

CHAPTER 4

State-owned Companies and Rural Development

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4.1 Background and Problem Statement

State-owned companies (SOCs) are commonly established for natural monopolies and infrastructure, or where government has strategic interest in a sector, such as railways and telecommunications, strategic goods and services (mail, weapons), natural resources and energy, politically sensitive business, broadcasting, demerit goods (alcohol) and merit goods (healthcare) (Dewenter and Malatesta, 1997). The National Development Plan (NDP) identifies infrastructure development as being central to attaining South Africa's economic and social goals. In 2012, the Presidential Infrastructure Coordinating Commission (PICC) was established, as well as the first National Infrastructure Plan, in order to address South Africa's poor track record in developing efficient and effective infrastructure. To drive and prioritise infrastructure development, 18 strategic infrastructure projects (SIPs) were devised. The SIPs are clusters of infrastructure projects that are considered crucial for economic growth and service delivery and for unlocking development. SOCs are the primary implementing agents that will be used for rolling out the SIPs.

SOCs have a dual mandate to fulfil, which causes tensions. SOCs need to meet their developmental (or non-commercial) mandates, while remaining financially viable and sustainable through commercial activities. The non-commercial mandates of the SOCs include anything that an entity does or is expected to do that would not be expected from a private company in the same industry or situation. For instance, expanding access to services, providing affordable services, investing in infrastructure that has wider social and economic benefits, and providing or generating employment. These non-commercial mandates have negatively affected the performance of various SOCs.

The financial health of SOCs has a bearing on the country's finances, as continuously injecting cash into ailing SOCs not only places undue stress on the fiscal framework but also takes funding away from core service delivery areas. It also brings into question the ability of SOCs to effectively

drive South Africa's infrastructure-led growth. Persistent weaknesses in the balance sheets of several SOCs could trigger calls for additional government support, especially as, since 2008, borrowing by SOCs has constituted a significant part of South Africa's public sector borrowing requirement²⁶ and gross domestic product (GDP). On average, SOCs account for 45% of South Africa's infrastructure development over the 2015 Medium Term Expenditure Framework period. The Department of Public Enterprise's (DPE)²⁷ Strategic Plan to 2018/19 includes the aim that activities by SOCs are directed to serve government's strategic objectives as outlined in the NDP (DPE, 2014).

The aim of this research is to ascertain the extent to which SOCs currently contribute to the NDP's overall goal of alleviating the triple challenge of poverty, unemployment and inequality. SOCs operate across different spaces and spheres of government. The research seeks to understand whether SOCs play a complementary or competing role in relation to traditional fiscal instruments (e.g. spending by a government department) used to facilitate rural development. The Presidential Review Committee's report on SOEs (PRC, 2013) is an important point of reference for this research. The report focused on how SOEs in South Africa can optimally contribute to growth, development, social and economic transformation in South Africa, while remaining financially viable and competitive, and contained some valuable recommendations. This research supplements the report and has a narrower focus: the contribution of selected SOCs to rural development.

The research's overarching objective is to assess the role of SOCs in rural development. It aims to answer two questions:

- Do SOCs in South Africa have a rural focus?
- For those SOCs that have a specific rural focus, what kind of activities are they involved in and how effectively are the activities carried out?

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²⁶ The public sector borrowing requirement refers to funds needed by the public sector to cover any deficit incurred in the financing of its activities.

²⁷ Specific reference is being made to the strategic plan of the DPE, since it has been mandated to oversee some of South Africa's larger and most important SOCs, for example, Eskom and Transnet.

