrdal, Beyond the Welfare State: Economic Planning and its International Implications, New Haven, CT: Yale University Press, 1960; and Alexander Gerschenkron, Economic Backwardness in Historical Perspective, Cambridge, MA.: Harvard University Press, 1962.
[48]For example, Anthony Atkinson and Joseph Stiglitz, Lectures in Public Economics, London: McGraw-Hill Publishers, 1980; and Bruce Greenwald and Joseph Stiglitz, "Externalities in Economies with Imperfect Information and Incomplete Markets," Quarterly Journal of Economics, 101, 1986, 229-264.
[49]For example, Gerard Caprio and Patrick Honohan, Finance for Growth: Policy Choices in a Volatile World, World Bank Policy Research Report and New York: Oxford University Press, 2001; and Mark Schreiner and Jacob Yaron, Development Finance Institutions: Measuring Their Subsidy, Washington DC: World Bank—Directions in Development Series, 2001.
[50]Richard M Levin, "Broad-based empowerment or dependent accumulation? The state and development in South Africa," in Daniel Plaatjies (ed.), Future Inheritance: Building State Capacity in Democratic South Africa, 252-67.
[51]Sumayya Goga et al., "The role of development finance…," 36.

Any reform agenda must inexorably move SOEs and DFIs away from their separate tracks towards mutually reinforcing and integrated roles and functions that will allow them to be more agile, flexible, free from political interference, and embedded in society. Funding levels and mandates should be reviewed based on three strategic underpinnings of SOEs and DFIs that demand reform: corporate governance; risk management; and financial performance and accountability. This will provide the policy certainty that will inspire private sector confidence and willingness to participate as a strategic partner of the SOE and DFI complex. This contextual backdrop provides useful parameters for examining experiences from other countries as well as highlighting international best practice methods and models.

3. The comparative experience: What can SA learn?

The impact of globalisation and with it the liberalisation of trade has highlighted the need for governments to address the challenge of building competitive economies. In this regard, governments have been increasingly turning to SOEs and DFIs to serve as catalysts of growth, development, job creation and indeed, as platforms of economic and social transformation.[52] Below we examine and assess how the nature and experiences of SOEs and DFIs in other countries might be instructive for South Africa's reform agenda, due regard being had for the deficits and shortcomings that the paper has highlighted above.

3.1 The SOE Dimension

There are two areas of international best practice from which South Africa could draw important lessons. These relate, firstly, to having a single, overarching legislative framework to govern SOEs; and secondly, to consolidating and rationalisating the roles and functions of SOEs to serve a common developmental purpose. International experience has demonstrated the importance of ensuring clarity about the multiplicity of roles that the state has in SOEs: as shareholder, policymaker, regulator, and operator under the rubric of an overarching legal framework or founding statute.

3.1.1 The Problem of Models

Some countries have consolidated the ownership and monitoring of SOEs in one central agency where one oversight mechanism exists to act as "owner" on behalf of the state and exercises shareholder rights. In addition, many governments have formulated an explicit and coherent "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 efficiently and effectively implement such ownership policy. Hence, appropriate legislative instruments and frameworks are cornerstones for defining the relationship between the state and SOEs, especially as far as their respective rights and responsibilities are concerned. There is a focus on the corporate governance of SOEs; the state's rights and role as SOE owner; and its oversight functions.[53]

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[52] *Hao Liang, Bing Rin, and Sunny Li Sun, "An anatomy of state control in the globalisation of state-owned enterprises," Journal of International Business Studies, 46:2, February 2015, 223-40; and Michael E Porter, The Competitive Advantage of Nations, New York, NY: The Free Press, 1990.*
[53] *PRC Report, 69*

The PRC Report makes a compelling case for single legal framework in view of "…prevailing confusion in legislation governing SOEs, characterised by the duplication, conflicting provisions, different founding legislations, and sometimes serious omissions."[54] For example, since South Africa has no consolidated framework for SOE corporate governance, relevant systems, structures, processes, procedures, and controls are scattered across different pieces of legislation such as the PFMA, the Municipal Finance Management Act, the Municipal Systems Act, the Companies Act; and policies such as the Protocol on Corporate Governance in the Public Sector under the jurisdiction of the Department of Public Enterprises. Furthermore, the King III Report on Corporate Governance has direct relevance for SOEs. South Africa's SOEs thus operate under the weight of cumbersome legal and regulatory frameworks.[55]

