OPINION

NEVA MAKGETLA: How to correct state-owned companies before they crash

Mandates of many entities are too unclear for us to determine whether their financial losses are offset by broader benefits

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The mandates of many state-owned enterprises are too unclear to tell if their financial losses were in fact offset by broader benefits, says the writer. Picture: REUTERS

Stories about mismanagement, losses and corruption at state-owned companies (SOCs) have been cascading for years. Yet until recently they did not lead to much action. The delayed responses have imposed a heavy cost on the country. They point to the need for greater openness and more effective triggers for official investigations.

For years it has been obvious from media reports, financial statements and some major operational failures that many of the nearly 30 national SOCs were running into trouble. In the past four reporting years almost half made losses in two or more years, and five made no profits at all.

Eskom, Sanral and Transnet alone account for almost three-quarters of the collective assets of the national SOCs — and both Eskom and Sanral made losses in 2017/2018. SAA made no profits in the past four years and lost R5bn in its most recent reporting year. That was equal to almost half of all SOC losses, although it holds only 1% of all SOC assets.

Losses don't necessarily mean an SOC has failed. The state often owns enterprises to generate benefits for the public rather than profits. But the mandates of many SOCs are too unclear to tell if their financial losses were in fact offset by broader benefits. SAA, for instance, did not specify a developmental mandate that would justify its enormous deficits. In 2017, its stated mission was to "deliver commercially sustainable world-class air passenger and aviation services in SA, the African continent and our tourism and trading partners". It did not explain how that differed from its (profitable) competitors.

It's easy to blame the delayed response to SOC shortcomings on the lack of political will. But governance systems are supposed to pressure even reluctant oversight agencies into doing the right thing. In the case of the SOCs, these outcomes were stymied by the lack of rules requiring consistent responses to problems and by widespread secrecy about SOC management and decision-making.

Regulations do not require shareholder departments to investigate allegations of corruption in the mainstream media, financial losses, or a failure to meet core mandates. Nor do oversight departments have to specify clearly either what goods and services the SOCs will supply or how they will ensure the anticipated social and economic benefits outweigh the costs to users and taxpayers. All too often SOCs have upgraded their services — but only at a price that the public finds excessive.

In 2017 Eskom stated that its mandate consisted of "providing a stable electricity supply … to assist in lowering the cost of doing business in SA and enabling economic growth". From 2008, however, it demanded double-digit increases in tariffs and imposed loadshedding in 2008 and 2015. Yet it faced significant consequences only from 2018.

Catching problems earlier at the SOCs also requires more avenues for public oversight and inputs. In practice, a shroud of secrecy surrounds the shareholder compacts between oversight departments and SOCs that are supposed to ensure

SOCs pursue national objectives and policies. These agreements are neither published after they are finalised nor are they open for public comment in advance. In this kind of closed system it is fatally easy for officials to water down performance indicators and condone shortfalls for years.

SOCs are required to publish their financial reports annually, on the model of private companies. All too often, however, they obfuscate subsidies, soaring debts, falling demand for their services, and price hikes. It would help if they had to clearly state when they received any kind of state subsidy or support, including through debt-equity swaps, when they receive tariff increases above inflation and how many people they serve.

SA is paying a heavy price for slow responses to deteriorating decision-making in the SOCs. Unless more transparent and rigorous governance systems are introduced, similar problems will likely re-emerge down the road.

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