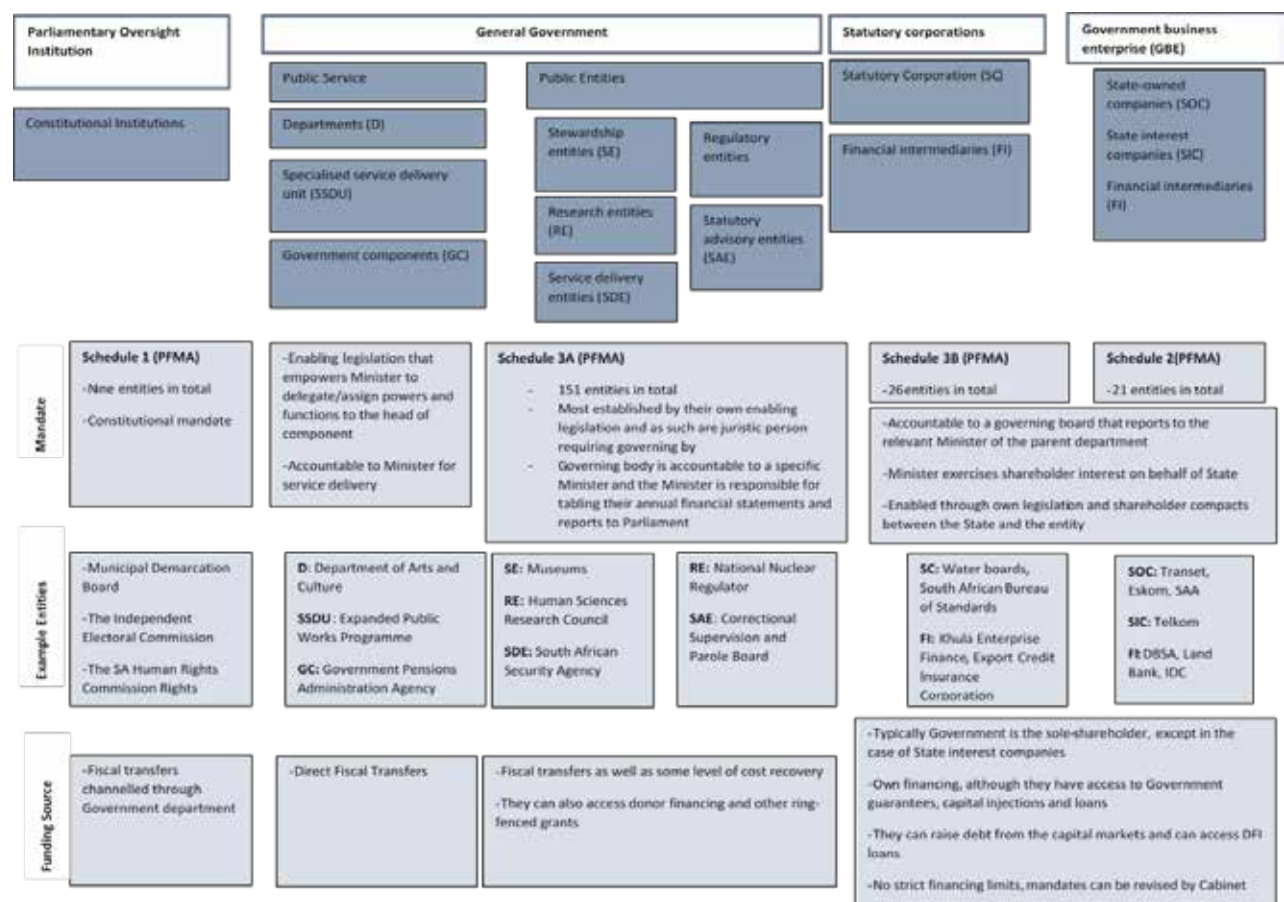
4.2 Literature Review

4.2.1. Definitional issues

The term SOCs is often used interchangeably with state-owned entities (SOEs). National Treasury and the Department of Public Service and Administration developed a categorisation framework in which SOE is used as a broad, umbrella term, with SOCs being a subcategory of a particular type of SOE. As Figure 27 shows, a SOC is a type of government business enterprise that meets three main requirements:

- The SOC has a governing board that reports to the accounting officer of a designated parent department.
- The Minister of the designated parent department represents the government’s shareholder interest in that particular SOC.
- The above arrangement is codified in the founding legislation of the entity, and government and the specific entity enter into a shareholder compact.

Figure 27. SOE categorisation framework



Source: PRC (2013: 48)

4.2.2 Rationale for state involvement in specific markets

The state's involvement in the economy, or in specific markets, generally relates to the need for "market failures" to be corrected (Radygin et al., 2015: 57). The rationale for the state maintaining involvement in the economy can be categorised according to the following groups: (a) primarily economic motives; (b) primarily socio-political motives; (c) mixed motives, where these groups are closely inter-related with each other (Gillis, 1980). Each of these groups is explained below:

Economic motives

Savings mobilisation is one of the economic motives, particularly in less developed countries where low levels of income per capita and a weak tax base makes it difficult to finance public sector capital formation through raising taxes (ibid). SOEs are seen as a way of generating investment finance that can be used for the formation of physical and human capital.

Another economic reason, which is often aligned with a country's developmental objectives relates to employment, with SOEs expected to stimulate economic activities and create work opportunities as the economy grows (ibid).

State involvement in commercial activities is seen as a way to address market failures or exercise control over any abuse that may arise from natural monopolies (Forfás, 2010). Natural monopolies occur in some industries where the technological conditions dictate that only one supplier can profitably exist, and the problem arises when the monopoly supplier produces at a level that is not socially optimal and is able to appropriate high profits by charging high prices (Forfás, 2010; PRC, 2013).

Another reason for state involvement is capital failure, when investors in the private sector are unable or unwilling to fund capital-intensive projects, especially projects that have high risks in the short term and only accrue high returns in the long run (Forfás, 2010; Gillis, 1980). SOEs are expected to overcome such capital failures, particularly in many developing countries where only the state or foreign enterprises would have sufficient capital to fund capital-intensive projects, for example in energy or transport.

Externalities also justify the existence of SOEs in respect of commercial activities where private sector investors are dis-incentivised to invest in certain industries that give rise to benefits for other industries and sectors as they will be not paid for that service (Forfás, 2010).

Socio-political motives

Equity is one socio-political motive for state involvement, as the private sector may not be willing to cater for certain types of customers (e.g. customers living in rural and remote areas), meaning that customers from a specific socio-economic background are effectively excluded from these goods and services (Forfás, 2010; Gillis, 1980). SOEs are expected to provide goods and services that will support and contribute to achieving the social and equity goals of a country. These include: income redistribution, reducing unemployment, regional growth and the correction of imbalances (ibid).

Mixed motives

Donor preference is one of the mixed motives that justify the establishment of SOEs, especially in African and Latin American countries that largely depend on foreign aid. SOEs are seen as a way to channel large amounts of funding from donors and provide technical assistance in the case where the private sector lacks the capacity to undertake large projects (Gillis, 1980).

4.2.3 Limitations of SOCs

Governance is one of the major limitations, linked to accountability challenges that negatively affect their performance. This is because the non-commercial objectives of SOCs are often not aligned to their governance structures, and are not defined or monitored in a transparent manner (Forfás, 2010; Mistra, 2014). Related to governance is the issue of the "soft-budget constraint"²⁸. SOCs are provided with a safety net if, for example, they require financial assistance because of an inability to service their debt and/or poor operational performance. SOCs are also protected from the adverse competitive forces that would ordinarily affect private entities, such as insolvency or the risk of a takeover by a rival firm (Forfas, 2010). A soft-budget constraint not only weakens incentives for SOCs to perform better but also may contribute negatively to management practices, which could influence the ability of SOCs to deliver on their mandates (Deviatov and Ickes, 2005; Forfás, 2010).

When identifying governance challenges, the "principal-agent" problem cannot be ignored (Forfás, 2010). The "principal-agent" problem suggests that managers may not be incentivised to align their interests with those of the owners by maximising the efficiency of the entity. This is because SOCs are not managed by their owners, who also have no way of telling whether the poor performance of SOCs is the result of management failure or of external

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²⁸ "Soft-budget constraints are as a result of borrowers knowing or expecting that they will be bailed out or provided with a safety net in the event of adverse outcomes" (Deviatov and Ickes, 2005: 2).

factors (ibid). Conversely, where government interferes excessively, the lack of a clear distinction between ownership and management can lead to SOCs becoming bureaucratized, which can influence the decision-making process in an unfavourable manner (Mistra, 2014).

