DEPARTMENT OF PUBLIC ENTERPRISES

2014/2015 – 2018/2019
STRATEGIC PLAN

public enterprises
Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

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FOREWORD BY THE MINISTER

MS LYNNE BROWN, MP

The revision of the Department's strategy coincided with the mid-term of the current administration. The Department had to undertake a comprehensive review of the impact of its programme as well as those of the State-owned companies (SOC) that directly contribute to the realisation of the National Development Plan (NDP) objectives and outcomes. The outcome of the mid-term review showed the following:

- The SOCs remain an important part of the South African economic landscape and their performance is central to the competitiveness of the economy.
- The performance of the SOCs within the portfolio continues to improve. However, there are policy and operational challenges that may threaten the progress that has been made.
- The Department must pursue programmes and projects that will enhance the cooperation between the State and the private sector that will advance the developmental objectives of the State.
- SOCs have continued to support the developmental objectives through implementation of projects such as the build programme and keeping their staff complement high.
- Interventions are required to deracialise and transform the SOCs' value chains to increase the participation of the previously disadvantaged.

The mid-term review also showed that the South African economy continues to face serious headwinds driven largely by international factors. These factors have exposed the weaknesses that existed in the domestic economy that require the Government to implement structural reforms that will improve the broader competitiveness of the economy as well as the developmental outcomes. Furthermore, these reforms will require the Government to implement transformative policies that will unleash our industrial potential and deliver decent jobs for the majority of our people.

At the centre of the South Africa's economic reform has been a need to optimise the State's participation in the economy through enhancing governance frameworks and institutions in SOCs as well as improving the broad performance of SOCs.

The comprehensive review resulted in a revised strategy intended to address the challenges alluded to above and to achieve these objectives through the implementation of projects that will promote good governance in SOCs and reposition their investment and operational activities to support the Radical Socio-Economic Development Programme defined in the 2017 State of the Nation Address (SONA).

The revised strategy seeks to facilitate the implementation of Government programmes outlined in the Nine Point Plan (9PP) to support the turnaround of the economy. SOCs have emerged as important agents within the State's control that must support and accelerate the restructuring of the South African economy. The current strategy outlines the objectives that will guide the programmes of both the Department and SOCs within its portfolio. These are:

I. Promote independent financial sustainability of SOCs
II. Promote commercial viability of SOCs operations
III. Position SOCs to support the reindustrialisation of the South African economy
IV. Increase contribution of the SOCs to support the transformation of the South African economy
V. Promote institutional alignment in the execution of oversight function
VI. Promote the development of a strong shareholder
VII. Oversee the implementation of infrastructure programmes within SOCs.

Over the remainder of the administration period, the Department will pursue programmes that will improve the institutional architecture of the oversight function and set the SOCs on a financially sustainable path. This is important to improve the overall governance of SOCs and maximise the return on investments for the State. Central to this will the finalisation of the Government Oversight Shareholder Policy as well as the SOCs Bill. These interventions are intended to enhance transparency in the oversight of SOCs and improving their performance. This will go a long way to restoring the public trust in the State to be able to protect the public investments in the SOCs.

The Department will also pursue projects that will improve the viability of SOCs' business models and creation of a supportive policy framework. In this regard, the Department will finalise the work on the creation of an optimal structure of the State's airline businesses. This will form an important part of the SOCs' reform and set a precedent on how the State must optimise its shareholding where there are duplication and unclear mandates that SOCs must pursue.

The Department will continue to pursue strategic partnerships with the private sector to accelerate investments into new infrastructure. This is important, as most SOCs are about to reach a limit to use their balance sheet to execute transformative projects.

New electricity markets in the rail and locomotives opportunities will also be pursued in the continent. The new markets of Denel products created through strategic partnerships will increase the revenue into the future.

Ms Lynne Brown, MP
Minister

STATEMENT BY THE DIRECTOR-GENERAL

MR MOGOKARE RICHARD SELEKE

The revised strategy of the Department remains a key driver for the overall business of the Department. Collaboratively produced, the strategy is also fully aligned to key national Government policy and frameworks, not least of which is the National Development Plan and MTSF.

In February 2015 saw the Department constructively respond to dramatic socio-political changes directly impacting its portfolio. A new strategy was tailored, accordingly, including key interventions that, I am pleased to record, have shown good traction overall. However, the changing policy and economic landscape has necessitated the review of the strategy to ensure that the programmes of the Department are in line with the priorities being pursued by the Government.

At the centre of the Department's strategy is ensuring that SOCs directly support the implementation of State's policy whilst remaining financially sustainable. The Department will continue to design and implement a suite of interventions that will focus on optimising SOC leadership, appropriate recapitalisation of SOCs, improvement of policy and regulatory environment and diversification of SOC business through redefined strategies. Specific activities from the above include:

I. Repositioning of the oversight function through the Government Shareholder Oversight Policy and the subsequent SOCs Bill, and

II. Optimisation of the State's portfolio to advance the developmental agenda.

Such thrusts are able to be made because of the objective of ensuring a Departmental plan that drives the demands of the NDP in a way that maintains SOC financial viability, whilst creating possibilities of catalysing new industry. This type of developmental thinking is the overarching paradigm of the strategy. The Department will need to go beyond being the vanguard of the State's assets to develop programmes and projects that will enhance contributions to the goals of the State.

The constrained economic environment presents a major challenge for the SOCs as this has significant impact on their financial position and sustainability. The state of the economy further increases the demands on SOCs, as they are expected to implement countercyclical programmes that will support the turnaround of the economy. The Department will pursue partnerships that will improve the financial sustainability of SOCs as continued losses can no longer be the order of the day. The Department, together with SOCs, will design efficiency or productivity improvement programmes that will change the cost structures of SOCs and enable them to contribute more to the developmental agenda of the State.

Since 2014, there have been systematic improvements in the delivery of the build programme, eg more new generating capacity added to the and completion of projects in time.

The realisation of the objectives outlined in this strategy will require strengthening of the shareholder oversight function. In this regard, the Department will conclude the Government Shareholder Oversight Policy and the subsequent SOC Bill. This will change the structure of the oversight function in South Africa and ensure that the State's assets deliver on their developmental requirements. The strengthening of the shareholder oversight function of the State is at the core of the Department's strategy.

For the remainder of the administration period, the Department's interventions will be guided by the following:

- SOCs' actions that are commercially sustainable in posture and developmental in scope;
- Driving localisation to promote the growth of productive sectors of the economy;
- Constructive SOC funding models that improve the long-term sustainability of SOCs, with lower dependency on guarantees, and
- Optimisation of the State's role in the economy focused on coherent articulation of DPE's private sector participation position and realisation of the African agenda through the DPE SOC portfolio.
- International Partnerships such as BRICS.

Such objectives are comprehensively outlined in this strategy document, with precise detail. Additional measures to enhance these objectives are also iterated. Every programme undertaken within this strategy remains a solid effort to realise NDP, MTSF and 9PP demands, among other mandatory developmental aims.

It is with confidence that, despite the volatility of the economy, I am able to present this strategy in support of the Minister. This is one firmly located in key national policy and frameworks, ideally vigilant as to the risks for each core area of work, industrial and developmental in scope, remains vested in the continued advancement of SOC-supported industrialisation despite fiscal constraints, and has an uncompromising tone of commitment to re-engineering an historically non-inclusive economy into an industrialised, people-centric and sustainable one.

Mr Mogokare Richard Seleke
Director-General

EXECUTIVE SUMMARY

The Medium-Term Strategic Framework (MTSF) 2014 – 2019 outlines Government priorities in the current administration period. The MTSF recognises the tight economic environment within which the first five years of implementation of the National Development Plan (NDP) will occur. This has forced the Government to take a leading role in driving investments in the economy, whilst creating an environment conducive to attracting private sector investment. The Department's mid-term review showed that the South African economy worsened between 2014 and 2016, with 2016 being the toughest year.

The changes in the economy have forced the Government to relook at its strategies and identify additional interventions that will support the implementation of the Nine-Point Plan (9PP) and eventually accelerate the turnaround of the economy. This revised strategy recognises the progress that has been made in areas such as addressing electricity challenges, but accepts that more needs to be done to achieve the NDP objectives and fully transform the South African economy.

The revised strategy continues the repositioning of the Department from being compliance driven to being a major contributor to the restructuring of the economy through the capacity that exists within the portfolio of State-owned companies (SOCs) reporting to the Department. This repositioning also emphasises the leading role that the Department must assume to set out standards that must guide the oversight function across the Government. At the centre of this is the need to conclude the shareholder policy and the legislation that will support the implementation of the new policy. The conclusion of the Government Shareholder Oversight Policy and the subsequent SOC Bill remain the major targets for the Department that must be concluded in the current administration period.

The strategy further advocates for the long-term view on the positioning of the SOCs within the long-term objectives of the State outlined in the NDP and other sectoral policies. Up to 2030, there is an expectation that SOCs must become policy implementers. However, their role must evolve as the economy industrialises in line with the NDP vision.

The strategy recognises that the State needs to play an increasing role to support the turnaround of the

South African economy. This is in line with the 9PP approved by the Cabinet lekgotla in July 2015. This strategy presents the Department's contribution to advancing the implementation of the 9PP as it seeks to re-ignite the South African economy. It builds on the S3 strategy developed by the Department in March 2015. The assessment of the previous strategy has shown that the stabilisation interventions have improved the performance of the portfolio, but that some risks remain, warranting further focus on improving financial sustainability of the SOCs.

The primary focus of the MTSF, in relation to the DPE's scope of control, is investment into enabling infrastructure, through two organisations in particular: Eskom and Transnet. The investment programmes of the two SOCs have been identified in both the 9PP and Industrial Policy Action Plan (IPAP) as important drivers for the turnaround of the South African economy. The successful execution of the Build Programme remains central to the current strategy.

Strategic outcomes of the strategy include the following:

- Promote independent financial stability of SOCs.
- Improving commercial viability of SOCs' operations.
- Delivery of capital projects.
- Supporting the acceleration of the transformation of the South African economy.
- Advancing re-industrialisation of the South African economy.
- Strengthening the role of the shareholder.
- Improving alignment and efficiency across the institutional model.

A series of projects aimed at achieving the above outcomes over the remainder of the administration period will be developed and implemented.

