OPINION

NEVA MAKGETLA: Why SOEs keep plugging away at failing business models

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The Eskom Megawatt Park headquarters in Johannesburg. Picture: Waldo Swiegers/Bloomberg

The financial and operational emergencies at Eskom and SAA grab headlines. But they are not unique.

National state-owned enterprises (SOEs) as a group have reported losses over the past two years. Analysis of the 21 national SOEs points above all to the effect of the economic slowdown, combined with weak oversight systems. (The enterprises analysed include the SA National Roads Agency — Sanral — which depends on toll revenue, but excludes the water boards, the sector education and training authorities and Telkom.)

Despite exceptions, the financial challenges facing the public enterprises are breathtaking. Seventeen made losses in two or more years from 2016 to 2019, and of these, seven made only losses. Eskom alone lost R20bn in 2019 and R2bn the year before. Sanral made losses in all four years, mostly because the public boycotted the tolls in Gauteng. By late 2019 SAA was in business rescue, SA Express hasn't published an annual report since 2017, Alexkor was in administration, Denel had trouble paying salaries and the SA Nuclear Energy Corporation had to restate its past four years of accounts. Not all companies were in deep trouble, however. For example, Transnet's profits rose over the past four years.

The public enterprises analysed here account for a fifth of SA's capital stock and a seventh of annual investment. Eskom, Sanral and Transnet hold almost 90% of their reported assets, with 40% — R800bn — at Eskom alone. In contrast, the enterprises directly provide just 1% of national employment, or 155,000 jobs, with two-thirds at Eskom and Transnet.

Ultimately, direct job creation and investment by the public enterprises are dwarfed by their effect on the economy as a whole, especially supplying basic infrastructure. This reality should shape responses to the crisis. If remedies prioritising minimising the burdens on the public enterprises themselves, they may impose even larger burdens on the economy and society. Measures that focus on increasing tariffs for core infrastructure, suppressing more efficient competitors or providing new subsidies often do more damage than good. They may end up limiting national job creation and growth, or lead to a cut in funding for basic services.

The financial crisis at the SOEs was caused, most immediately, by the economic slowdown as the global mining boom ended. As a group, the public enterprises rapidly expanded their investments during the mining boom. But the end of the boom meant the expected demand often did not materialise. Yet they must still pay for the investment financing, and in cases bear the consequences of large-scale corruption in procurement.

In response to falling demand, Transnet downsized investments and wrote down assets. Eskom aims instead to sustain its income by further increasing electricity tariffs — leading to further declines in electricity demand and pushing electricity-intensive producers to the brink.

Why did public enterprises persist with losses and unsustainable business models over years? A central factor is the pronounced lack of clarity about their developmental mandates. Fundamentally, state ownership aims to secure an affordable, reliable supply of goods and services that have important social and economic benefits but would be too long term, risky or unprofitable to attract private investors. If the benefits as well as the costs are not clearly defined, solutions to the financial crisis — including shuttering enterprises — may impose big unanticipated costs.

A second challenge is to set up systems to insulate government decisions from lobbying by the public enterprises. Oversight of SOEs is often fragmented between shareholder and policy departments, leading to forum shopping and delays in implementing reforms. Moreover, the entities' annual reports can be hard to find and often obscure challenges. In these circumstances, enterprises frequently lobby for measures that protect their operations by displacing the costs onto the public.

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