Other limitations of SOCs, which are not necessarily specific to governance-related issues, include poor project planning, over-capitalisation, under-utilisation of capacity and lack of coordination (ibid). Poor planning is reflected in investment decisions that are not informed by appropriate technical feasibility and cost and benefit analyses, which results in unnecessary project delays and excessive costs. Over-capitalisation is related to poor planning and results from, for example, poor financial planning coupled with the soft-budget constraint that leads to the inefficient use of scarce capital resources (ibid). Compounding these challenges is the under-utilisation of capacity, which results mainly from the failure to use fixed assets and from poor planning, management and control in producing goods. In most instances this leads to lower productivity (ibid).

Another challenge is the lack of coordination, as various SOCs are generally dependent on each other, with the output of one SOC being the input of another (ibid). For example, a SOC that uses electricity to produce goods and services will rely on another SOC that generates electricity. A persistent lack of coordination contributes to wastage and excess stock, as well as the shortage of key inputs (ibid).

4.2.4. Factors affecting the performance of SOCs

The factors that influence the performance of SOCs are explained through the resource-based theory, the stewardship theory, the agency theory, the stakeholder theory and the public choice theory (Mbo and Adjasi, 2013).

The resource-based theory says that SOCs with more resources perform better than those with fewer resources. In particular, SOCs will have performed better if they have higher liquidity levels and a higher gearing ratio (the proportion of debt to the total capital employed), as well as an efficient and larger workforce (ibid).

According to the stewardship theory, SOCs with managers who are good stewards (i.e. they always act in the best interest of the entity) can be expected to perform better than those with weak stewards. In particular, the stewardship theory recognises that the extent to which government is involved in pricing decisions and the existence of competition are factors that influence performance (ibid).

The agency theory refers to the principal-agent problem, where the agent's goals are not aligned to those of the principal, and suggests that SOCs perform better if they have a strong board of directors (ibid).

According to the stakeholder theory, the performance of SOCs is influenced by the extent of stakeholder representation on the board and stakeholder reporting. SOEs whose interests are aligned with those of their stakeholders tend to perform better than those that do not capture the interests of all their stakeholders (ibid).

The public choice theory can be proxied by the extent of financial dependency on the government and the existence of an independent regulator. It argues that SOCs will perform better in an environment where there is less political influence (ibid).

4.2.5 Privatisation in the SOC context

In many developing countries, privatisation²⁹ as an economic reform strategy has been seen as a way to address the issue of the poor performance of SOCs. One of the main reasons for privatisation is to transform SOCs in order to achieve wealth creation, economic efficiency and growth (Marcelin and Mathur, 2015). According to the property rights theory, SOCs can be expected to perform less efficiently and even less profitability than private enterprises, which seems to suggest that ownership determines performance. However, the existing empirical evidence presents mixed results.

A study by Boardman and Vining (1989) found that private enterprises do not necessarily perform better than SOCs, particularly because performance varied across sectors. For example, in sectors where competition is limited or where private companies would be subject to strict regulation measures, such as the electricity and water sector, SOCs are more efficient (ibid). However private enterprises tend to be more efficient than SOCs in delivering services, such as health care, refuse collection and fire protection. Mixed enterprises, which are partially unregulated companies, were found to have similar efficiency levels to SOCs and to perform better than SOCs in some instances, but their profitability is lower than SOCs.

In Ghana, private enterprises were established to address inadequate managerial and technical competence, conflicting social and commercial objectives, poor incentives, indebtedness, corruption and political interference, which resulted in the poor financial performance of its SOCs (Appiah-Kubi, 2001). Nearly 70% of all SOCs were divested,

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²⁹ The various forms of privatisation include "divestment or the transfer of SOEs' assets to private sector operators through assets sales or auctions, spin-offs, liquidations and reinstatement of formerly nationalised SOEs into private domain" (Marcelin and Mathur, 2015: 529).

resulting in a positive impact on government revenue: the privatisation programme contributed about 14% of the mean GDP of 1988/98 (ibid). This enabled Ghana to achieve its fiscal adjustment goal: the fiscal deficit reduced from 4.2% of GDP in 1981–1983 to an annual average surplus of 0.8% in 1986–1991, which increased to an annual average of 2.6 % in 1995–98. However, despite these positive outcomes, the major drawback of the Ghanaian privatisation programme was the failure to meet many of the other objectives, particularly those related to socio-political and regulatory issues (ibid).

In South Africa, the adoption of privatisation has been “slow”. In the 1990s, shortly before the political transition, privatisation was difficult because the international sanctions meant that multinational enterprises were not eager to invest in South African enterprises. The current opposition to complete privatisation reflects Congress of South African Trade Unions’ view that privatisation will lead to job losses and compromise the delivery of basic social needs (Jerome, 2006).

In 1997, instead of adopting full privatisation, South Africa embarked on the restructuring of state-owned assets, informed by the macroeconomic strategy Growth Employment and Redistribution (GEAR). The South African Broadcasting Corporation sold six of its radio stations; the Airports Company of South Africa sold a 20% share to Aeroporti Di Roma (an Italian enterprise); and Transnet’s production house, chemical services and Transwerk Perway were sold (ibid).

In 1996, the fixed line component within Telkom was partially (30%) privatised, with the intention of providing Telkom with an alternative source of revenue, in order to invest in the doubling of the size of the fixed-line network (Gillwald, 2005). Telkom has gained economically, with South Africa’s telecommunications sector growing from R7-billion in 1992 to around R43-billion in 2001, but has failed to achieve its dual objectives of contributing to the

sector’s development and ensuring affordable access to telecommunication services for the society at large. The reform has had unintended consequences, including a poor internet take-up and usage because of high prices, as a result of other value-added service operators being expected to pay to use Telkom’s network, delays in the provision of facilities and anti-competitive behaviour by Telkom; all of these have contribute negatively to South Africa’s participation in the global network economy (ibid).

In general, South Africa’s restructuring of state-owned enterprises reflects a weak adoption of privatisation, and the intended objectives have not been met for the cases of privatisation. The poor outcomes of the restructuring process can be explained by the lack of clearly defined roles of various departments, the government, SOEs and other related stakeholders, and weak intergovernmental coordination (Gillwald, 2005; Jerome, 2006). Other reasons include institutional incapacity and design, skills shortage in the various departments and the regulatory agencies, as well as the funding regulator (Gillwald, 2005).