GLOSSARY

Acronyms used in this document

CSDP	Competitive Supplier Development Programme
DPE	Department of Public Enterprises
dti	Department of Trade and Industry
EU	European Union
IPAP	Industrial Policy Action Plan
MTSF	Medium Term Strategic Framework
NDP	National Development Plan
NGP	New Growth Path
PMS	Performance management system
PRC	Presidential Review Committee
SAA	South African Airways
SAFCOL	South African Forestry Company Ltd
SAX	South African Express Airways
SOCs	State-owned companies
9PP	Nine-Point Plan

PART A
STRATEGIC OVERVIEW

Introduction and background – the Department of Public Enterprises

1. Aim

The aim of the Department is to drive investment, productivity and transformation in the Department's portfolio of SOCs, their customers and suppliers to unlock growth, drive industrialisation, create jobs and develop skills.

2. Mission

To provide decisive strategic direction to the SOCs, so that their businesses are aligned with the national growth strategies arising out of the NDP.

3. Values

- Bold – we must dare to be brave in challenging times.
- Professional – we must deliver work that reflects a professional level of care and skill.
- Caring – this must be expressed in how we watch over and support the Department's people.
- Integrity – we must do the right thing irrespective of implications.
- Fun – create an environment where people look forward to coming to work.
- Passion – we are out to make the South African economy competitive – this requires passion.
- Batho Pele principles – these principles guide our engagement with clients and other stakeholders.

4. Mandate

The Department has been tasked by Cabinet to lead the Government effort to develop a Government Shareholder Oversight Policy. This will form the framework within which Government will leverage its position to accelerate investments in the economy and its transformation. This mandate requires the Department to develop supportive policy and legislation that will enhance the contribution of the Government to advance the South African economy in line with NDP goals.

In the interim, the Department will continue to provide oversight on six SOCs, namely Alexkor, Eskom, Denel, SAFCOL, SAX and Transnet, on behalf of the State. It will continue to support improvement in both the financial position and the operation contribution of these companies to the growth of the South Africa economy. This will be influenced largely by the need to transform the economy, including contributing to the re-industrialisation and deracialisation of the economy.

5. Strategic objectives

The Department introduced its new strategy in 2015 based on the need to accelerate the stabilisation of SOCs and reposition them to deliver on the Government's commitments outlined in the NDP as well as the MTSF 2014 – 2019. These two documents continue to provide a planning framework for the Department and the development of economic strategies in South Africa to reshape the economic landscape for better developmental outcomes.

This revised strategy is informed by a need to accelerate execution of interventions that are necessary to turn around the economy and address the structural challenges outlined in the 9PP[1] as well as create a long-term goal on the management of SOCs. Supporting the restructuring of the economy through the effective use of the State's investment in SOCs will remain the Department's primary objective, but it will also ensure that SOCs have capacity to do so.

1 *9PP is the Government's economic strategy to turn around the economy.*

Over the remainder of the current administration period, the Department will pursue a limited set of objectives that will maximise its contribution to the restructuring of the economy including accelerating transformation in the SOCs' value chain. The strategic objectives of the Department are not defined per programme, but are based on outcomes that cannot be realised by a single programme. This is intended to promote cooperation within the organisation and create the basis for a creation of a matrix organisation.

Table 1: The DPE Strategic Objectives

Strategic objectives	Strategic objectives	Outputs	Inputs
Strategic objective 1	Promote independent financial sustainability of SOCs		
Objective statement	Improve the financial sustainability of SOCs through the design and implementation of programmes that will reduce costs or develop new markets, eg pursue opportunities in the African continent.		
Baseline	In the 2015/16 financial year, two SOCs posted a loss and the objective is to ensure that, by the end of the administration period, the losses in SOCs are reduced and their level of dependency on guarantees is reduced.		
Strategic objective 2	Promote commercial viability of SOCs' operations		
Objective statement	Ensure that services provided by SOCs meet the user requirements through setting clear service standards and continuously evaluating progress focused on the network services, such as rail, ports and electricity.		
Baseline	No major disruption in the services offered by SOCs during the 2016/17 financial year. Performance of strategic corridors has not been optimal.		
Strategic objective 3	Position SOCs to support the reindustrialisation of the South African economy		
Objective statement	SOCs can play a critical role in leveraging both their investment and operational activities to support the reindustrialisation of the economy. The focus is to ensure that SOCs localise their value chains and support the growth of manufacturing and other productive sectors.		
Baseline	The Department has been implementing the Competitive Supplier development Programme (CSDP) to promote localisation in rollout of the capital expenditure programme.		

Strategic objective 4	Increase contribution of the SOCs to support the transformation of the South African economy
Objective statement	SOCs are major players in industries/sectors in which they operate and can leverage this position to promote transformation in their value chains and their suppliers.
Baseline	SOCs have been playing an active part in promoting participation of the previously disadvantaged in sectors such as mining and manufacturing of products used in production processes. However, this has been insufficient. SOCs must also actively promote the implementation of the 30% set aside.
Strategic objective 5	Promote institutional alignment in the execution of oversight function
Objective statement	Oversight function is important to promote coherence in the management of State assets and their impact in driving and/or delivery of developmental state objectives. The objective is to create a single approach in the exercise of the oversight function across the State.
Baseline	No coherent approach in the exercise of oversight of strategic SOCs.
Strategic objective 6	Promote the development of a strong shareholder
Objective statement	This is focused on strengthening the Department's capacity to oversee SOCs and lead in the creation of standards for the oversight function across the Government and different spheres.
Baseline	Systems to promote efficiency in the execution of oversight have been developed but are insufficient to deal with sophistication of SOCs operations. This also includes improving compliance to legislation with the Department, eg achieving clean audits.
Strategic objective 7	Oversee the implementation of infrastructure programmes within SOCs
Objective statement	SOCs have been playing a central part in facilitating the movement from a consumption driven growth to investment driven growth. The delivery of infrastructure programmes is, therefore, central to turning around the economy and moving to a different growth path. The key is to ensure that SOCs play an increasing role in scaling the public sector investments from 7%of GDP to 10% as outlined in the MTSF.
Baseline	Public sector investments of 7% of GDP.


ZAMBIA ARMY

PART B
PROGRAMMES

The Department comprises three programmes, namely:

5.1 Programme 1: Administration

Provides strategic management, direction and administrative support to the Department, enabling it to meet its strategic objectives.

5.2 Programme 2: Legal and Governance

Provides legal services and corporate governance systems, and facilitates the implementation of all legal aspects of transactions that are strategically important to the Department and the SOCs; ensures alignment with the Government's strategic intent.

5.3 Programme 3: Portfolio Management and Strategic Partnerships

Aligns the corporate strategies of the SOCs with the Government's strategic intent, and monitors and benchmarks their financial and operational performance and capital investment plans.

State-owned companies

The DPE manages a portfolio of SOCs. These are:

- Alexkor: A diamond mining company operating primarily in Alexander Bay and the greater Namaqualand region.
- Denel: A defence company. Although it is established as a private company in terms of the Companies Act of 2008, the Government exercises full control over it.
- Eskom: Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors.
- SAFCOL: South African Forestry Company Limited is the Government's forestry company, conducting timber harvesting, timber processing and related activities both domestically and regionally.
- SAX: South African Express Airways is a domestic and regional air carrier with a mandate to be an African airline.
- Transnet: Transnet is a freight and logistics company responsible for pipelines, ports and rail transport infrastructure operations in South Africa.

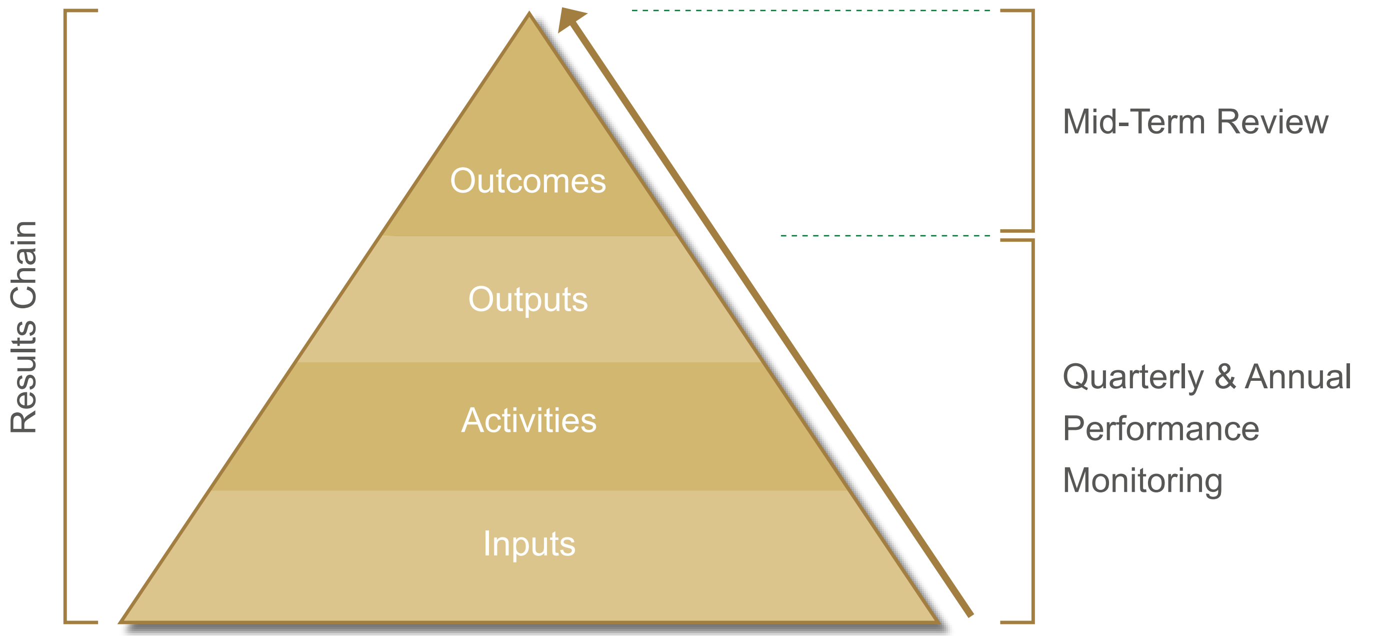
6. THE CONTEXT FOR THE STRATEGY

Medium-term review

In the second part of 2014, the new administration approved the Medium Term Strategic Framework (MTSF) that provides the strategic priorities for the Government for the period 2014 to 2019. The MTSF was centred largely on the implementation of key actions contained in the NDP that are essential for the restructuring of the economy and for dealing with the triple challenges of unemployment, poverty and inequality.

The 2016/17 financial year represented the mid-term for the current administration period and it was necessary for the Department to undertake a comprehensive review of the Department's contribution and that of the SOCs in the portfolio to achieve the outcomes outlined in the NDP as well as the MTSF.

