



From our Chief Economist – Azar Jammine

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Has Load Shedding Given The Government A Wake-Up Call To Address Crisis In Parastatals?

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Key points

- The calling together of a Cabinet meeting to address the problems being encountered in the country's parastatal organisations are a reflection of the manner in which the leaders of the country have suddenly woken up to the crisis faced by the economy as a result of the inefficient and disruptive operations of such organisations.
- The decision taken to bring the oversight of SAA into National Treasury and away from Public Enterprises illustrates the parlous financial position faced by the organisation. Nonetheless, it also poses questions as to the role intended for SAA, strategic or commercial?
- The recommendations made to fix Eskom are sensible, especially incorporating a variety of skills into the war room formed comprising members from several different government departments. It is encouraging to see that attention is finally being paid to incorporate the private sector more actively into sorting out the problem. Whether this is sufficient in the absence of more intensive privatisation, remains to be seen.
- The appointment of Cyril Ramaphosa to head up the turnaround strategy for SAA, Eskom and the Post Office is a sensible one given his practical experience in business and his solid ties with the private sector. It does however spread him thinly across the various responsibilities he has been given and casts questions about the role he is earmarked to carry within the organisation in the longer term? Is it for him to take over as President or is it a ploy to make him fail?

Analysis

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Sense Of Panic In Cabinet Meeting To Deal With Parastatals

The statement released by the Cabinet yesterday following a meeting earlier this week might well be seen as a gathering to address the sense of panic around the fairly dramatic intensification of problems at South Africa's parastatal organisations. The past month or two have seen an escalation of the financial crisis at SAA, and increased incidence of load shedding by Eskom, a prolonged strike at the Post Office and concerns about the fabrication of qualifications amongst leaders of state-owned enterprises, especially the SABC. And yet until this week political leaders and leaders of SOEs had been denying that there was any crisis related to SOEs, notwithstanding the growing evidence to the effect that this has been having a major detrimental impact on overall economic growth and has been one of the important factors contributing towards the intensifying decline in sustainable economic growth. The latest evidence of this has been a report by the IMF downgrading forecast growth for 2015 still further down to 2.1%, from 2.3% previously and suggesting that the sustainable growth rate of the economy is now down to 2.75%. This follows on a similar downward revision of potential output growth by the Reserve Bank to 2.5%, from 3.5%

previously. In all instances, the shortage of electricity is cited as one of the important factors contributing towards the slump in growth, which the IMF now argues is worse in South Africa than in most other emerging markets. Suddenly, we have a major statement by Cabinet incorporating a host of suggestions on how to fix the problem. These include a transfer of the oversight of SAA to the National Treasury itself, from the Department of Public Enterprises previously. We also see an announcement of an action plan to ensure improved electricity supply and in addition witness an overhaul of the various boards of the SOEs. A special "technical war room" has been set up to ensure adequate electricity supply. The war room comprises technically versed officials from several departments, including the Department of Energy, Cooperative Governance and Traditional Affairs, Public Enterprises, Trade and Industry, Economic Development, Water and Sanitation and Eskom itself. Over and above all these factors we see that Deputy President Cyril Ramaphosa has been appointed to head up a turnaround strategy for SAA, Eskom and the Post Office. It is quite clear that a sense of panic has penetrated the upper echelons of government, partly one suspects because individual members of the Cabinet have been adversely affected by the increased incidence of load shedding. To this extent, ironically, the onset of load shedding might come to be seen as a wake-up call for government to begin to take the crisis in SOEs seriously.