Related to the problem of heterodox legal and policy frameworks is the difficulty of the decentralised model under which SOEs operate in South Africa. In this model, SOEs are the responsibility of branch or sector ministries, where a multitude of institutions from all spheres of government exercise the ownership function. However, the global trend has been to place SOEs, especially those with a commercial role and function, under one ministry or agency. Such a ministry or agency then establishes codes of conduct or guidelines that must be followed by other ministries or agencies that are involved with SOEs in one way or another. The advantages of centralised model include separating the ownership from the policy function; facilitating greater consistency of ownership policy supported by unified guidelines on matters such as transparency, board nomination, and executive remuneration; improving clear financial reporting; and providing a common remit for managerial competences and administrative expertise.[56]

There are instructive examples countries that use the centralised model:[57]

- *Egypt: there are several state-owned holding companies that function in different sectors. The Ministry of Investment has an ownership stake in about 150 SOEs, oversees state-holding companies, and develops objectives of government's role and ownership.*
- *Finland: An Ownership Steering Department in the Prime Minister's Office is responsible for preparing and implementing the state-ownership policy. This Department sets objectives in consultation with line ministries.*
- *France: The Agence des Participations de l'Etat (Agency for State Participation) oversees the ownership of strategic SOEs, and reports to the Ministry of the Economy and Finance. Performance goals of SOEs must have medium- and long-term strategies which are submitted to the Ministry and related line ministries.*
- *Hungary: The Hungarian National Asset Management Inc. reports to the Ministry of National Development. It is a state-owned entity limited by shares and oversees state the management of state assets and other institutions designated by law or ministerial order.*

[54] PRC Report, 99.
[55] PRC Report, 79.
[56] PRC Report, 88.
[57] NPC, Paper 3, "Institutional Governance Review," 3.

3.1.2 The Problem of Sectors

The challenges of consolidation and rationalisation have also been highlighted by the PRC, especially regarding defining strategic and priority sectors for SOE participation.[58] The Report notes an absence of common policy standards, criteria and frameworks across all spheres of government. Where there are references, these exist by default rather than by conceptual clarity or strategic intent. For example, both the New Growth Path and the NPC identify sectors that are critical for job creation such as infrastructure, agricultural and mining value chains, the green economy, tourism, and retail and business services. The PRC Report lists additional sectors which are critical component of South Africa's developmental state vision such as defence, construction, energy, telecommunications, defence, and water.[59]

South Africa could therefore benefit by examining international benchmarks for identifying strategic sectors. Here the examples of China, Russia, and Singapore are especially insightful:[60]

- *China: In 2003, the State-Owned Assets Supervision and Administration Commission (SASAC) of the State Council and Central Huijin Ltd. were formed to govern state ownership of all SOEs and DFIs, respectively. Both have overseen reducing the relative economic weight of the state sector by opening more industrial sectors to competition from non-state enterprises, based on the approach of "grasping the big, letting go of the small". As a result, the number of SOEs and DFIs owned by the central government declined from 196 in 2003, to 115 in 2013, to 96 currently.[61] The SOEs and DFIs which fall under SASAC and Central Huijin are to be found in strategic industries and sectors which play vitally important roles in national security and are catalysts for growth and development. The government exercises absolute control over these sectors through sole ownership or a controlling stake. These include defence, petroleum and petro-chemicals, electricity generation, transmission, and distribution, telecommunications, shipping, and civil aviation. There is an ancillary group that are designated as pillars and basic industries such as machinery, automobiles, steel, base metals, chemicals, and research and development.*
- *Russia: In 2008, a law was passed which identified 15 sectors and industries of strategic importance to the country. These include defence, aerospace and aviation, nuclear, fishing, metals and alloys, publishing and printing, and radio and TV broadcasting, and telecommunication services.*
- *Singapore: It has one of the largest SOE sectors in the world and the role of its "government-linked companies" (GLCs) is widely studied because of the major impact they have had on its industrialisation and rapid economic growth from a largely entrepot or enclave economy.[62] Singapore's strategic sectors are concentrated in telecommunications, energy and power generation, rail and bus transport, and ports and airlines. There is also extensive GLC extensive activity in the manufacturing of semi-conductors, shipbuilding, and banking.*