Figure 1: Mid-Term Review Methodology



Since the beginning of the current administration period, the Department's priorities have been designed to support the turnaround of the economy through the rapid rollout of the infrastructure programme, improving the quality of services offered by the SOCs and improving the financial sustainability of the portfolio.

The mid-term review focused on assessing the contribution of Department and SOCs activities on the outcomes set out in the MTSF and on the realisation of the strategic objectives outlined in the Department's strategy. The mid-term review further tested whether the actions undertaken by the portfolio are contributing to the transformation of the South African economy.

The mid-term review showed that progress made had contributed significantly to the realisation of the strategic objectives set out at the beginning of the administration period. The table below shows the progress rating on each objective.

Table 2: Progress on the realisation of the strategic objectives of the Department

Significant progress	
Moderate progress	
Progress but with challenges	

	Strategic objective	Progress rating
1.	Ensure SOCs' financial sustainability	
2.	Ensure SOCs maintain commercially viable operations	
3.	Accelerate capital projects delivery	
4.	Accelerate the transformation of the South African economy	
5.	Explore initiatives to support development of small, medium and micro enterprisesSMMEs, cooperatives and as well as rural and township businesses, including businesses owned by targeted groups	
6.	Advance the re-industrialisation of the South African economy	
7.	Accelerate development of skills to support the needs of the economy	
8.	Develop a strong shareholder	
9.	Promote alignment and efficiency across the institutional model	

The review allowed the Department to assess progress and to draw key lessons from the implementation of its strategy. These lessons include the following:

- The SOCs in the Department's portfolio form the backbone of the economy and their performance has a direct impact on the economy's competitiveness and performance. Creating a supportive and clearer policy environment is essential and the shareholder must strive for this.

- The performance of the Department cannot be divorced from the state of the SOCs in the portfolio and must promote financial sustainability, good governance and operational efficiency.

- The Department has moved from being compliance driven to providing strategic support and direction to the SOCs. However, this will continue to require the following:
    - Boosting the capacity of the Department to execute projects that will systematically improve the ability of the SOCs to meet or deliver on their mandates. This must be focused on influencing the policy posture in key sectors of the economy.

- Creating monitoring and evaluation systems that will allow the Department to have foresight on events that will have major impact on the contribution of the SOCs to Government objectives.

The mid-term review findings have been used to revise the strategy to ensure that it remains relevant and continues to directly support the implementation of Government programmes.

The state of the global and domestic economy

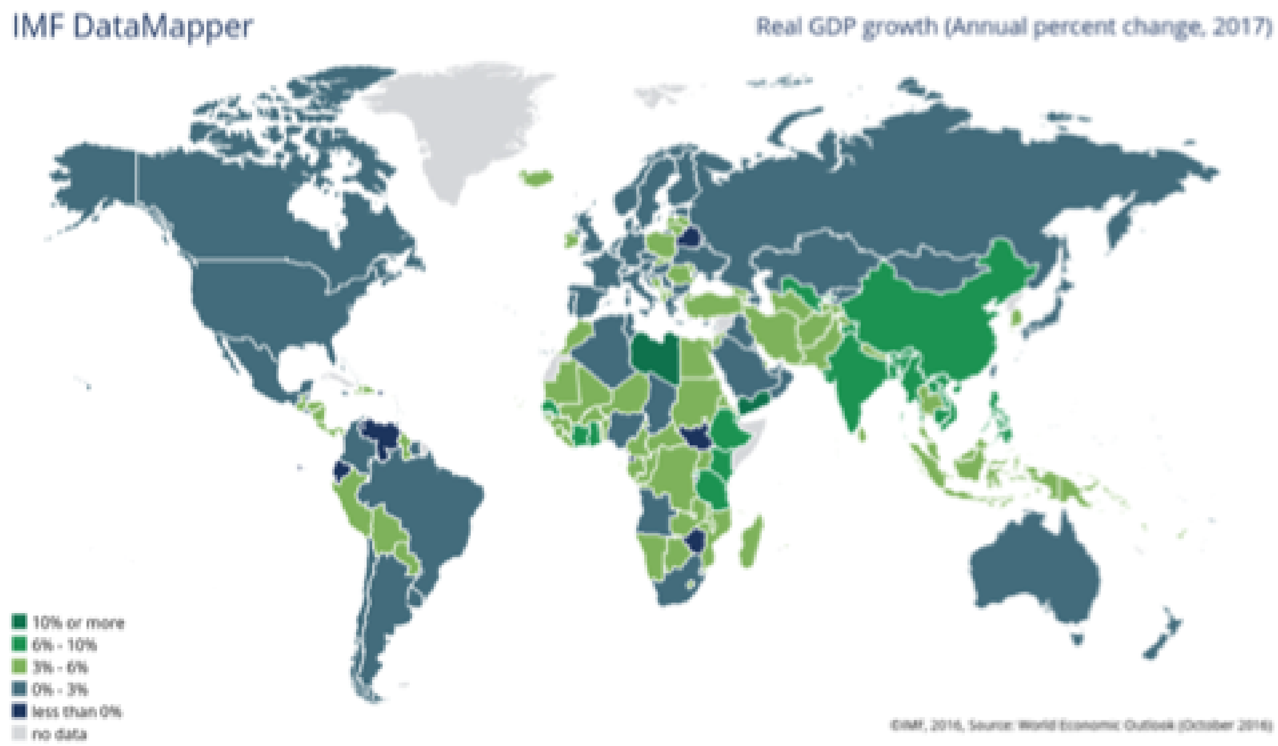
The global economy has continued to perform below pre-crisis levels and recovery across the globe continues to be unequal. However, major events have ushered in a new economic policy discourse that is more internally focused and questions the developmental benefits of globalisation and the free market system. These events include:

- The United Kingdom referendum that has set the process in motion for the country to exit the European Union (EU).
- The election of Donald Trump as President of the United States of America. The impeachment of Brazilian President, Dilma Vana Rousseff, which sought to undermine democratic processes and the role of the electorate.
- Resignation of Italian Prime Minister Matteo Renzi after losing the referendum that advocated the implementation of reforms in the Italian economy in line with EU requirements.

These events have made the global economy more uncertain and may have a devastating impact on global trade and limit developing countries' access to markets in the north. These global changes will have a direct impact on the South African economy and South Africa must have a response strategy, eg most investments in logistics have been directed towards supporting exports to the US, European markets and Asian markets. The pursuance of new markets will need to be accompanied by commensurate investments in infrastructure to allow for the efficient flow of goods.

The World Economic Outlook released by the International Monetary Fund shows that the global economy is not in a good state, with emerging market economies such as China, South Africa and Russia, in particular, suffering. The poor performance of the global economy reflects the state of developed countries such as those in the EU, where output has slowly recovered, and declining commodity prices that have resulted in turmoil in extractive economies or commodity-dependent countries. Weak commodity prices largely reflect the restructuring of the Chinese economy, which is shifting from an export-oriented economy to a consumption-driven economy, with less dependency on commodities.

Figure 2: Real GDP Growth Estimate for 2017

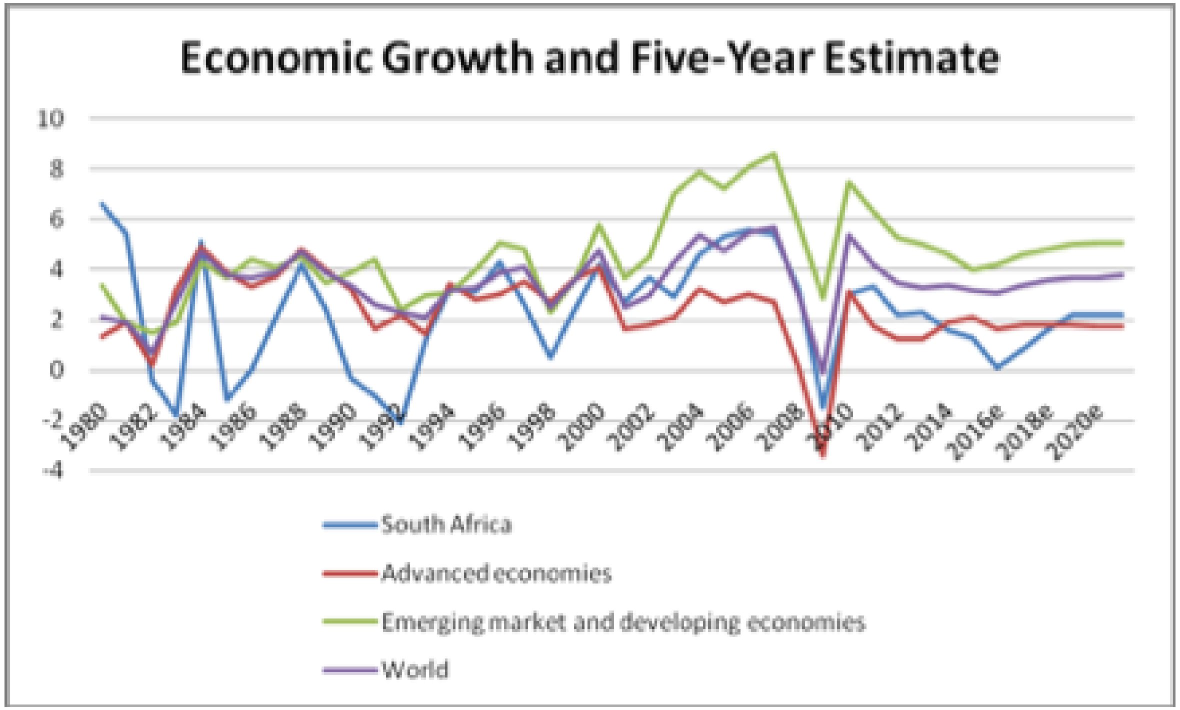


Source: IMF World Economic Outlook, October 2015

Global economic growth estimates for 2017 show that sub-Saharan Africa will remain very buoyant, with three countries - Tanzania, Kenya and Ethiopia - among the fastest growing economies in the world. The traditional markets for South Africa's exports, such as the EU and US, will continue to grow more slowly. Moderate growth in the Asian economy will also have a major impact in South Africa's exports.

As a result, the domestic economy will continue to face serious challenges over the remainder of the administration period. Implementing interventions contained in the NDP and other economic policy strategies such as the 9PP will be essential to change the domestic growth trajectory. The figure below shows clearly that South Africa will continue to grow at a slower pace, which will make responding to the triple challenges of unemployment, poverty and inequality even more difficult. Changing this outlook will require aggressive implementation of Government economic strategies, which are centred on accelerating infrastructure investment and economic transformation.