Important Decisions To Decide On Role Of SAA

The decision to move SAA into the ambit of the National Treasury and away from the Department of Public Enterprises represents a reflection of the extent of the financial crisis of this organisation. Ironically, the finances could improve in the short term as a result of the sharp fall in international fuel prices. However, there are other challenges facing the airline. It is apparent that there is uncertainty as to what role it should play, strategic or commercial. To the extent that South Africa hopes to become the financial hub of a rapidly growing sub-Saharan African economy, it is deemed essential that airline connections between South Africa and other African countries be improved. One of the criticisms of the structural impediments to growth in sub-Saharan Africa in recent years has been precisely the fact that intra-African trade is so low compared with internal trade in other economic blocks of the world. One of the reasons for this has been the relatively poor level of communications and transport facilities linking different countries. The problem with this is that many of these connections are loss-making. That has been dragging down the financial performance of SAA even though its domestic airline operations are still functioning reasonably effectively. This raises the possibility of revisiting the structure of the organisation, possibly with foreign shareholders coming into play. The beauty of having such external shareholders is that that would impose a certain discipline on the running of the SOE so that it operates more efficiently than it has been doing thus far. However, the decision to move SAA away from the ambit of the Ministry of Public Enterprises can also be seen as an attempt to cool tensions between the Ministry of Public Enterprises, Lynne Brown and the Chair Lady of SAA Dudu Myeni. The Minister had requested the Chairlady to rescind her decision to fire the CEO of SAA, but this decision had not been complied with. There have been accusations that the Chairlady is very closely aligned to the President. If that is the case then what one sees is the humiliation yet again of a Minister who is trying to do a proper job but is being overruled by cadre deployment priorities at the top of the political spectrum.

Sensible Programme Of Action At Eskom

With respect to Eskom, the Cabinet has put forward a sensible five-point plan on how to deal with the electricity crisis. This includes interventions earmarked over the "next 30 days", which illustrate the extent of the sense of panic. It also includes developing co-generation opportunities in the private sector, accelerating the ability of diesel power plants to increase their electricity generation, launching a 2500 MW coal independent power producer programme and increasing technologies aimed at replacing the electricity intensity of residential and non-residential buildings. All these make sense, but the question that needs to be asked is why it has taken such a panic situation by

government to become acquainted with the problems faced by the utility? On a more ethereal note, we are told that Eskom will produce a viable financing programme over the next month which will outline exactly how it hopes to be funded in the longer term. This illustrates the fact that there is still significant uncertainty on how to perform such funding. In support of sorting out the problems at Eskom, the government has appointed a so-called "technical war room", that includes officials and technical experts from all the above-mentioned departments whose operations are intimately linked to the successful functioning of Eskom. This seems very sensible since many of the problems being encountered by Eskom and other parastatals relate to the exodus of skilled manpower in recent years. Much of these skills losses can be attributed to efforts to try and incorporate racial transformation more rapidly than the skills set available with which to do so. At least if one can start integrating their skills set into a more cohesive body capable of taking strategic decisions, it is possible that some progress can be made in sorting out many of the impediments to the efficient operation of Eskom.

Appointment Of Cyril Ramaphosa To Oversee Turnaround Strategy

The final important point in the Cabinet announcement has been the appointment of Deputy President Cyril Ramaphosa to ensure that SAA, Eskom and the Post Office are turned around into viable and efficient organisations. This is a huge challenge and many will question whether Ramaphosa has the wherewithal and support to effect such operational transformation? After all, he is involved in many other initiatives run by government. The first observation is that he is being seen to be more capable than the President himself in being able to sort out the major structural problems faced in the country. However, questions will be posed as to whether he is going to be far too thinly spread to perform the oversight function necessary. In deference to him, he is the one person who has a fairly intimate knowledge of how organisations work, he has had significant practical experience in running such organisations and he also has had a lot of interaction with the private sector. This latter attribute will be very necessary to achieve the kind of turnaround and increased involvement of the private sector in this initiative. Cynics will also argue that as a former trade unionist, he will also be able to address the disparate needs of unionised members within the parastatal organisations. It is a huge challenge which he faces. As leader of the Democratic Alliance, Helen Zille has suggested, this is either a poisoned chalice being given to Ramaphosa or there are attempts being made by the ANC for him to take over as leader of the party and country in due course. Assessment of which of the two strategies is the valid one is uncertain given the tremendous humiliation of Ramaphosa by his political party in his attempts to sort out the ructions in Parliament between the ANC and other political parties following the turmoil experienced in recent times.

These Measures Will Not Influence Current Credit Ratings Decisions

There are some who would argue that the action taken by Cabinet to address the problems of parastatal organisations has been driven by a desire to ensure that South Africa does not see its credit rating revised downwards by Fitch and S&P in the short term. We would argue that whatever decisions have been made with regard to credit ratings by these agencies will not be dramatically influenced by the latest parastatals strategy. If the agencies were going to downgrade the country's credit rating, they are not suddenly going to refrain from doing so in order to see whether or not these latest measures will succeed. The measures taken still seem to be extremely optimistic and cynics will retain their stance.

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