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[58] *PRC Report, 52-53.*
[59] *PRC Report, 53.*
[60] *PRC Report, 52 and NPC, Paper 3, "Institutional Governance Review," 7.*
[61] *Zoey Ye Zhang, "China's SOE reforms: What the latest round of reforms mean for the market," China Briefing, 29 May 2019.*
[62] *Tan Cheng-Han, Dan W Puchmak, and Umakanth Varotill, "State-owned enterprises in Singapore: Historical insights into a potential model for reform," National University of Singapore, Working Paper: 003, 2015.*

3.2 The DFI Dimension

Coming to the role of DFIs and how they can collaborate with and find constructive synergies in the SOE complex, the rationale must be based on the principles of their contribution to accelerated industrialisation, economic growth, and human capital development in the context of the country's current economic crisis. The model that is often referred to is the BNDES, the Brazilian Development Bank.[63] It was established in 1952 and falls under the Ministry of Development, Industry and Trade. After the Chinese Development Bank, BNDES is one of the largest in the world, supporting investment in agriculture, commerce and industry, services, SMMEs, education, health, sanitation, and mass transportation. More recently, BNDES has been involved in renewable energy and green economy initiatives. It has been a major play in the growth and development of Brazil's ethanol sector.

There are also other countries where DFIs have been instrumental in helping to steer long-term industrialisation.[64]

- *Mexico: The Nacional Financiera is one of six DFIs which focuses exclusively on financing SMMEs whose start-ups face risk in supply chains, especially from big buyers.*
- *India: The Industrial Development Bank of India has been involved in the long-term financing and development of India's ICT sector.*
- *South Korea: The Korea Development Bank, founded in 1954, supplies industrial capital as well as services in corporate, investment, and consumer banking; and the Industrial Bank of Korea, founded in 1961, is the main funding vehicle for SMMEs. Both are 100 per cent government owned.*
- *Japan: The Development Bank of Japan, founded in 1951, and the Japan Bank for International Cooperation, founded in 1999, are also wholly owned by the Japanese government. They have been the financial drivers of infrastructure development in varied roles other than development finance. These include providing consulting services, developing private sector partnerships, providing export credit, and implementing and managing projects.*

What emerges from these different roles played by DFIs is to ensure that in the case of South Africa, there is careful but formalised alignment, coordination, and complementarity of their roles and functions with the strategic sectors of the entire SOE complex. This must form a critical part of any rationalisation and consolidation exercise that underpins the future of SOEs in South Africa.

4. Governance of SOEs, DFIs and the Private Sector: Towards a PPP framework

In this section, we start from the premise that South Africa's economic recovery could be significantly enhanced by a virtuous cycle of deliberate interactions and focused initiatives between SOEs, DFIs, and the private sector. Such a PPP ecosystem, drawing on appropriate guidelines and practices, could assist the economy to deal with heightened risk to lives and livelihoods—the job creation and

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[63] Emani Torres and Rodrigo Zeidan, "The life-cycle of national development banks: The experience of Brazil's BNDES," Quarterly Review of Economics and Finance, 62, November 2016, 97-104.
[64] William Gumede et al., "The role of South Africa's state-owned development institutions…," 10-15.

employment dimension; as well as generate resilience that is necessary for economic recovery over the short (2 year)-, medium (5 year)-, and long-terms (10 year)—the growth and macro-economic dimension.

Since 1994, the ANC-led government has produced a raft of development blueprints[65] which anticipate specific roles and functions for SOEs and DFIs but where the private sector hardly features even though it could be a significant stakeholder in providing patient capital if room for engagement is opened. To underscore the point in policy and practice, these documents converge around two axes in their strategic intent where the private sector could be a strategic voice and partner. The first axis is to narrow the wide gulf between the first and second economies of South Africa, one developed and the other poor. The second is to find an appropriate balance between the highly concentrated and monopoly-character of the private sector and the developmental and welfare objectives of the public sector.[66] The tensions between these two axes are not easily resolved but highlight the need for a reappraisal of the respective roles of the public and private sectors, especially in view of the crisis conditions gripping the country. It is useful to examine two recent contributions that represent contrasting perspectives in this regard.

