Public enterprises: SA must face choking reality of state-owned albatrosses

PUBLIC Enterprises Minister Barbara Hogan 's recent about-turn on the possible sale of nonperforming state-owned enterprises (SOEs) provoked strident censure from some African National Congress, South African Communist Party and union leaders. Was this really because she contradicted ANC policies? Or are we seeing a continuing battle for hegemony in discourse around contested areas of economic policy and management?

A rereading of the ANC's 52nd national conference resolutions taken in December 2007 at Polokwane, or its more recent 2009 election manifesto, reveals that there is no explicitly stated opposition to the sale of state assets or of private sector participation.

While these policy documents promote a developmental state and argue that state- owned enterprises should be strengthened, they also recognise the reality of a mixed economy, in which the state and the private sector complement each other in order to foster shared economic growth and development.

Indeed, in all these conference resolutions, there are just three brief references to state- owned enterprises: first, that there should be more integrated planning; second, that they should respond to a clearly defined public mandate and act in terms of overarching industrial policy and economic transformation objectives; and, third, that their role in skills development and training should be revived, in partnership with the private sector. These policies also assert that private capital should be engaged strategically and that public- private partnerships should be built.

Not too long ago, the Department of Public Enterprises published an Accelerated Agenda for the Restructuring of State-Owned Enterprises. In his foreword to the document, then minister Jeff Radebe explained that restructuring refers to a range of options that include redesign of business management principles within state enterprises, the attraction of strategic equity partnerships, and the divestment of equity where appropriate. He went on to argue that restructuring involves improving the efficiency of the enterprise, mobilising private sector capital and expertise, and the creation of effective market structures in sectors currently dominated by SOEs.

While some of the policy prescriptions in this document, such as the break-up of Eskom, were later repudiated by Radebe's successor, Alec Erwin, many of the core concerns around SOE performance remain on the agenda.

The same people who publicly criticised Hogan, and assert the importance of creating and maintaining jobs, or alleviating poverty, would have to agree that most SOEs have not met these objectives. Eskom had 66000 employees in 1985; today it has around 35000. Transnet and Telkom (still majority-owned by the government and the Public Investment Corporation) have also shed many jobs.

The impact of SOEs on development and poverty alleviation is at best mixed. Eskom made rapid progress with electrification in the 1990s, but that programme has slowed; a third of South Africans remain without access to electricity and the monthly allocation of 50 free kilowatt hours to poor families remains badly targeted.

In the telecommunications sector, Telkom has made minimal progress in extending telephony and data services to poor and rural households, despite a dedicated Universal Service Fund. In contrast, private cellphone providers have nearly saturated the market.

SA's largest SOEs — Eskom, Transnet, Telkom — are all in the infrastructure sector. The government recognised that accelerated and shared economic growth was being constrained by infrastructure bottlenecks and initiated substantial new public investments in these sectors. The effects of the global recession on SA's economy would be very much worse without this continuing infrastructure investment programme. However, we have yet to see significant efficiency improvements in infrastructure service quality and prices.

A few years ago, the Treasury and the Department of Public Enterprises commissioned reviews of the electricity, transport and tele- communications sectors. On the review team were leading international experts, including respected academics David Newbery from the University of Cambridge and Roger Noll from Stanford University. The consistent message from these studies was that SA's infrastructure sectors significantly underperform those in competitor countries.

Eskom, Transnet and Telkom might wish to dispute some of the data or benchmarks quoted but consumers and market participants in SA, particularly those who have travelled or worked abroad, know that Telkom's voice and data, and Transnet's port, rail and pipeline services, are expensive and slow. Eskom's power failures are still fresh in our memories.

Eskom will soon report record financial losses. And while Telkom and Transnet are earning profits, these derive from monopoly rents, which significantly add to the cost of doing business in SA.

It is a striking fact that Transnet is the only integrated port, rail and pipeline monopoly in the world. It is equally striking that we continue to protect Telkom's dominant market position at the expense of private sector investors or operators who are keen to offer superior services. Also surprising is that, despite our power shortages, we have not facilitated private generators, which could serve as benchmarks to measure Eskom's performance.

Structural reform and competition are perhaps the best ways of improving infrastructure performance. More difficult, but still possible, is the adoption of an integrated set of SOE reform measures, some of which we have already embarked on — such as clarification of roles and responsibilities through public entity legislation, corporatisation and performance contracts. However, for these measures to be effective, the government has to create professional supervisory and monitoring units that are prepared to institute credible incentives and sanctions for SOE managers.

Another set of measures to improve performance involves what the Harvard academic Jose Gomez-Ibanez refers to as "changing the political economy of state-owned enterprises". By this he means permanently altering the political forces that surround the firm through strengthening the role of interest groups with a stake in more commercial behaviour. Examples of such interest groups are taxpayers, customers and private investors. This can be done by transparent benchmarking, selective contracting out to the private sector and mixed capital enterprises in which bond holders, investors and rating agencies encourage a new financial discipline among SOE managers.

We shall also need a renewed commitment to independent regulation of monopoly infrastructure services. If independent regulatory agencies are to make credible and transparent decisions around prices, service quality and market entry, they need to be supported by adequate regulatory commitment by the government and investment in institution building and human resource development. Strong regulators are also important for promoting effective pro-poor access policies and tariffs.

Unfortunately, constant undermining of the Independent Communications Authority of SA, the telecoms regulator, has held the sector back and condemned our economy to restricted and costly bandwidth. In the electricity sector, we have seen Eskom undermining the National Energy Regulator of SA through a tariff application that eschews the carefully constructed multiyear regulatory framework and which provides scant information for the regulator to do its job. The ports regulator has yet to facilitate the entry of new operators and competition between port terminals.

These are not trivial examples. Cumulatively, they constrain investment, make us less competitive as an economy, and prejudice the welfare and development of South Africans. Hegemonic and ideological interventions that close down public debate on these issues do nothing to help us achieve an alternative outcome — one that is characterised by a competitive and efficient infrastructure sector that can set us on the path to economic recovery, higher growth, more jobs and shared benefits.

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