Figure 3: IMF 2017



The Department strategy needs to contain actions that support the turnaround of the economy and the realisation of economic objectives outlined in the MTSF. However, it also needs to recognise that SOCs in the portfolio will continue to operate in a difficult and constrained economic environment. This recognition must be translated into actions that support SOCs to diversify and promote financial sustainability.

Figure 4: State Institutional Model in Context

The diagram above outlines the relationship between the SOCs, the Department and the Executive and shows that the success of SOCs has a direct impact on the realisation of Government goals. However, realising this requires alignment within the institutional model, eg if the policies approved by the Executive disempower the SOCs, the SOCs will not be able to support the realisation of Government objectives.

Promoting this institutional alignment is fundamental for leveraging the capacity of SOCs to pursue and achieve Government goals. The envisaged Government Shareholder Oversight Policy will govern interactions within the model and ensure that SOCs support the Executive to deliver on the outcomes of the NDP.

The shareholder in context

The Government, as shareholder and 'owner' of the SOCs, should be the key link between stakeholders at various levels of this institutional model. The shareholder's interaction within this systemic model can be understood in terms of its unique position, which enables it to interact with the Executive and various spheres of government as well as with the SOCs. Specifically, the shareholder has access to the Executive arm (Cabinet) where it can ensure alignment and collaboration with national policy setting, based on SOCs' capability and capacity. Within this sphere of interaction, the shareholder can also mediate and manage the Executive's expectations of SOCs.

At departmental level, the shareholder has even easier access and ought to leverage synergies and collaborate with its peer government departments. Here, too, it can negotiate with the policymakers and regulators, on behalf of SOCs.

The shareholder's primary functions, each of which is applicable at a certain level within the institutional model, are the following:

Alignment

- Ensure alignment with national policy based on SOC capability and capacity
- Intercede and manage the Executive's expectations of SOCs.

Collaboration

- Leverage synergies and collaborate with peer government departments
- Interact with organisations outside South Africa where applicable
- Intercede and mediate on behalf of SOCs with policymakers and regulators
- Facilitate collaboration among the SOCs to promote efficiencies and eliminate duplication.

Oversight

- Manage and monitor performance of SOCs
- Translate national policy objectives at SOC level.

Intervention

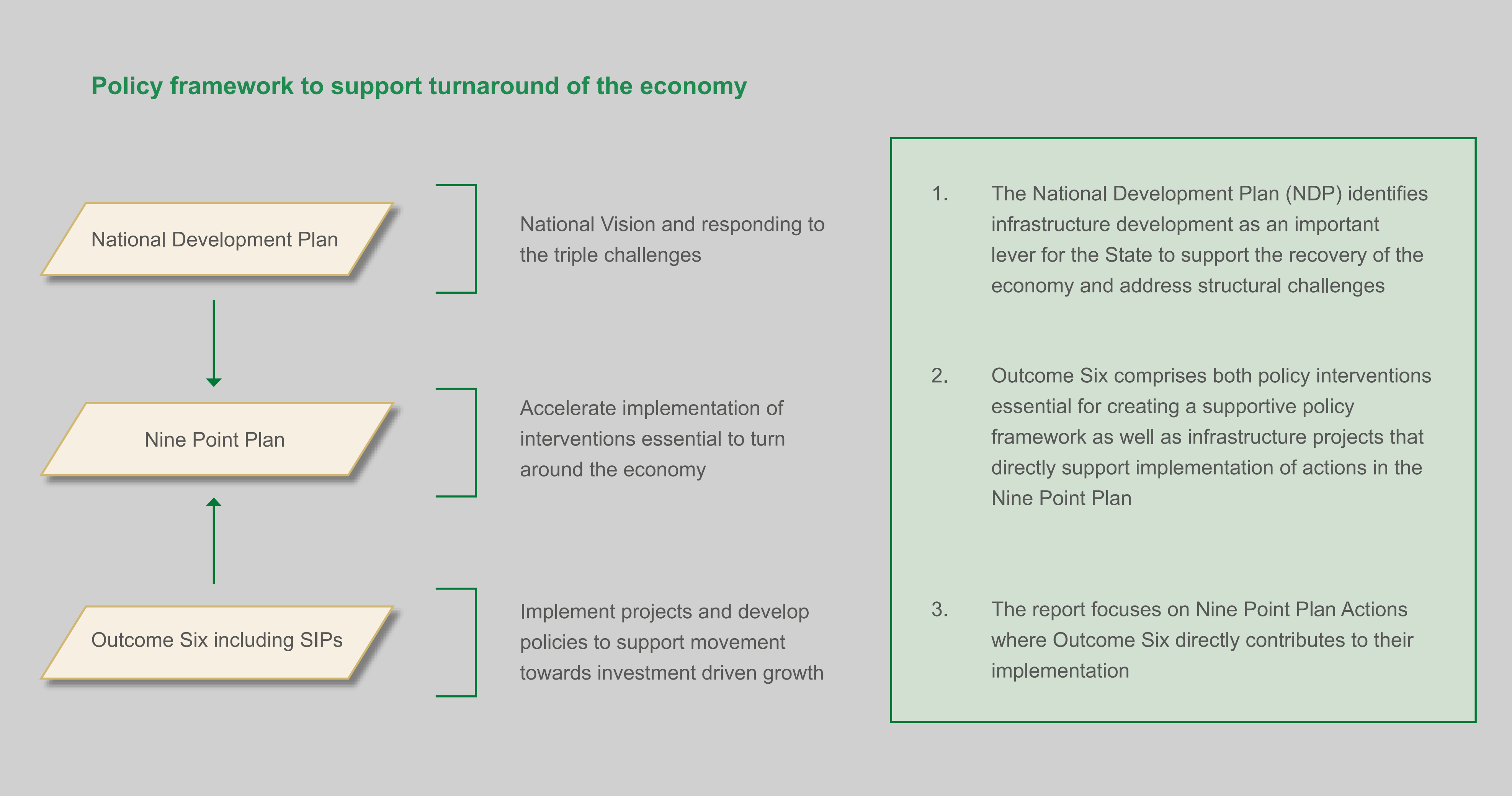
- Intervene strategically to ensure that SOCs remain sustainable and discharge their mandates diligently
- Protect State assets and take action if they are threatened.

Should the shareholder successfully perform these functions, it will be in a better position to translate national objectives to SOCs and oversee effective execution.

Economic policy framework

The Department will continue to implement its strategy within a certain policy framework. Adhering to this framework is important to ensure that SOCs contribute directly to the implementation of Government policy.

Figure 5: The National Development Plan



The NDP is an economic policy framework for the whole country and offers long-term strategic direction. It defines a desired destination and identifies the role of different sectors of society in reaching that goal.

The NDP aims to eliminate poverty and reduce inequality by 2030 and highlights the fact that improving the quality of public services is critical to achieving transformation. According to the plan, South Africa can realise these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the State, and promoting leadership and partnerships throughout society.

The NDP will be implemented in three five-year phases. Each of these phases will have targets and will be monitored by the MTSF[2]. The section below highlights the NDP goals that would need to be supported by the DPE through alignment of SOC mandates:

- Increase employment from 13 million in 2010 to 24 million in 2030;
- Ensure that skilled, technical, professional and managerial posts better reflect the country's racial, gender and disability make-up;
- Broaden ownership of assets to historically disadvantaged groups;
- Produce sufficient energy to support industry at competitive prices, ensuring access for poor households, while reducing carbon emissions per unit of power by about one-third;
- Make high-speed broadband internet universally available at competitive prices;
- Realise a developmental, capable and ethical state that treats citizens with dignity, and
- Play a leading role in continental development, economic integration and human rights.

Medium-Term Strategic Framework

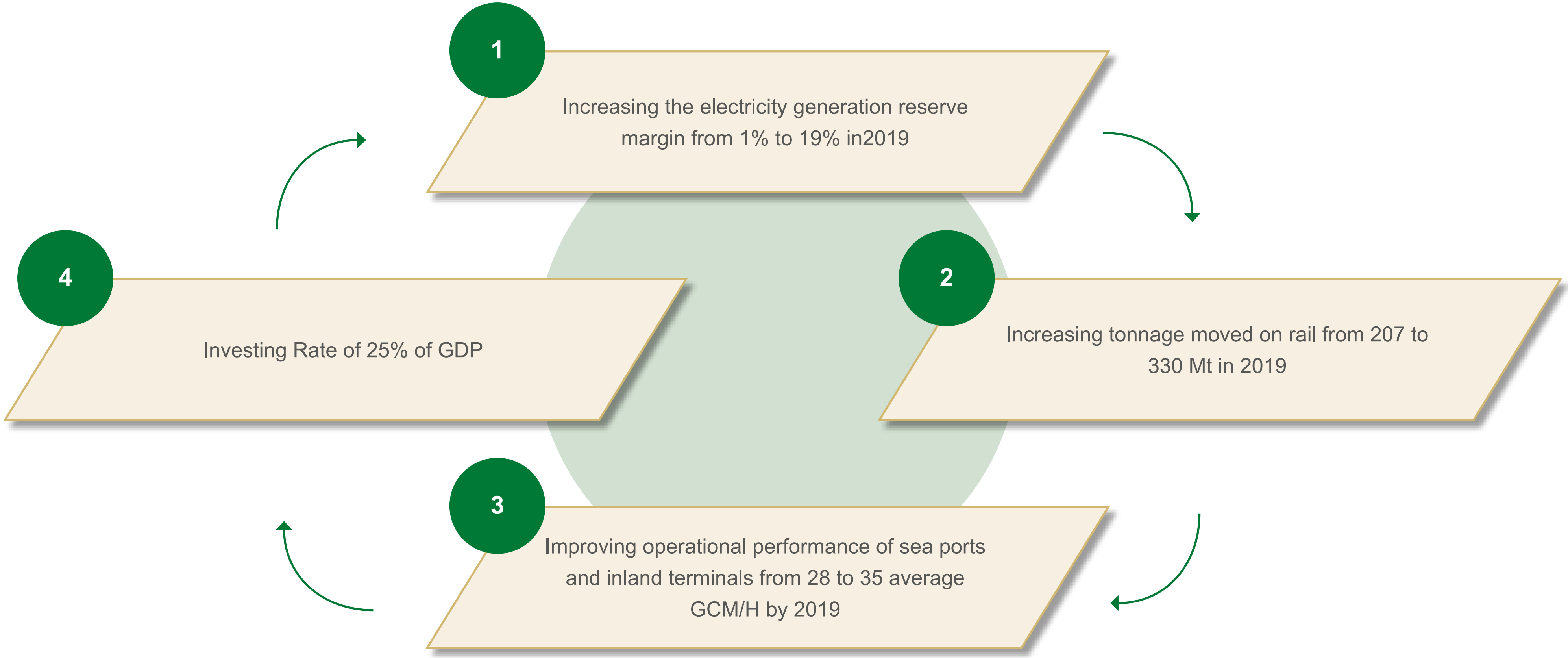
The MTSF for the 2014/15 to 2018/19 administration periods builds on the progress made in the previous administration period. It applies to a number of Government departments, SOCs and functions as a guideline for planning. The 2014 to 2019 MTSF focuses on four key areas of infrastructure development to enable downstream economic growth.