4.4 Research Methodology

The study focuses on four national SOCs: Transnet (transport sector); Telkom and the South African Post Office (SAPO) (information and communication technology sector); and Eskom (energy sector)

These SOCS were selected based on their critical role in rolling out government’s infrastructure-led growth strategy and on the 18 SIPs prioritised by the PICC. Table 26 outlines the 18 SIPs. The strengthening and accelerated expansion of rail, electricity and information and communication technology (ICT), particularly in rural areas cuts across SIPs 1, 2, 3, 4, 5, 7, 8, 10, 11 and 15. In addition, transport, energy and ICT are key enablers of both rural and urban development.

Table 26. Government's 18 Strategic Infrastructure Projects

Type of infrastructure	Focus areas of SIPs
Geographic	SIP 1: Unlocking the northern mineral belt, with Waterberg as the catalyst
	SIP 2: Durban–Free State–Gauteng logistics and industrial corridor
	SIP 3: South-eastern node and corridor development
	SIP 4: Unlocking economic opportunities in the North West province
	SIP 5: Saldanha–Northern Cape development corridor
Spatial	SIP 6: Integrated municipal infrastructure project
	SIP 7: Integrated urban space and public transport programme
	SIP 8: Agri-logistics and rural infrastructure
Energy	SIP 9: Green energy in support of SA economy
	SIP 10: Electricity generation to support socio-economic development
	SIP 11: Electricity transmission and distribution for all
Social infrastructure	SIP 12: Revitalisation of public hospitals and other public health facilities
	SIP 13: National school-build programme
	SIP 14: Higher education infrastructure
Knowledge	SIP 15: Expanding access to communication technology
	SIP 16: Square Kilometre Array and Meerkat projects
Regional integration	SIP 17: Regional integration for African cooperation and development
Water and sanitation	SIP 18: Water and sanitation infrastructure

Source: PICC (2014)

Using a case-study approach, the four SOCs are evaluated to determine the extent to which their service delivery activities take place in rural areas, and the type of investments that are made. Qualitative and quantitative data is collected through interviews with the four SOCs and from annual reports and presentations to parliamentary committees. Specifically, budget analysis and descriptive statistics are used to determine the spending and locational focus of SOCs.

In addition to service delivery, data on rural access to the infrastructure provided by the identified SOCs is analysed using data from the following sources:

- a) The General Household Survey (GHS) is used for the period 2010 to 2014 to understand the rural focus of Telkom, SAPO and Eskom (Stats SA, 2011; 2012; 2013; 2014; 2015). The GHS provides information on:
 - The number of households per province with a functioning telephone landline (for the period 2010 to 2014). However, the GHS does not identify the provider of the landline (i.e. Telkom or others), and so this data is acquired directly from Telkom.
 - The number of households that do not receive mail and the percentage of households that have post delivered to their dwelling/post box or private bag. In all instances, this data is provided at a provincial level.
 - Access to electricity per province and supplier of electricity. The data is cross-checked with service delivery data from Eskom. Focus will be specifically on electricity distribution, which focuses on delivery to the end user and from a spatial perspective (rural/urban).
- b) The information on rail activity was sourced from Transnet's Integrated Reports for the years 2011–2015.

4.5 Key Issues Concerning SOCs in South Africa

The Public Finance Management Act (PFMA) classifies the four case study SOCs (Eskom, Transnet, SAPO and Telkom) as Schedule 2 “major entities”, which have to abide by specific rules. For example, in terms of Section 52 of the PFMA, Schedule 2 entities must submit to their parent department and to National Treasury, projected revenue,

expenditure and borrowings for the financial year, as well as a detailed three-year corporate plan. The parent department is the department responsible for acting on behalf of government as the shareholder representative to the specific SOC. Table 27 details the parent departments of the four SOCs.

Table 27. Parent departments of selected SOCs

Entity	Parent department	PFMA schedule
Eskom	Department of Public Enterprises	2
Transnet	Department of Public Enterprises	2
Telkom	Department of Telecommunications and Postal Services	2
Post Office	Department of Telecommunications and Postal Services	2

Source: National Treasury (2015a)

It should be noted that, unlike with Eskom, Transnet and the SAPO, government is not the sole shareholder of Telkom. Telkom is listed on the Johannesburg Stock Exchange, and government owns a 52% share in the company, of which 13% is held by the Public Investment Corporation, an entity under the National Treasury (Telkom, 2015).

In addition to the PFMA, which pertains to national and provincial government, other pieces of legislation that govern SOCs include:

- The Municipal Finance Management Act (MFMA), which is specific to local government
- The founding legislation of respective SOCs
- The Companies Act.

A single framework is needed to underpin the establishment, activities and performance principles of SOCs in order to ensure a uniform approach and an overarching understanding of SOCs. Currently SOCs operate in silos and do not coordinate their actions. The burden of this lack of coordination falls on the end users (households), especially the poor, when (for example) transport, electricity, water, etc. tariffs increase or there are continued delays in the completion of power stations). For SOCs to play a real developmental role in South Africa, such considerations

will have to be factored into their operations and decision-making processes. The pending Government Shareholder Management (GSM) Bill, which will take the role of an overarching piece of legislation, should assist in establishing some uniformity in how government interfaces with SOCs. However, it is unclear when the GSM Bill will be finalised. According to the DPE, the Bill was meant to be finalised during the 2014/15 financial year but was not – Cabinet decided to hold back the finalisation of the Bill in order to review the project plan and ensure that the required elements are in place to pass the Bill (DPE, 2015).

4.5.1 Financial health of the SOCs

Grant guarantees

The SOCs do not rely solely on fiscal transfers for their survival but also receive government guarantees, which appear as contingent liabilities on government’s books. Given these government guarantees, the financial health of SOCs has an important bearing on the country’s broader public finances. Table 28 outlines the guarantees provided to selected SOCs between 2004/05 and 2014/15. Over this period, the size of guarantees provided to Eskom grew markedly, whereas those provided to Transnet and the Trans Caledon Tunnel Authority declined.