4.1 Two Perspectives: The ANC and B4SA

The ANC's Economic Transformation Committee recently released a document, Reconstruction, Growth and Transformation: Building a New, Inclusive Economy.[67] It calls for a more active role for the state with a wider reach. There is an emphasis on import substitution, local beneficiation of minerals, and greater public spending on local products and materials—all intended to generate "significant job creation multipliers". Accordingly, the government should use its powers under the Disaster Management Act to fundamentally restructure the economy. This must be driven by intensive supply-side investment in large hard and soft infrastructure projects, including energy, water and sanitation, roads and bridges, human settlements, health and education, digital connectivity, and public transport. The document asserts that the COVID-19 pandemic "has legitimised a greater and more active role of the state in guiding the economy. It has forced a rethink on public services that are now seen as a necessary investment rather than a liability".

Representing the voice of the private sector, Business for SA (B4SA) released its own document, A New Inclusive Economic Future for South Africa: Delivering an Accelerated Economic Recovery Strategy.[68] The document emphasises the importance of committed leadership that has the will and capacity to make difficult choices that will spur growth and domestic and foreign investment. New thinking on policy development and implementation by government is required, with a focus on improving the competitiveness of the economy by concentrating on the ease-of-doing-business,[69] as well as on education, innovation, and entrepreneurship. An area where there is strategic agreement

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[65] *Examples are the Reconstruction and Development Programme (RDP); the Growth, Employment, and Redistribution Programme (GEAR); the Accelerated Growth Initiative for South Africa (ASGISA), the New Growth Path (NGP); and the National Development Plan (NDP).*
[66] *Samantha Ashman, "The South African economy: The minerals-energy-finance complex redubbed?" in Gilbert Khadiagala, Prishnani Naidoo, Devan Pillay, and Roger Southall (eds.), New South African Review: 5, Wits University Press, 2015, 67-84.*
[67] *ANC Economic Transformation Committee, "Reconstruction, Growth and Transformation: Building a New, Inclusive Economy," 8 July 2020.*
[68] *Business for South Africa, "A New Inclusive Economic Future for South Africa: Delivering an Accelerated Economic Recovery Strategy," 10 July 2020.*
[69] *According to the World Bank's Ease of Doing Business Index South Africa's ranking has declined from 35th out of 190 countries in 2008 to 84th currently, a drop of 49 places in 12 years.*

between the ANC and B4SA is the need to invest in and build large-scale infrastructure projects that are labour-intensive, and which could assist the process of expansionary economic activity.

With infrastructure providing an enabling environment, B4SA recommends that a constructive, effective policy framework be developed to support initiatives that could improve the country's competitive position. The ANC document notes the need for "expanded public-private partnerships, including build, operate and transfer project delivery methods". B4SA echoes similar sentiments in a private sector fund-develop-operate model (like a conventional build-operate-transfer ((BOT) arrangement) that would ease the burden on the fiscus and SOEs by reducing the public sector funding requirement to R1.9 trillion over three years and normalise the budget deficit at 3.5 per cent by 2025.[70] However, B4SA insists on policy certainty as a priority for this quid pro quo to work, which must be supported by regulatory reform, addressing crime and corruption, and tackling the scourge of state capture.

The triangular formation that could frame a PPP could assist with developing a risk and resilience strategy.[71] South Africa faces future exigencies punctuated by volatility, uncertainty and complexity. This is made more challenging by a global environment in flux and turbulence. In a normative sense, PPPs provide a context for shared interests and greater solidarity between the public and private sectors; for developing coalitions, networks, and cooperative structures to explore effective solutions; and for offering a rationale for both government and business to concentrate resources on their core mission of assisting with reviving the economy through job creation, supply-side stimulus, small-business development as well as promoting social stabilisation measures to deal with the fallout of the COVID-19 pandemic.