As outlined in Figure 6 below, the MTSF (in relation to the DPE's span of control) highlights four key objectives:

- Increasing the electricity generation reserve margin from 1% to 19% in 2019;
- Increasing tonnage moved on rail from 207 to 330 million tons in 2019;
- Improving operational performance of sea ports and inland terminals from 28 to 35 average gross combined mass per hour (GCM/H) by 2019;
- Increasing the investment rate to 25% of GDP.

2 *National Development Plan 2030*

Figure 6: MTSF Targets for 2019



This infrastructure expansion relies heavily on two SOCs in particular: Transnet and Eskom. To be successful, the programme requires all stakeholders to perform their roles in facilitating SOCs' service delivery[3]. However, SOCs such as Denel, SAFCOL and Alexkor have a significant role to play to support the growth of the productive sectors of the economy and influence regional development in the South African space economy.

Nine-Point Plan

The 2015 State of the Nation Address (SONA) discussed the nine action plans to be implemented by the Government to ignite the economy. The plans recognise that the economy has not grown fast enough and support the implementation of the MTSF. They do not constitute a new plan, but outline apex priorities that the Government must implement. Addressing the electricity challenge and supporting reforms in SOCs will be among the action plans implemented and supported by the Department.

Challenges

The challenges facing the country in achieving the objectives of the NDP and the MTSF, particularly in relation to SOCs, can be categorised in three themes. The first is what the strategy refers to as core challenges. Core challenges exist at SOC level and predominantly affect the ability of the State to create and sustain positive economic impact. The second theme comprises enabling challenges. Enabling challenges exist in the environment that supports the State in implementing national policy. These challenges are evident in the Executive (Cabinet), Government departments and SOCs. The third theme refers to the need for the transformation of the South African economy and includes creating opportunities for the disadvantaged, and promoting sectors that can support the industrialisation of the economy.

The effect of these challenges is to limit the efficiency of policy implementation and execution . These challenges need to be addressed in parallel to ensure SOCs are in a position to deliver on their national objectives and ensure strong economic growth and high investment in the economy, and foster a competitive export market.

Core challenges are made up of two components and apply typically to the SOC environment, namely: building capacity ahead of demand and financial instability. The enabling challenges can be further broken down into three high-level elements, namely interactions across the institutional model, including engagements with other spheres of government; oversight, and internal challenges within the DPE. The last set of challenges relates to the transformation of the South African economy, which limits opportunities for sustained growth.

SOCs have a bigger role to transform the economy and support shifting the economy to a different growth path with better developmental outcomes.

Each of these challenges will now be explained in detail.

Core challenges

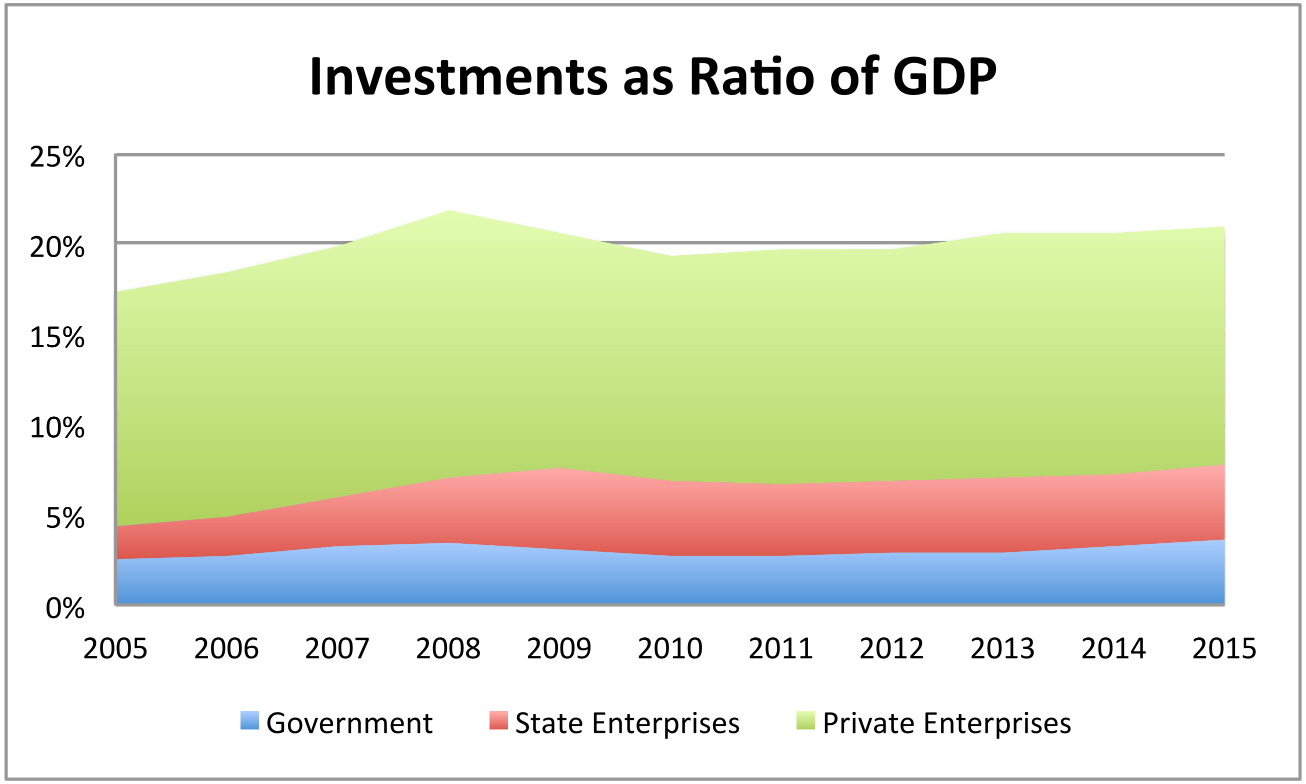
Building capacity ahead of demand

Most investments in infrastructure would need to be made ahead of demand to ensure that capacity for the economy to grow is not constrained. This also allows the Government to leverage infrastructure rollout to support the recovery of the economy. This approach pose a serious challenge to SOCs as is requires them to build sufficient reserves and implement innovative contracting mechanisms such as 'take or pay' to finance the building of new infrastructure.

3 *Medium-Term Strategic Framework (2014-2019)*

The current state of the economy has made this approach in rolling out new infrastructure very difficult, as most private sector companies cannot commit to long-term contracts. Furthermore, SOCs' balance sheets cannot finance the rollout of new infrastructure. This requires the Department to explore unorthodox ways to finance new infrastructure and ensure that the NDP target of moving to investment-driven growth is realised.

Figure 7: Source: South African Reserve Bank, 2016



Since 2005, SOCs have been the main drivers of investment in the economy and they have sustained high investment ratios for more than 10 years. Sustaining these levels of investments may not be possible, as economic recovery has remained slow. The Department will continue to focus on supporting SOCs to sustain investment levels without compromising their financial sustainability in line with the counter-cyclical investment approach of the State.

Financial instability

A number of South African SOCs, some of which are critical contributors to the economy, find themselves in weak financial positions. Consequently, their ability to fund commercial and expansion activities is limited, and they are, therefore, unable to deliver on NDP and MTSF targets. Certain categories of challenges and a few examples (non-exhaustive) are discussed below. The stabilisation programme, however, has yielded promising results in improving the performance of the DPE's portfolio and should be sustained to support the implementation of Government priorities.

Revenue

The limited revenues of SOCs affect their financial positions significantly, as they are expected to fund their current operational and expansion activities from their own balance sheets. Two issues come across strongly here: pricing and lost revenue.

Eskom was, for example, not able to secure a 16% tariff increase and the strain this put on its balance sheet resulted in the utility having to accept a huge bail-out from the Government. Uncollected debt also had an impact on the SOCs' financial sustainability. The other example is Transnet's mandated role in growing the oceans economy. Whilst this initiative is important, it's an unfunded mandate.

Cost

Most SOCs have experienced significant increases in costs, whilst revenue has stagnated and in some instances declined. Given the limited options that SOCs have to influence their cost structure, these increases have a direct impact on their future sustainability. For example, as SOCs cannot aggressively implement labour reduction strategies that may improve their overall efficiency, they must explore other options. The following areas should receive the shareholder's increased attention as they contribute to the cost structure of SOCs:

- The management of primary energy cost must be investigated, and new contracting options explored;
- Inefficiencies in procurement and management of contracts;
- Management of staff cost and the need to ensure that salary adjustments are prudent;
- Delivery of the build programmes and ensuring that further budget overruns are averted, and
- The sub-optimal capital structures of SOCs. Expansion relies heavily on debt funding.

Enabling challenges

Enabling challenges focusing on delivering support to SOCs exist within the State institutional model. There are three high-level areas of enabling challenges, namely interactions across the institutional model, oversight and internal DPE challenges.

Interactions across the institutional model

- These interactions are critical to the successful delivery of national policy and relate typically to activities within the institutional model limiting collaboration, alignment of the shareholder model and duplication of function. The following challenge categories exist (a non-exhaustive example is again provided).

Separation of functions

- Reporting and accountability lines are unclear and overlaps exist in function, limiting effective and unbiased decision-making. The role performed by the State, namely policy, regulation and shareholding must be separated to enhance accountability.

Shareholder model standardisation

- There is no standardised approach to shareholding within the State. The shareholder policy being developed must enhance and harmonise the current institutional architecture.

Delegation of authority

- Processes require high levels of authorisation, causing bottlenecks in the system, and turnaround times are thus negatively affected.

Limited collaboration

- Collaboration among government departments and SOCs is ineffective, and does not allow for leveraging of particular skills, expertise and scale in the execution of similar tasks. The creation of a beneficial policy framework has not been optimum and has affected the financial viability of some SOCs.