Table 28. Guarantees to selected SOCs (2006/07–2014/15)

R'million	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Eskom	133			46 678	67 057	77 230	103 523	125 125	144 546
Transnet	18 420	14 716	12 895	11 620	9 887	3 975	3 757	3 757	3 757
Post Office									120
Telkom	4 785	140	138	108	90	85	90	111	107
SA National Roads Authority	5 885	6 441	6 708	12 287	18 605	19 426	19 482	23 866	30 174
Trans Caledon Tunnel Authority	17 690	19 271	19 588	20 721	18 489	19 886	20 460	20 516	20 747
Total guarantees	67 783	64 485	63 038	129 099	149 600	153 924	180 240	209 569	224 935
<i>Guarantees to selected SOCs as a % of total guarantees</i>									
Eskom	0.20%	0.00%	0.00%	36.16%	44.82%	50.17%	57.44%	59.71%	64.26%
Transnet	27.17%	22.82%	20.46%	9.00%	6.61%	2.58%	2.08%	1.79%	1.67%
Post Office	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.05%
Telkom	7.06%	0.22%	0.22%	0.08%	0.06%	0.06%	0.05%	0.05%	0.05%
SA National Roads Authority	8.68%	9.99%	10.64%	9.52%	12.44%	12.62%	10.81%	11.39%	13.41%
Trans Caledon Tunnel Authority	26.10%	29.88%	31.07%	16.05%	12.36%	12.92%	11.35%	9.79%	9.22%

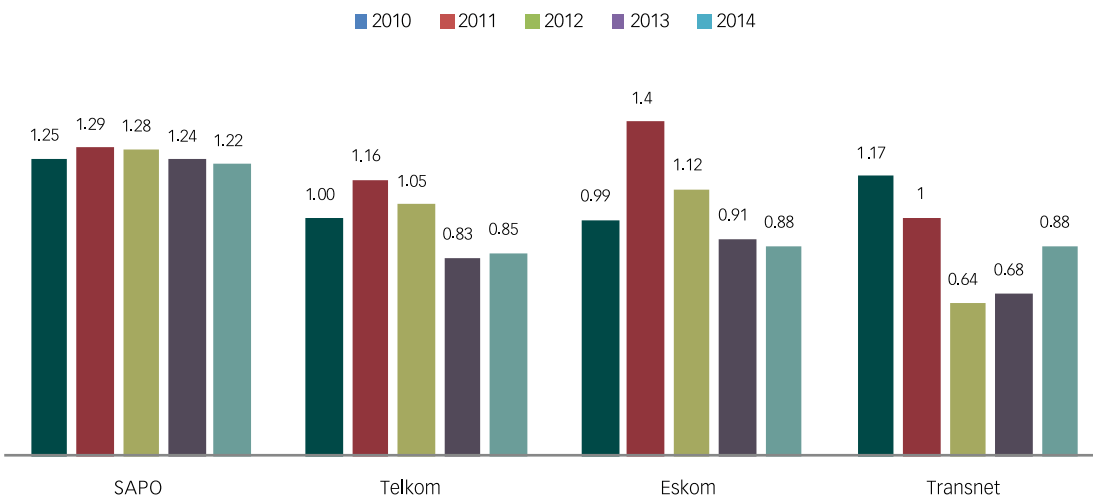
Source: National Treasury, 2015(b)

Solvency and liquidity of the SOCs

Figures 28 and 29 illustrate the financial health of the SOCs, as measured by the solvency (current ratio) and liquidity (debt-to-equity ratio) ratios. Between 2010 and 2014, the current ratios for all four SOCs fell moderately: for every rand of current liabilities SAPO had R1.22 (down from R1.25), Telkom had 85 cents (down from R1), Eskom had 88 cents (down from 99 cents) and Transnet had 88 cents

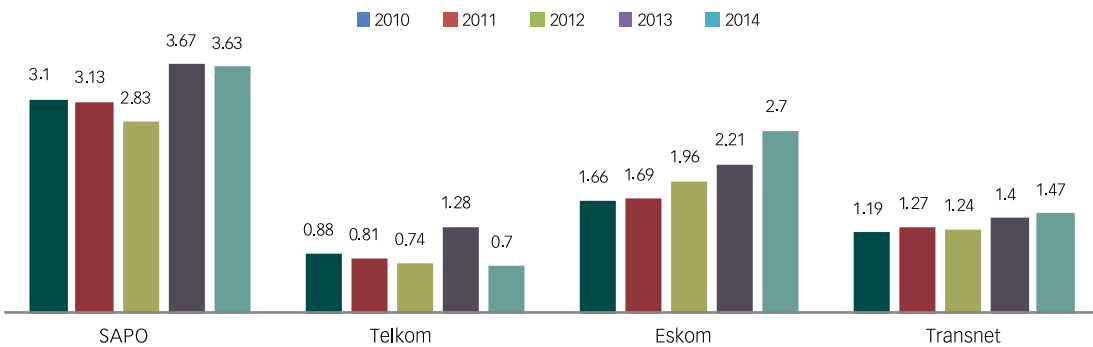
(down from R1.77) of current assets. During the same period, SAPO's debt exceeded its equity by more than three times, while Eskom and Transnet saw their debt-to-equity ratio increase from 1.66 to 2.7 and from 1.19 to 1.47 respectively. In contrast, Telkom's debt-to-equity ratio improved from 0.88 to 0.7.

