

## BUSA SUBMISSION TO THE NATIONAL PLANNING COMMISSION ON THE POSITION PAPER ON THE CONTRIBUTION OF SOEs TO VISION 2030: CASE STUDIES OF ESKOM, TRANSNET AND PRASA

30 JUNE 2020

### Introduction

BUSA is a confederation of business organisations, including chambers of commerce and industry, professional associations, corporate associations, and unisectoral organisations. It represents a cross-section of business, large and small, on macro-economic and cross-cutting policies and issues which affect business in all three spheres of government and at the international level. BUSA's function is to ensure business plays a constructive role in economic growth, development and transformation, and to ensure an environment in which business can thrive, expand and be competitive. As the principal representative of business in South Africa, BUSA conveys the views of its members in various national structures and bodies, both statutory and non-statutory.

### Specific Comments

#### Governance Reforms

**The paper proposes that core economic mandate, improved governance and sustainable funding should account for 70% to 80% of the weighting in a shareholder compact.**

In addition to the three elements, it is our proposal that **commercial strategy** should also be part of the factors that form part of the 70% to 80% weighting in a shareholder compact. Historically, there have been several interventions to deal with governance, funding and other issues in SOEs. Our observations are that the interventions have not taken sufficient cognisance of the need to have a commercially viable strategy which will allow SOEs to be self-sustainable and fulfil their developmental and strategic mandates. Without a viable commercial strategy, attempts to make SOEs sustainable in line with the NDP might continue to fail if SOEs are unable to articulate and implement commercial strategies that make them self-sustainable to a great degree.

### Financial Reforms

**Provide the SOEs with clear instruction on the balance between commercial and developmental objectives and clarify the process on the costing and funding of each.**

The developmental and strategic objectives should not outweigh the commercial objectives. For the developmental objectives to be achieved, the attainment of the commercial objectives is imperative. Such an approach might also improve the attainment of the developmental objectives and allow the state to spend its limited financial resources on other developmental objectives.

### Structural Reforms

We are supportive of the proposals under structural reforms. In addition, it would be useful to not only consider structural reforms when an SOE is failing, but to also consider structural reforms in instances where the markets are such that there might be better outcomes for the economy and for South Africans to structure a market in such a way that government does not compete with private participants but allows efficient economic dynamics to take place without a government entity. Where enough private participation exists to make markets efficient, dynamic and competitive, government must rather spend its resources on markets that are not dynamic. As an example, the issue of the establishment of a state bank in a situation where the South African financial markets are largely dynamic and robust and in which the state already owns stakes in certain banking institutions, begs the question on whether the state is efficient using its limited resources.

### Policy and Process Reforms

**Strengthen or introduce new sectoral regulation and improve regulatory capacity.**

In considering the above, it is proposed that the state should consider rules to regulate state aid in order to ensure that competition is not unfairly distorted in industries in which the state competes with private participants. Before approving state aid, it should be a requirement that an analysis of the ability for existing private participants and new entrants might be impacted indirectly due to the state aid being provided to the SOE without performance or commercial turnaround conditions. In pursuing their developmental goals and strategic objectives, SOEs must strive, to the best extent possible, to compete on an equal basis with other private participants and their participation should also not hinder the potential entry of new participants, especially participants from historically disadvantaged backgrounds and SMEs in general.

## **General Comments**

The need for structural reforms cannot be overstated, especially under the currently economic circumstances. It is imperative that the proposals made in the documents must not merely become another piece of work that never gets implemented.

SOEs can play a strategic role in the country's pursuit of the NDP objectives. They can however also derail the attainment of the NDP objectives if the current state of play is not addressed as a matter of urgency. With Treasury's ever limited resources, critical spending prioritisation is required. A lot of focus has been paid to governance reforms and it is now imperative for structural reforms to also take priority.

The private sector remains available to assist and support government in its SOE turnaround strategy.