Oversight

- The DPE faces challenges in fulfilling its oversight function, including the following broad areas, with a non-exhaustive example of each provided below:

Finance

- Limited consequence management implemented for poor financial performance in SOCs.

Governance

- Adherence to good governance principles is essential, as SOCs belong to society. Weaknesses in governance erode public confidence and undermine SOCs' impact on the South African economy and society in general. Maintaining board stability is essential for SOCs' sustainability. Board capacity must be assessed to ensure that SOCs are able to deliver on their complex mandates.

Operations

- SOC and DPE submissions, review and monitoring processes are lengthy, constraining efficient and flexible decision-making.

Internal DPE

- The DPE is a key shareholder in the current institution and it faces the following internal challenges that lead to underperformance and mismanagement of its SOCs[4].

Structure

- Roles and responsibilities are unclear and the current structure is not conducive to integration, thus synergies among departments are not leveraged.

4 *DPE Strategy Planning Session (1-3 December 2014)*

Processes

- Internal processes are not coordinated effectively and turnaround time is protracted, resulting in delays in decision-making.

Systems

- The DPE's information technology infrastructure is limited, leading to significant inefficiencies in the processing and flow of information upwards and downwards.

Transformation challenges

The South African economy remains constrained, which affects the Government's ability to respond to developmental challenges. Furthermore, the transformation and deracialisation of the economy has been slow and SOCs must actively promote participation of the previously disadvantaged. SOCs are mostly market leaders or among the leading companies in their sectors or regions. This gives them leverage to influence supply chains and participation of the previously disadvantaged.

SOCs can play a fundamental role in driving the Black Industrialist Programme of the State and must not compromise transformation in the procurement of goods and how services are supplied to the market. The Department will continue to ensure that transformation and deracialisation of the economy remains an important part of SOCs' strategies. It seeks to influence the following:

Promoting industrialisation

SOCs can promote the industrialisation of the economy based on their procurement capacity and manufacturing capabilities. Stronger emphasis must be placed on achieving higher local content in SOCs' procurement expenditure, complemented by the revision of the current legislative framework.

SOCs must also support the development of first-of-a-kind projects that can increase the country's industrial capabilities. Over the five-year period, emphasis will be on the following:

- Supporting the development of new initiatives in the aerospace industry that will increase South Africa's design and manufacturing capabilities in advanced or technology-driven industries;
- Developing a programme to upgrade SOCs' manufacturing facilities and collaborating with the the Department of Trade and Industry (dti) to harness Government support;
- Facilitating the continued implementation of the CSDP to promote localisation in the build programme, and
- Implementation of a comprehensive regional industrialisation programme that will have a positive influence on SOCs' value chain and support economic planning in small and rural towns' municipalities;

Small business development support

Small and medium enterprises are critical job creators and the Department of Small Business Development (DSBD) is developing a comprehensive strategy to support them. The DPE is concluding a memorandum of understanding with DSBD to ensure that SOCs contribute to this. Furthermore, the Department will monitor progress on the implementation of current initiatives by SOCs and will introduce guidelines that can be used by SOCs to promote small businesses.

Skills development

Since the adoption of the National Skills Accord 2011 of the New Growth Path (NGP), 23 277 people were trained in various scarce and critical skills in DPE SOCs. This reflects SOCs' ability to support the development needs of the economy.

Skills development programmes need to be stepped up to ensure that South Africa has enough skills to execute the build programme and promote the growth of productive economic sectors.

In the 2015/16 financial year, the Department compacted the SOCs to enrol 5 776 unemployed youth in various scarce and critical skills comprising 2 385 artisan trainees, 539 technician trainees, 280 engineering trainees, 20 cadet pilot trainees and 2 552 trainees on sector-specific programmes.

Over and above training for their own requirements, SOCs are training in other areas with skills shortages, using funding from the National Skills Fund. This is in terms of the collaboration agreement between the DPE and the Department of Higher Education and Training, which requires that SOCs with capacity train for the national pool.

To date, three SOCs have received R406 million to train 2 447 artisan trainees. Transnet received R175 million and its 1 000 trainees will graduate at the end of October 2017.Eskom received R174 million and Denel R57 million to train 1 250 and 197 artisan trainees respectively.

Denel and Eskom trainees are in their first and second years of study respectively, with the last group of recruits scheduled to finish in the last quarter of 2016/17 financial year.

SOCs reporting to the DPE and DPE programmes

Table 3: List of all SOCs reporting to the DPE and their founding legislation

Name of entity	Founding legislation	Nature of business
Alexkor	Alexkor Limited Act 116 of 1992	Alexkor is a diamond mining company operating primarily in Alexander Bay and the greater Namaqualand region.
Denel	None	Denel is a defence company and, although it is established as a private company in terms of the Companies Act, the Government exercises control over it.
Eskom	Eskom Conversion Act 13 of 2001	Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors.
SAFCOL	Management of State Forests Act 128 of 1992	SAFCOL Is the Government’s forestry company, conducting timber harvesting, timber processing and related activities both domestically and internationally.
SAX	South African Express Act 34 of 2007	SAX is a domestic and regional air carrier with a mandate to be an African airline.
Transnet	Legal Succession to the South African Transport Services Act 9 of 1989	Transnet is a freight and logistics company responsible for ports and rail transport infrastructure operations in South Africa.

The Department's strategy

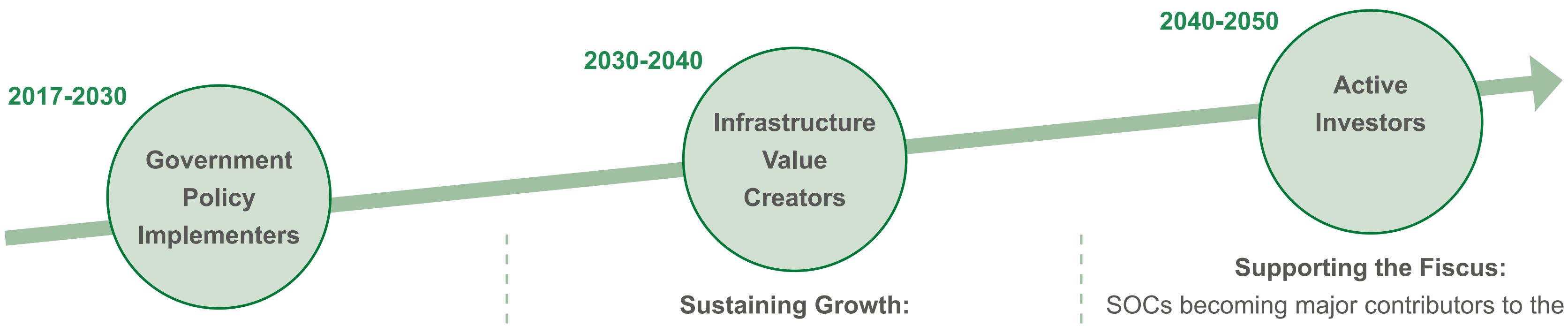
The performance of SOCs has been very mixed. While they have played a critical role in driving investments in the short term, their financial strength has weakened. This places an additional strain on the shareholder to ensure that the financial sustainability of SOCs is improved whilst they execute the priorities defined in the MTSF.

The strategic plan of the Department must, therefore, provide a clear roadmap for the repositioning of SOCs in line with the developmental requirements of the State. The Department has developed a long-term development path for SOCs, which is aligned to the development of the economy. Aligning the development pattern of SOCs to economic patterns is important to ensure that SOCs contribute directly to the realisation of the Government vision.

DPE strategy: Repositioning SOCs to drive development

The NDP outlines the development path for the South African economy and the need to ensure that, by 2030, South Africa is an industrialised economy. This ambitious goal requires that all State institutions work in unison. The Department's overriding goal is to ensure that SOCs have the capacity to influence this trajectory and support the Government to deliver on its long-term goals.

Figure 8: DPE Strategy's Envisioned Impact on the Department



Driving Development:
Lead in the implementation of Government Policy to support the realisation of the NDP goals. This is focused on creating infrastructure fundamental for development.

Sustaining Growth:
Investment in infrastructure that will continue to position South Africa as a preferred investment destination and unlocking new investments to accelerate broader development.

Supporting the Fiscus:
SOCs becoming major contributors to the fiscus through declaration of dividends for the State to finance other developmental goals such as education and healthcare.

This has required the Department to take a long-term view on how SOCs are managed and positioned to optimise their contribution to the desired development path. The Department's strategy seeks to ensure that SOCs drive and lead in the pursuit of the goals of the developmental state, namely responding to high levels of unemployment, poverty and inequality. Phase 1 of the strategy is aligned to the goals of the NDP and ensuring that SOCs directly support the implementation of Government policy to accelerate development. During this phase, the effectiveness of SOCs' influence on economic development patterns will be assessed.

Phase 2 will ensure that SOCs leverage their infrastructure networks to create value for the domestic economy. This will ensure delivery of network services that will enhance the competitiveness of the economy and deepen industrialisation and industrial capabilities. It will also accelerate the expansion of SOCs' cross-border activities.

Phase 3 foresees SOCs being active investors in a number of sectors in different jurisdictions. Emphasis will be increased on return on assets, as SOCs will be expected to contribute significantly to the fiscus through declaration of dividends.

To implement the strategy successfully, the DPE needs first to address the current core challenges faced by its SOCs. Developing action plans to demonstrate the DPE's role in sustaining its SOCs will ensure that the Department reaffirms its credibility and remains relevant as a shareholder. Once complete, focus can shift in line with the core, enabling and transformation challenges defined above. The DPE's key strategic outcomes ought to revolve around the following:

- Across the three phases, the DPE will play a leading role in ensuring that the challenges are addressed. This will require increased engagement between the Department and different stakeholders.
- Key strategic outcomes for the strategy are derived from the challenge themes and are discussed in detail in the strategic priorities section below.
- Elements of the core outcomes and enabling outcomes must be achieved during the first phase of the strategy.

Projects to be implemented in Phase 1

This strategy comprises eight key projects over the next year, which will set in motion the delivery of core strategic outcomes and enabling outcomes as discussed previously. A brief discussion of each of the projects follows.

SOC independent sustainability

This project will create a framework to identify gaps in the SOCs' financial position, and will determine and execute potential funding interventions for SOCs. By setting SOCs on a path to financial sustainability, the DPE will positively impact South Africa's economy by ensuring the delivery of key services (ie Eskom and Transnet), economic growth and subsequently contributing to economic stability.

Financial sustainability of SOCs such as Denel, Alexkor, SAX and SAFCOL remains crucial, as these SOCs operate in the productive economic sectors. Their financial and operational performance is critical for certain sectors, eg SAFCOL's role in the construction sector. The business model of some SOCs may need to be reviewed to strengthen their financial position.