Figure 28. Current ratio (2010–2014)



Source: Authors' calculations using SAPO, Telkom, Eskom and Transnet annual/integrated reports (2010–2014)

Figure 29. Debt-to-equity ratio (2010–2014)



Source: SAPO and Eskom annual/integrated reports; authors' calculations using Telkom and Transnet annual/integrated reports (2010–2014)

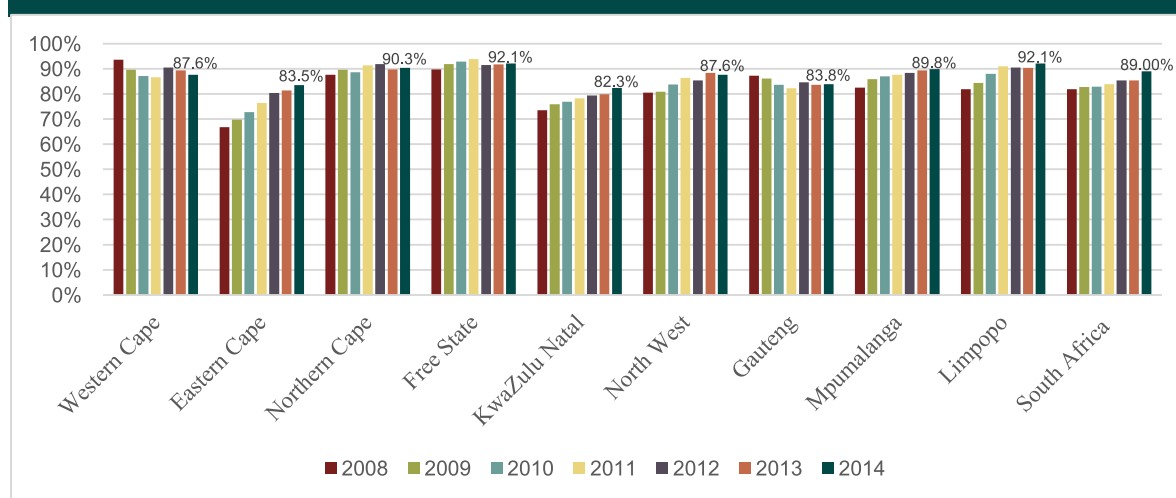
4.6 Rural Focus of SOCs: Case Studies of Selected SOCs

4.6.1 Eskom

The provision of electricity (along with water and sanitation), is considered a basic service in South Africa, with the security of electricity supply being a central socio-economic goal for government. As shown by Figure 30, between 2008 and 2014 access to electricity improved from 81.9% to 86% of all households. The three provinces with the highest percentage of households with access to electric-

ity are Limpopo (92.1%), Free State (92.1%) and Northern Cape (90.3%), while the lowest percentage of households with access are found in KwaZulu-Natal (82.3%), Eastern Cape (83.5%) and Gauteng (83.8%). The decline in the percentage of households with access (in the Western Cape and Gauteng) indicates an increased influx of migrants and creation of informal settlements (Stats SA, 2014).

Figure 30. Households connected to mains electricity (2008–2014)



Source: Stats SA (2014)

Established in 1923, in 2002 Eskom was converted into a public company that operates in accordance with the Public Finance Management Act (No. 1 of 1999), the Eskom Conversion Act (No. 13 of 2001) and the Companies Act (No. 71 of 2008). Eskom's core business is the generation (production), transmission (conveyance) and distribution of electricity.³⁰ Through this SOC, government controls 96% of electricity generation and 100% of electricity transmission. Schedule 4b of the Constitution assigns responsibility for electricity distribution to municipalities, and municipalities are allowed to delegate distribution to an entity. As a result, in practice, electricity is distributed by Eskom and licensed municipal distributors, and, where distribution is delegated to Eskom, the municipality pays Eskom directly for undertaking the responsibility.

As mentioned, Eskom plays an integral role in expanding access to free basic electricity, which is considered a basic service in South Africa. The law provides all indigent households with a certain level of basic services free of

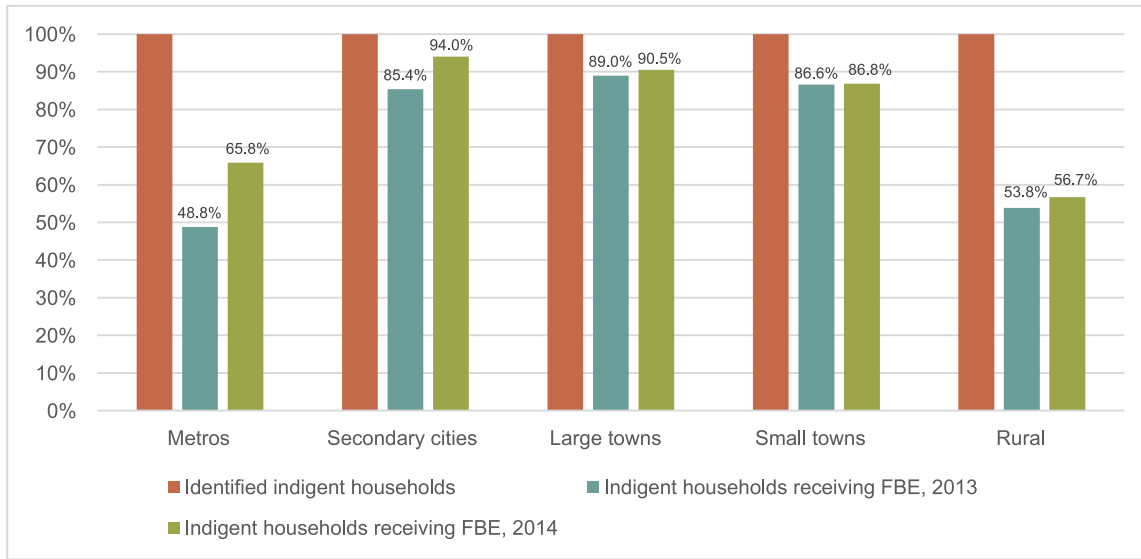
charge – under the Free Basic Electricity Policy, all indigent households receive 50 kilowatt hours (kWh) of electricity free per month (DME, 2003). Municipalities can provide more, but not less, than 50 kWh free of charge. Government is addressing the electrification backlog and meeting the challenge of providing free basic electricity to all indigent households through the Integrated National Electrification Programme (INEP), which is funded through a local equitable share allocation and a conditional grant (the INEP grant). According to the 2015 Division of Revenue Act, the INEP grant must be spent in areas that are predominantly rural and have high backlogs.

The largest increase in indigent households receiving free basic electricity was in the metropolitan municipalities (Figure 31). Access to free basic electricity remains unacceptably low in rural (B4) municipalities, where only 53.8% and 56.7% of indigent households received this service in 2013 and 2014 respectively.

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³⁰ As explained in the 'Research Methodology' section of the paper, the focus insofar as Eskom is concerned will be electricity distribution.

