

## **MELANCHTON MAKOBE: New state-owned companies shareholder model a clean break with the past**

Holding company will promote a separation of the state's policymaking, regulatory and shareholder functions as they pertain to SOCs

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by MELANCHTON MAKOBE

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SA's developmental imperatives require a more strategic approach in leveraging commercial state-owned companies (SOCs) as catalysts for economic growth.

This vision is embodied in the National Development Plan, which calls for a set of efficient, financially robust, and well governed SOCs by 2030.

Structural deficiencies require the state to play an enabling role in our economy if we are to make a dent on unemployment, poverty and inequality. This role should be underpinned by how we use our SOCs in our pursuit of economic justice.

As a developmental state, a case has been made for marshalling SOCs as key strategic catalysts for transformation. A set of efficient, financially sound and well governed SOCs forms part of our developmental toolkit.

SOCs must deliver a quality and reliable service at a cost that enables SA to be globally competitive. But to live up to these expectations, SOCs will require clear public-interest mandates, which are consistently enforced, as well as a strong governance framework that aligns performance with stated objectives.

More than 10 years ago, the Presidential Review Committee (PRC) report recommended that the government enact a single overarching law to govern all SOCs. The PRC also referred to the need to clarify the roles of the state in its capacity as (i) shareholder (ii) regulator and (iii) policymaker for SOCs.

More recently in 2020 the president appointed the Presidential State-Owned Enterprises Council (PSEC) to advise on the reforms of SOCs. PSEC has reported that international good practice suggests that a centralised shareholder model, along with a central authority to house strategic SOCs, is the best way to ensure effective shareholder oversight. The essence of the centralised model is sole or 100% ownership by the state of a holding company.

For example Singapore established Temasek, a state-owned investment fund with S\$382bn (\$278bn) in assets. The fund has driven investment across a range of sectors including technology, fintech and in strategic cross-border deals.

The centralised model has also been adopted by France, Paraguay, Poland, China, Chile, Hungary, Peru, Spain, Finland and Malaysia.

Malaysia also embarked on reform to make SOCs fit for purpose, more efficient, and to develop new systems of accountability. This led to the establishment of Khazana 10 to 12 years ago, starting with five subsidiary SOCs.

The establishment of a holding company will promote a separation of the state's policymaking, regulatory, and shareholder functions as they pertain to SOCs, thereby minimising both potential conflicts of interest among those involved in SOC governance, and the scope for improper influence.

The new approach is also vital for crowding in the best experts in finance, commercial practices, different industry sectors, commercial legal expertise, contract management and procurement among others. It will also give greater coherence and consistency in the application of corporate governance standards across all SOCs; and greater transparency and accountability for SOC operations, by enabling effective oversight and performance monitoring.

Also informing our approach are the findings from the Commission of Inquiry into Allegations of State Capture, which recommended enacting a single "SOE Act". The commission also recommended that appointment of boards be based on the possession of requisite skills and experience.

Accordingly, the president announced in the 2023 state of the nation address that the government will implement the recommendation of PSEC to establish a state-owned holding company in pursuit of a centralised model that will ensure effective oversight of SOCs.

To this end, the cabinet has approved the draft National State Enterprises Bill, which seeks to create a common, consistent, and transparent framework through which SOCs can be marshalled to fulfil their mandate through the creation of a holding company to be named the State Asset Management SOC (SAMSOC), with the state as the sole shareholder, in which strategic SOCs will be housed.

The National State Enterprises Bill gives effect to the recommendations of PSEC by:

1. establishing the State Asset Management SOC Ltd;
2. providing for the state as the sole shareholder of the SAMSOC;
3. consolidating the state's shareholdings in strategic state-owned enterprises;
4. providing for the powers of the shareholder;
5. providing for the phasing in of strategic state-owned enterprises as subsidiaries of SAMSOC;
6. providing for the SAMSOC's powers;
7. providing for the appropriate balance of developmental and commercial objectives of these SOCs; and
8. providing for the monitoring of operational and financial performance of subsidiaries;

The draft National State Enterprises Bill presents an opportunity for a clean break with the past in which SOCs have been hamstrung by discordance in the government policy, regulatory and legislative framework.

Thus, a centralised shareholder model, represents a “paradigm shift” in the way government will manage SOCs going forward. It is not about what we want to achieve in the next three or six months, but about laying the foundation for a multigenerational process which will benefit generations to come. Another element of the paradigm shift is to be able to combine in an effective way commercial outputs and requirements of each of the SOCs with the developmental obligations that we have as a country.

Through this bill, we envisage putting SA on a path to fiscal stability as the measures inherent in this blueprint will give the SOCs a new lease on life, and enhance their ability to stand on their own, promote profitability, pay dividends to the state and contribute towards making our economy more resilient.

This is the beginning of a five- to 10-year process to consolidate strategic SOCs. There will be a process of preparing entities to enter the holding company, and those that need to be restructured or repurposed.

The gazetting of the NSE Bill for public comments has attracted a great deal of interest with more than 3,500 submissions having been received. Many of these submissions contain constructive suggestions aimed at improving the governance and accountability arrangements for SAMSOC including enhancing director appointment provisions, the relationship between SAMSOC and its subsidiaries and the like. These comments are acknowledged and appreciated, and the department of public enterprises is in the process of updating the bill.

- *Advocate Makobe is the deputy director-general at the department of public enterprises.*