Commercially viable operations

Setting the economy on the path to zero load shedding (Eskom)

The 9PP identified addressing the electricity challenge as a key intervention to turn around the economy. The supply challenges experienced between the end of 2014 and the beginning of 2015 have been addressed and load shedding is highly unlikely over the medium term. The key focus, thus, will be to ensure sufficient capacity to support economic recovery and improve the performance of the grid. The Department will set clear medium-term targets for Eskom.

Increased volumes across rail and port (Transnet)

In terms of the MTSF, 335 million tons must be moved through Transnet rail networks. Achieving this goal will require not only recovery of the mining sector and other productive sectors that use Transnet's services, but introduction of a new legislative framework to promote the shift of rail-friendly freight from road to rail. This project aims to create a framework to identify gaps in Transnet's rail and port operations, and to identify and execute interventions that will improve Transnet volumes.

Capital projects delivery

The project will accelerate capital programmes across Eskom and Transnet, and involves the creation of a framework with which the DPE can identify any gaps in capital expansion projects and mobilise the responsible organisations so that build programme targets are met. The interventions will help the DPE to mitigate risks. The DPE will focus mainly on Eskom and Transnet during this intervention, as both are executing major expansion programmes.

Strong shareholder

This project focuses on improved performance management systems for SOCs (boards and executives). The Department manages SOC boards to ensure that SOCs achieve their targets and deliver on their mandates. The below-par performance of some of South Africa's SOCs is partially the result of ineffective board management caused by, among others, incomprehensive key performance indicators and weak corrective action in response to poor performance.

To transform SOCs, the DPE needs, through this project, to create and operate within a new performance management system (PMS) that will provide the right information, oversight power and communication tools to monitor performance and meet its mandate of driving national objectives and ensuring sustainability in and through SOCs.

Reorganising the DPE

Another critical enabling element in the strategy and the DPE's ability to execute it, is reorganising its internal operational model so that it supports the strategy's initiatives. The current DPE structure is a standard hierarchical Government structure that does not facilitate effective engagement and deployment of specialist service. There are also major inefficiencies and duplications due to outdated workflow systems and business processes. In 2012, the structure was expanded and new cross-cutting units established. However, workflow systems and business processes were not reviewed nor updated to accommodate the changes. This project will reorganise the DPE so that it is structurally equipped to handle the implementation and monitoring of new interventions. This new configuration will need to be flexible enough to facilitate swift and optimal implementation of new projects. It will also address other internal issues impacting on the effectiveness and efficiency of execution.

Alignment and efficiency across the institutional model

Amend and develop policies – shareholder role and model

Currently, there is limited clarity on the roles of various stakeholders, unclear reporting and accountability lines, and a lack of uniformity in oversight models. Oversight by shareholder departments is, at times, weak and, as a result, the mandate and role of the shareholder are not fully implemented. For the MTSF to be realised, the State will need to separate and define functions performed by shareholder, policymaker and regulator.

Through this project, the DPE will make recommendations to the State on policies or policy amendments needed to ensure increased alignment among SOCs, uniformity of oversight models and their execution.

Strengthen intergovernmental relations

This programme will increase engagement between SOCs and other spheres of government and will ensure that SOCs support the execution of socio-economic projects and drive meaningful change in society.

An intergovernmental relations framework will be developed to facilitate a closer relationship between the SOCs and the public at large.

Transformation of the economy

As highlighted in the above section, this will support the acceleration of the Industrial Policy Programme of the Government and deracialisation of the economy. The following projects will be pursued:

- Support the development of new initiatives in the aerospace industry that will increase South Africa's design and manufacturing capabilities in advanced and technology driven industries;
- Develop a programme to upgrade SOCs' manufacturing facility and, with dti, harness Government support;
- Facilitate the continued implementation of the CSDP to promote localisation in the build programme;
- Identify products and services that SOCs will source from small business as part of the 30% set aside, and
- Increase support to small enterprises that operate in SOCs' value chains.

Interventions across projects

To deliver successfully on the projects detailed above and those of the next phases of the strategy, a number of interventions can be explored, some of which have already been deliberated. This will be further outlined in the annual performance plans of the Department over the next five years.

Risk management

Three categories of key risks have been identified that could affect the successful delivery of the S3 strategy:

Table 4: The Key Risks for the DPE over the Next Five Years

Risks	Risk description	Interventions
Policy alignment and coordination	Risks that occur due to key stakeholders not aligning in terms of strategic objectives and the decision-making process related to these, resulting in ineffective strategic execution	- Develop and implement a plan to enhance the Department's outreach programme - Pursue coherent strategic initiatives across SOCs - Establish partnerships with stakeholders to facilitate policy alignment geared to optimising the socio-economic impact of SOCs
Operational efficiency and effectiveness	Risks that may occur as a result of the Department's lack of adequate capabilities (people, processes, infrastructure systems/tools) to provide shareholder oversight on SOCs	- Enhance procurement recruitment and talent strategies - Review, enhance and standardise business processes - Develop methodologies to inculcate results-based performance planning, monitoring and evaluation - Secure adequate office space to ensure a conducive work environment - Review organisational structure to enhance efficiencies
Externalities	External risks that may occur as a result of factors beyond the DPE's control, such as labour unrest and deterioration of credit rating	- Optimise efficiencies and effectiveness in infrastructure build programme delivery to stimulate growth - Identify levers to reduce SOCs' reliance on the fiscus

Table 5: Strengths, Weaknesses, Opportunities and Threats for the DPE

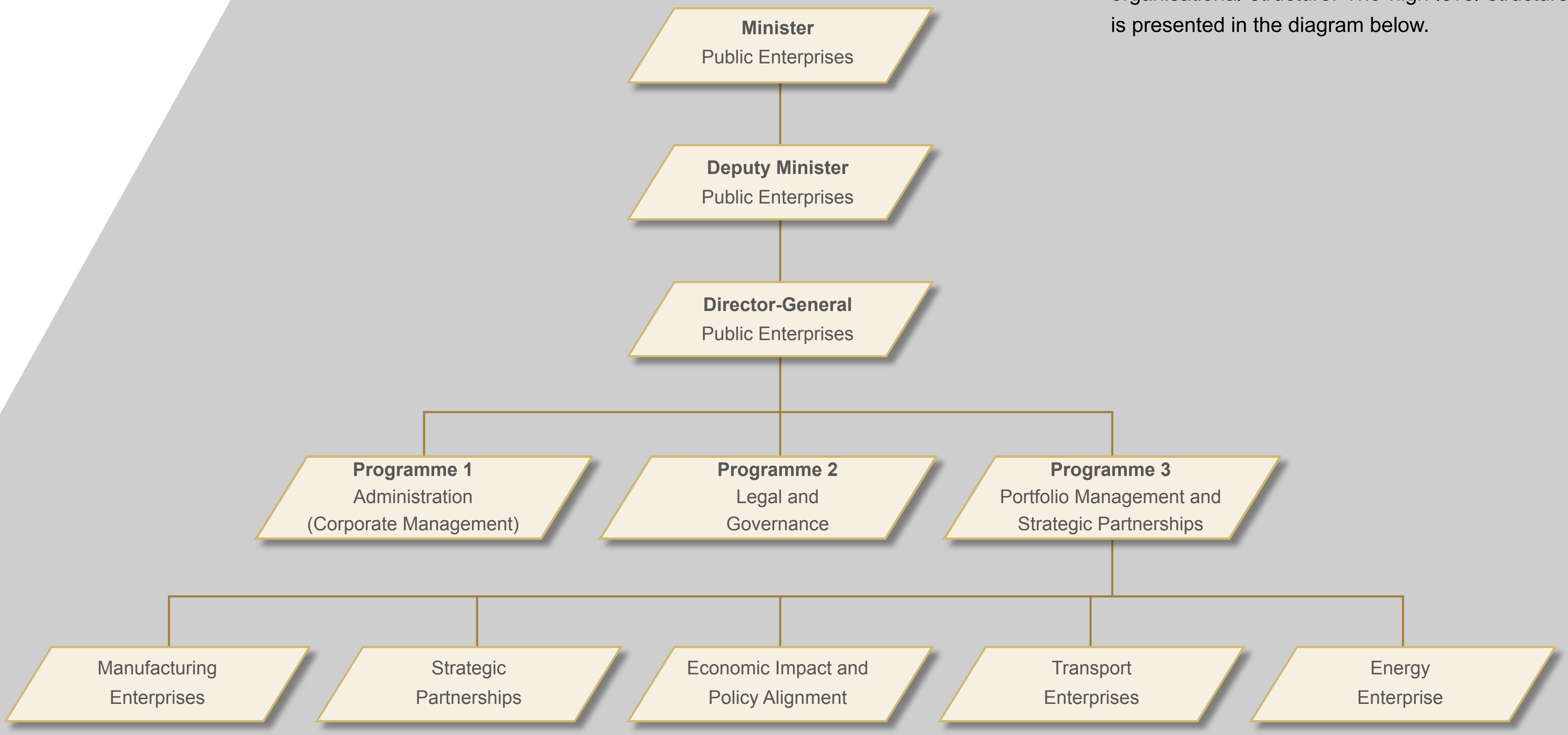
Strengths	Weaknesses
Dedicated and passionate workforce	Internal organisation is ineffective and inefficient
Strategically positioned in the economy to influence change	Oversight provided to SOCs is limited, impacting on the DPE's ability to influence key decisions
Overseeing companies that are the cornerstone of the economy	Lack of common view on shareholder oversight
Strong financial management systems and practices	Lack of clarity on roles and responsibilities

SWOT analysis

ORGANISATIONAL STRUCTURE

The DPE has adopted a programme-based organisational structure. The high-level structure is presented in the diagram below.

Figure 9: The DPE Organisational Design



The Department will adopt a matrix organisation structure that will promote collaboration in the delivery of strategic objectives, reinforce and broaden technical excellence, and facilitate efficient use of resources.

6.1 Shareholder management

In April 2013, Cabinet accepted the report and recommendations of the Presidential Review Committee (PRC) on State-owned enterprises. In June 2013, the report was presented by the Presidency to the Portfolio Committee on Public Enterprises. The Department has decided to hold the development of the Government Shareholder Management Bill to align its work with the Presidency's implementation of the PRC's recommendations, in particular those on the proposed enactment of a single overarching legislation governing all SOCs.