4.2 PPP Quality and Performance: Principles and Practice

The OECD guidelines and instruments serve as a framework for better understanding how risk and resilience can be embedded in PPPs involving SOEs, DFIs and the private sector. Quite crucially, South Africa is one of five OECD partners, along with Brazil, China, India, and Indonesia. Its participation covers a wide spectrum of policy issues such as macroeconomic policy and structural reform, debt management, fiscal policy, domestic resource mobilisation, anti-corruption, and public sector governance. It is an associate in six OECD bodies, participates in 15 projects, and adheres to 19 of its instruments, including its PPP guidelines.[72]

The underlying ethos of PPPs is their long-term nature as agreements between the government and the private sector for delivering and funding services using a capital asset and sharing associated risks. The effectiveness of the PPP depends on a sufficient and appropriate transfer of risk to the private partner. The private partner could undertake a variety of tasks, including the design, construction, financing, operation, and management of the capital asset required for service delivery; or do so in

[71] See Paul Bracken, Ian Bremmer and David Gordon (eds.), Managing Strategic Surprise, Cambridge: Cambridge University Press, 2008; and Clay Shirky, Here Comes Everybody: The power of organizing without organizations, London: Penguin Books, 2008.
[72] Organisation for Economic Cooperation and Development, "South Africa and the OECD," Paris: OECD, 18 June 2018 at www.oecd.org/south-africa-and-oecd.htm

conjunction with the public partner. This is the essence of what Busi Mavuso's had proposed earlier. PPPs by their nature are complex undertakings in terms of skills-sets, institutional structures, and legal frameworks but if properly executed they deliver both public benefits and private gains. In a World Bank reference guide, the focal areas of PPPs with the best returns are in energy and power generation; provincial and municipal management; telecommunications and ICT; transportation; and water and sanitation. These focal areas deliver better welfare gains if they promote or include PPPs with a developmental purpose such as green and climate smart interventions; working for the poor and alleviating poverty; developing human resources and transferring skills; enhancing participation and job creation by SMMEs; promoting gender sensitivity and including women; providing funding for risk mitigation; and having mechanisms for transparency, good governance and anti-corruption.[73]

4.2.1 OECD Principles for PPPs

There are three principles that underpin the OECD guidelines, and which should guide the endeavour to structure PPPs between SOEs, DFIs, and private sector.[74]

- *A clear, predictable and legitimate institutional framework that is supported by competent and well-resourced authorities: political leadership must accept the costs and benefits of using PPP and ensure that they are balanced with stability and predictability. Active consultation and stakeholder engagement must be an integral part of the process. Institutional roles must be clearly specified, including a sound procurement process; implementation of the PPP; fiscal and budgeting issues; and monitoring and enforcement.*
- *Value-for-money must inform the selection of a PPP: it is government's responsibility to define and pursue the strategic goals of the PPP and these must be prioritised and assessed at the political level, including the initial cost assessment, evaluation of the opportunity cost, and a comprehensive cost-benefit analysis. There must be a careful evaluation of which investments will most likely yield the best value-for-money. Elements to be considered are type of risks transferred to the private partners to ensure value-for-money; whether the risk appetite for the PPP is sufficiently robust; and whether the partners have a track record of good service delivery and business conduct.*
- *Fiscal risks must be minimised, and the integrity of the procurement process ensured through transparent budgetary processes: The responsible budget authority must ensure that the project is affordable and the investment sustainable. The investment expenditure budget, including assessing contingent liabilities should be based on medium- and long-term fiscal projections, with regular updates. In addition, transparency in the budget process is required, documentation should disclose all costs and contingent liabilities, and special attention should be given to budget transparency of the PPP covering the entire public sector.*

[73]World Bank, Public-Private Partnerships: Reference Guide—Version 3, Washington DC: World Bank 2017.
[74]OECD, Principles for the Public Governance of Public-Private Partnerships, Paris: OECD, 2012.

5. Policy Recommendations

It is useful and important to return to and recapitulate the strategic context of the NDP and the role SOEs and DFIs are expected to play in different aspects of the economy. They provide critical economic infrastructure and services required to generate economic growth, as well as create conditions for employment, and provide public goods like water, sanitation, energy, and transport. At a fundamental level, the economic infrastructure and services provided by SOEs and DFIs are the catalysts and drivers of inclusive development and social and economic transformation. However, as witnessed in the last decade, non-performing SOEs and DFIs have become a binding constraint in achieving government's development goals. There is great potential for structural reform and the establishment of the Presidential State-Owned Enterprises Council (PSEC) provides an institutional vehicle for driving this process, most crucially on the one hand, with respect to effective SOE and DFI governance and rationalisation; and crowding in the private sector on the other.