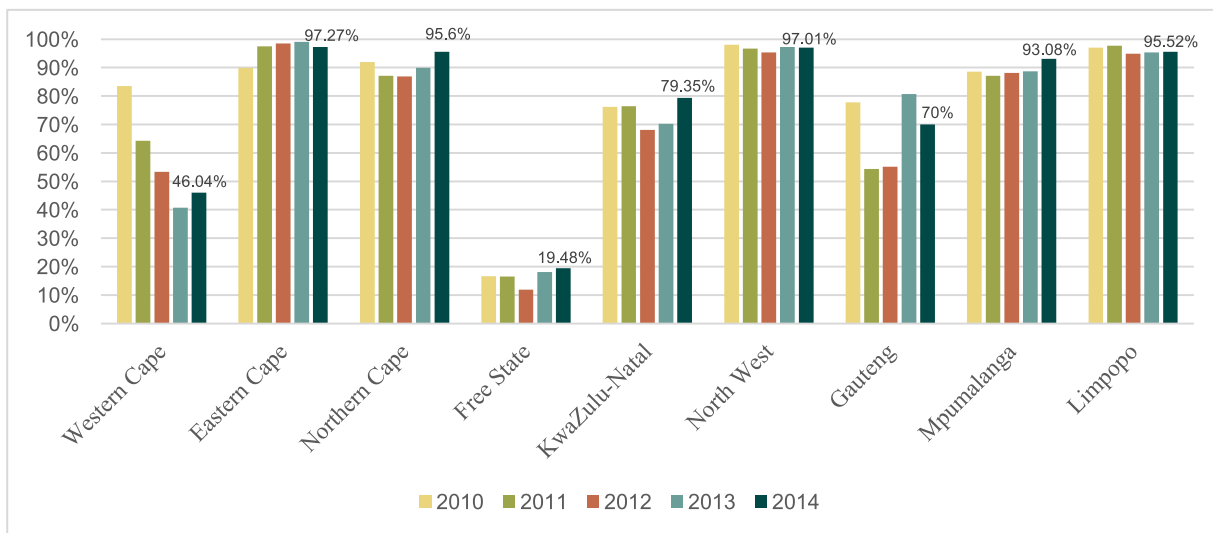
Figure 31. Percentage of indigent households that receive free basic electricity (2013–2014)



Source: Stats SA (2015)

Figure 32 shows that Eskom’s electricity distribution is significant in rural areas of South Africa. The SOC is relatively more active in the Eastern Cape (97.27%), North West (97.01%), Northern Cape (95.6%) and Limpopo (95.52%), and provided electricity to just less than 80% of rural households in KwaZulu-Natal.

Figure 32. Rural households where Eskom distributes electricity (2010–2014)



Source: Stats SA (2011; 2012; 2013; 2014; 2015)

Eskom's reports do not provide details on the spatial location of electricity distribution in rural areas (Eskom, 2015), but the following information was provided through interactions with Eskom and the Department of Energy (DoE):

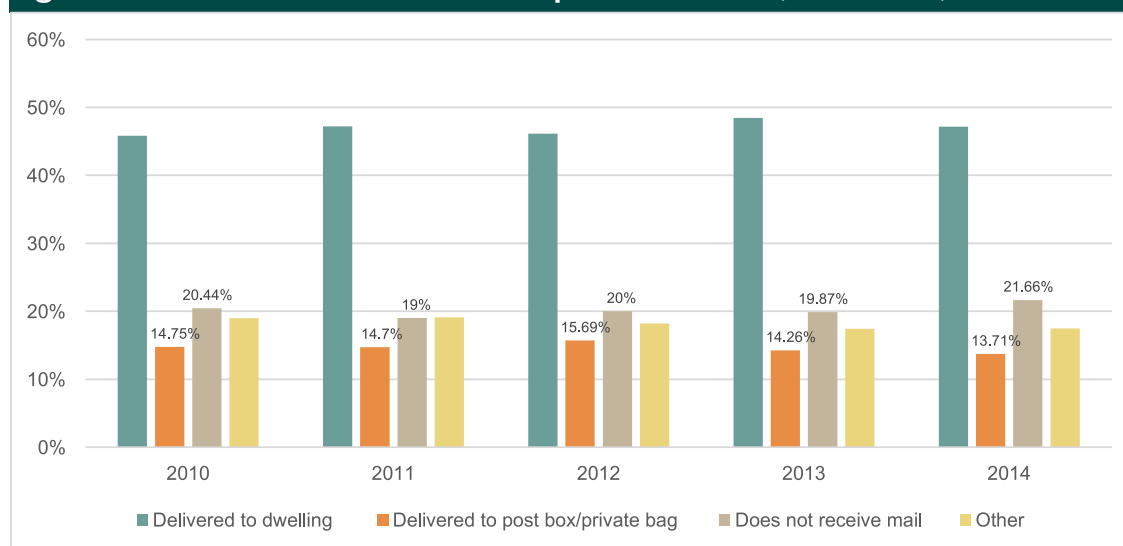
- Provision of electricity in rural areas has been fast-tracked through the INEP. Municipalities with licences do their own installations into the households, while municipalities without licences enter into a service level agreement with Eskom. The municipality's integrated development plan informs the projects that are identified and prioritised in the INEP.

- Eskom does not allocate a percentage of its distribution budget to rural development, but receives capital funding from the DoE for electrification connections. One million new connections are planned over the next five years, and the electrification programme is aiming for universal access by 2025.

4.6.2 South African Post Office (SAPO)

One of SAPO's roles is to contribute to socio-economic development by increasing access to equitable and efficient postal services. Figure 33 presents the national picture of how households access postal services.