The Department promotes an activist approach to shareholder oversight, to enable it to drive certain key initiatives together with the SOCs. This will require strengthening the Department's ability to provide strategic direction to the business operations of SOCs and improve the monitoring of financial and operational performance of companies. To achieve this, the Department would need to improve the collection of information and develop industry benchmarks that will be used to assess the performance of companies to intervene decisively on challenges.

6.2 Link to other programmes

The work of the Department is interlinked with the work of policy departments such as the departments of energy, transport, and telecommunications and postal services. The work of the Department through its SOCs would contribute to implementation of Government programmes such as IPAP and the National Skills Development Strategy. Strengthening of national coordination structures is essential to ensure coherence in the delivery of NGP programmes crucial to the achievement of Government's economic strategy.

Creation of an enabling policy, regulatory and operating environment for SOCs is crucial to support the delivery of the Department's strategy. Here, the Department will continue to engage departments in the energy, information and communications technology, transport and defence sectors to ensure that sectoral policies create an enabling environment to support the delivery of key outcomes of inclusive growth and employment.

6.3 Risk management

The Department continued its implementation of an integrated system of risk management in accordance with the enterprise risk management framework, which enables the effective management of key risks that could prevent it from achieving its objectives.

The Department's Executive Committee, chaired by the Director-General, fulfilled the role of the Risk Management Committee and was supported by the Audit Committee in effectively overseeing the management of key risks.

6.4 State-owned companies

Alexkor

Alexkor was established in terms of the Alexkor Limited Act of 1992 to mine marine and land diamonds in Alexander Bay. Alexkor is exploring opportunities in energy in line with the energy security objectives of the Government's 2014 to 2019 MTSF; specifically outcome 6 (an efficient, competitive and responsive economic infrastructure network), through coal and limestone mining opportunities, which will require the organisation to expand its operations beyond Northern Cape.

Alexkor has also commissioned a study into non-mining activities in Northern Cape that the Richtersveld community could possibly pursue from the proceeds of the pooling and sharing joint venture. In 2007, the Government and the Richtersveld community reached a settlement for the establishment of a joint venture to control the marine and land mining rights of Alexkor and the Richtersveld Mining Company (RMC), on behalf of the community.

Since April 2011, all diamond sales have been for the account of the pooling and sharing joint venture. Alexkor generates no income from operations other than its 51% share in the joint venture. The company posted a profit of R29,7 million in 2013/14, compared with a loss of R14 million in 2012/13. Alexkor was recapitalised by R350 million in the 2012/13 Medium-Term Expenditure Framework, which positively impacted on the company's financial statements and profitability. Part of the R350 million was invested in a diamond beneficiation plant, which created more than 200 direct and indirect jobs.

Additional economic opportunities for the community are expected as mining operations expand in the next two to three years.

Alexkor has met its financial obligations in terms of the 2007 Deed of Settlement obligations, which included the restoration of land and mineral rights, the formation of the pooling and sharing joint venture, environmental rehabilitation and the establishment of the formal township development at Alexander Bay.

As a result, the town was promulgated in November 2013 and now forms part of the Richtersveld Municipality. Settling the rehabilitation liability will create 200 jobs over the 15-year life of the project, with 40 jobs created to date. The project will ensure that that the land is environmentally safe and economically exploitable for the community.

Eskom

Eskom's mandate is to generate, transmit and distribute electricity. The company is governed by the Eskom Conversion Act of 2001. According to the NDP, South Africa will need to meet about 29 000 megawatts of new power demand between 2012 and 2030. As a result, more than 40 000 megawatts of capacity needs to be built.

In line with this vision, the focus for 2014/15 was on finalising the response to the Multi-Year Price Determination 3 (MYPD3), securing the balance of the required funding to complete the New Build Programme, which aims to expand the company's generation and transmission capacity to meet the country's growing demand for energy, improving the rollout of the New Build Programme, improving operational performance and maintenance of assets to ensure security of supply, contracting with independent power producers in line with government procurement processes, and assessing Eskom's role in the implementation of the Integrated Resource Plan for Electricity 2010.

Eskom generates 95% of the electricity used in South Africa and 45% of that used in Africa. Eskom's reserve margin has steadily declined since 1999 due to a lack of significant investment in generation capacity. In recent years, Eskom has had to rely on deferring maintenance of power plants to meet demand and address the constrained power system to avoid load shedding. The result has been an increase in maintenance backlogs and a decline in power plant performance.

Eskom has had to reprioritise and respond to a shortfall in revenue following the electricity price increase decision, which was 8% versus 16% annually over five years, meaning that the borrowing plans will also need to be revised to cover its liabilities and operational costs. The funding gap until 2017 is now estimated at R200 billion. Over the five years to 2019/20, the New Build Programme will cost about R280 billion.

In December 2014, Cabinet approved a five-point plan targeted to address the short- and medium-term challenges in the supply of electricity and to lay a foundation critical to the creation of a sustainable electricity industry. The improvement in the energy availability factor and reducing the risk of load shedding will remain the focus over the next three years.

Additionally, Eskom has, since 2004, undertaken a capacity expansion (build) programme to ensure the secure and reliable supply of electricity. Completed projects between 2005/06 and 2013/14 include the Komati, Camden and Grootvlei power stations that were once not operational but have now returned to service, and the finalisation of two open-cycle gas turbines.

As a result, Eskom has cumulatively installed and commissioned 6 137 megawatts of additional generating capacity into the system, and installed 5 498km of transmission networks, increasing its transmission substation capacity by 27 565 megavolt amperes.

SAFCOL

SAFCOL's mandate is to ensure management of sustainable forests and to play a catalytic role in the realisation of the state's afforestation, rural development and transformation goals.

The company's operating performance over the past three financial years has worsened as a result of a slow recovery in its primary market, the residential construction sector and rigid business structures. Despite this, profit increased from R74 million in 2012/13 to R510 million in 2013/14 as a result of fair value adjustments. Cash generation from operations has been under strain due to increasing logistics and labour costs and an inelastic pricing environment. The performance has constrained the business in investing in downstream operations, which is critical in sustaining the forestry operations and reducing dependence on saw-log customers.

The company's solvency, however, remains solid to ensure that it continues trading as a going concern. This will be critical when it launches its capital investment programme, in line with the envisaged future role by the Department, which sees increased investment in value-adding activities.

The company has expanded its rural development contribution in line with the NDP's vision, and is implementing the social compacts agreed with rural communities around its operations. These compacts will involve communities in the company's operations through enterprise and skills development opportunities. Additional corporate social investment programmes concentrate on education, recreational centres and healthcare through donation of timber-framed structures.

SAX

Established in 1994, SAX is a carrier operating domestic and regional flights, serving secondary routes in South Africa and the continent, including to Botswana, Namibia, the Democratic Republic of Congo, Zimbabwe and Zambia. SAX also provides feeder air services that connect with the South African Airways (SAA) network.

The airline has experienced operational, financial performance and internal control systems maintenance challenges. As a result, the 2010/11 annual financial statements were withdrawn in November 2011 due to an overstatement of assets on the balance sheet. They were restated in August 2012, resulting in a reduction of the airline's equity position from R1,2 billion to R0,4 billion.

Following the restatement of the 2010/11 annual financial statements, the airline received qualified audit opinions for 2011/12 and 2012/13. The impact of weak internal controls and losses in recent years has affected the airline's ability to raise funds without Government support. To address this and the breach of covenants arising from the reduction of equity from R1,2 billion to R0,4 billion, a guarantee of R539 million was granted in March 2013.

The medium-term focus will be expansion of operations in the African market and partnering with SAA to establish other hubs in Africa to increase inter-regional trade in line with the NDP. Furthermore, SAX intends to strengthen its balance sheet to restore confidence in its financial position and performance over the MTEF period and beyond through implementation of its long-term turnaround strategy, 20:20 Vision, developed in 2013. to the strategy will assess, review and define a new business model that will improve the sustainability of the organisation over the next 20 years. The cornerstone of 20:20 Vision is SAA's long-term turnaround strategy and it will align the strategic direction of the two State-owned airlines to derive maximum value for the Government as the shareholder. This will be achieved through collaboration, cooperation and coordination between the airlines.

The implementation of 20:20 Vision has been slow and has not yet yielded a turnaround. Due to the deteriorating position of SAX, the airline has had to develop a recovery plan to address the cash drain and to put it back on the path to recovery. The Department, through the shareholder compact, will ensure that 20:20 Vision initiatives and the recovery plan are agreed, and performance against targets will be monitored monthly and quarterly.

20:20 Vision will address the relationship with SAA, the feeder model conflict, and business growth to maximise economies of scale.

Transnet

Transnet's mandate is to assist in lowering the cost of doing business in South Africa, enabling economic growth and ensuring security of supply through appropriate port, rail and pipeline infrastructure in a cost-effective and -efficient manner within acceptable benchmarks, in line with MTSF outcome 6.

In March 2014, Transnet announced its largest ever procurement transaction when it signed a R50 billion contract with four original equipment manufacturers to acquire 1 064 locomotives over four years. This was an affirmation of Transnet's commitment to infrastructure investment in the country in spite of the weak economy. The initiative is part of a market demand strategy that is underwritten by a R300 billion rolling capital investment programme over seven years. At least two-thirds will be allocated to rail projects addressing ageing infrastructure and rolling stock and the remaining third has been allocated to ports and pipeline infrastructure and equipment to ensure creation and sustainability of complementary capacity.

Since the inception of the strategy in 2011/12, Transnet has spent more than R80 billion, R31,8 billion of which was spent in 2013/14, with most expenditure in the past three years concentrated on rail infrastructure maintenance and revitalisation as well as acquisition and refurbishment of rolling stock. It has also acquired ports equipment and invested on the new multi-product pipeline. The investment programme complements Transnet's role and participation in existing strategic integrated projects, particularly as a coordinator of a project focusing on a logistics and industrial corridor linking Durban, Free State and Gauteng.

Due to investment, the level of Transnet's debt related to its equity capital will come under pressure as it continues to increase borrowings to fund infrastructure. However, it is still expected to raise funding on the strength of its balance sheet and maintain a gearing ratio of less than 50%.

In 2013/14, Transnet's revenue increased by 12,8%, from R50,3 billion to R56 billion, due mainly to tariff increases across various service lines and volume growth in certain components of the business. The increase in revenue enables Transnet to remain committed to the market demand strategy.

Over the past five years, rail volumes have increased by an average of 4%, resulting in an increase of 32 million tons. The volume growth in automotive and containers on rail for 2013/14 was 25,2%, which shows that migration from road to rail is beginning to gain momentum in alignment with Government objectives, and this is expected to grow over the MTEF period.

NOTES

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