Below, the paper advances two clusters of key recommendations, primarily aimed at the PSEC since it is chaired by the President and he represents the political centre of gravity for the work of the Council:

5.1 Recommendation: Cluster One

- ***PSEC should appoint Task Team One from among its ranks to undertake the following:***
  - *Study the recommendations of the PRC Report but focus on developing a long-term strategy for SOEs and DFIs that is aligned with the vision and objectives of the NDP and the recovery of the economy.*
  - *Such a strategy should be the foundation for developing and presenting modalities to PSEC for a single and overarching legal framework to govern all SOEs and DFIs in consultation with relevant ministries and departments.*
  - *The strategy and modalities should focus on the necessary mechanisms—legal, institutional, policy, and administrative—for consolidating and rationalising the number of SOEs.*
  - *This exercise should be informed by two considerations: firstly, a definition of strategic sectors that are relevant to the NDP vision and objectives and economic recovery; and secondly, how such strategic sectors promote collaboration and synergies between SOEs and DFIs, particularly with reference to the NDP's Medium-Term Strategic Framework for 2014-2019 (see footnote 44 above).*

5.2 Recommendation: Cluster Two

- ***PSEC should appoint Task Team Two from among its ranks to undertake the following:***
  - *Propose terms of reference for setting up a PPP Unit in the Presidency. Such ToRs should aim to develop a functional and implementable framework of methods and principles that are relevant to a three-way partnership between SOEs, DFIs, and the private sector and which draw on the OECD guidelines.*
  - *Initiate a broad process of consultation among the NEDLAC social partners that will encourage their participation in and support of the work of the PPP Unit. Such consultation is important*

for ensuring that the partnership is affordable and institutionally coherent; that it represents good value-for-money; and that PPPs are transparently treated in the budget process.

6. Concluding Remarks

As constituted, SOEs and DFIs are expected to be functionally efficient organisations, comporting with high standards and principles of ethical conduct and prudential corporate governance, acting accountably and transparently in the use of public resources, and above all generating real and meaningful outcomes for the benefit of the poor and marginalised. Indeed, the COVID-19 pandemic has exposed how wide and deep the cracks are in the country's economic and social predicament. It is something of a paradox that South Africa has engineered a complex amalgam of strategies, measures, and policies that are meant to reflect the ethos of a developmental state, yet the traction of this complex amalgam has been negligible and rendered nugatory mainly because of political paralysis.[75]

The country has now reached an economic and social inflection point because of its recessionary environment, exacerbated by the effects of the COVID-19 pandemic. This paper has made recommendations that it considers salutary for repositioning SOEs and DFIs, especially in relation to the possible multiplier effects that could flow from engaging the private sector through better alignment, complementarity, and coordination. However, giving effect to the recommendations will require astute leadership and the political will to address the forces of economic and social dislocation.

There are clear advantages for consolidating SOEs and DFIs under a single rubric and bringing in the private sector through PPPs. It will allow for a clearer articulation of public policy; improve capacity-building within state institutions; provide a better matching and synergising of mandates and policy priorities; improve prospects for integrated planning; and enhance collaboration and coordination between the public and private sectors.

Finally, it is worth drawing on Milton Friedman regarding how times of crisis can provide great opportunities for systemic change. As he observed to his fellow monetarists: "Only a crisis—actual or perceived—produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable."[76]

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[75] *Sampie Terreblanche, "The Developmental State in South Africa: The difficult road ahead," in Peter Kagwanja and Kandiwe Kondlo (eds.), State of the Nation: South Africa 2008, Cape Town: HSRC Press, 2009, 107-130; and Devan Pillay, "The Stunted growth of South Africa's developmental state discourse," Africanus, 37:2, 2007, 198-215.*

[76] *Milton Friedman, Capitalism and Freedom, Chicago, Ill: University of Chicago Press, 1962, 87, emphasis added.*

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