Figure 33. Households with access to postal services (2010–2014)



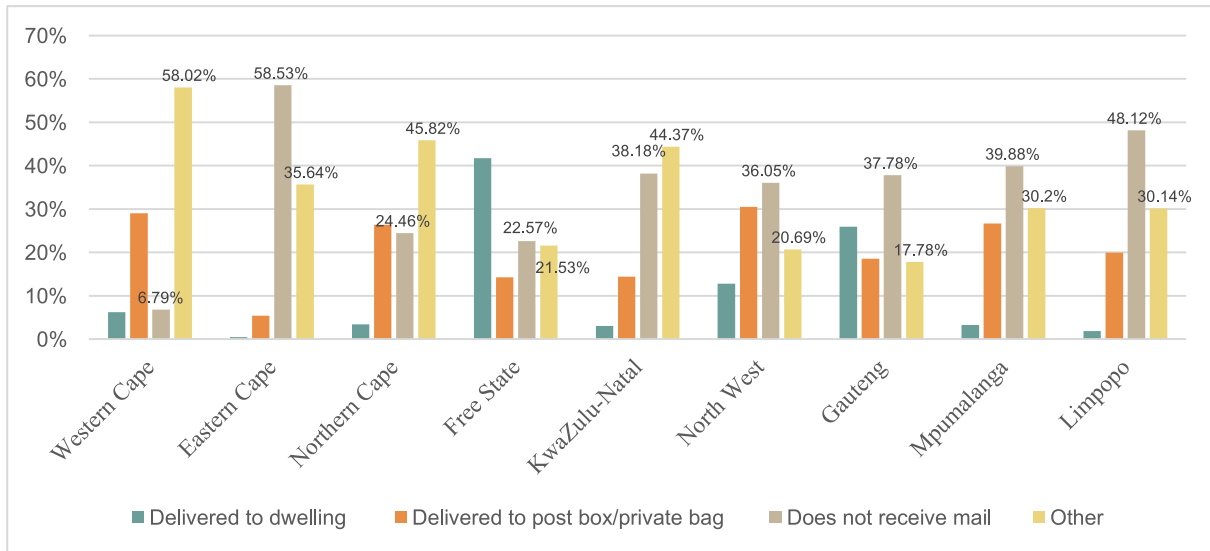
Source: Authors' calculations using data from Stats SA (2010; 2011; 2012; 2013; 2014)

Nearly half of all households have their post delivered to their dwelling as opposed to a post-box or "other", which includes to the workplace, to the house of a relative, neighbour or friend and to a shop. Between 2010 and 2014, the proportion of households that had their post delivered to their dwelling increased slightly, from 45.82% to 47.17%. The same period saw a corresponding decline in the percentage of households that receive their post via

the post-box (from 14.75% to 13.71%) or other means (from 18.99% to 17.46%). The percentage of households that do not receive mail, i.e. have no access to postal services, grew from 20.44% in 2010 to 21.66% in 2014.

However the picture is somewhat different at the provincial level (Figure 34).

Figure 34. Rural households with access to postal services (2014)



Source: Authors' calculations using data from Stats SA (2014)

The highest proportion of rural households with no access to postal services is found in the Eastern Cape (58.53%), Limpopo (48.12%), Mpumalanga (39.88%) and KwaZulu-Natal (38.18%). In contrast, in the Western Cape, only 6.79% of households have no access to postal services, and over half (58.02%) receive mail through "other" means. In most provinces, less than 10% of households have postal services delivered to their dwelling. The exceptions are the Free State (41.67%), Gauteng (25.93%) and North West (12.79%).

The following information was provided through interactions with the SAPO:

- The SAPO implements some specific programmes that relate to rural development (other than corporate social investment), including rolling out addresses and retail branches, and converting off-line retail postal agencies to fully fledged outlets.

- The SOC considers a rural area to be land under tribal authority, i.e. the traditional settlement where land allocation and planning falls outside the municipality's town planning department.
- The process for identifying and prioritising rural development programmes includes conducting a demand study, so as to ascertain the maximum social impact; using targets provided by the SAPO regulator, Independent Communications Authority of South Africa (ICASA) based on Stats SA data (e.g. census); and spreading programmes evenly or according to the population distribution as reported by Stats SA.
- Rural development programmes entail access to the economy and compliance with the Regulation of Interception of Communications and Provision of Communication-Related Information Act (RICA) and Financial Intelligence Centre Act (FICA); access to basic rights of postal services, which include sending or receiving money and goods; and greater access to government service delivery (ambulance, police or other emergency services).

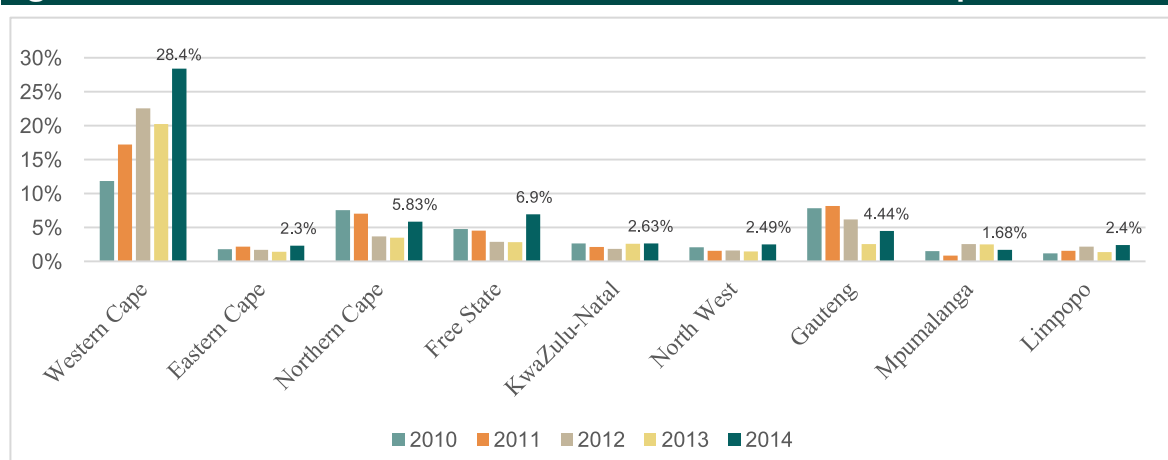
4.6.3. Telkom

In post-apartheid South Africa, access to telecommunications reflects the extent to which the country's social development goals are being met. In other words, it reflects the extent to which the telecommunications sector is contributing to social, economic and political inclusion and equality that favours previously marginalised communities, or previously under-served areas. Figure 35 illustrates the percentage of rural households with access to a functional

landline telephone. Between 2010 and 2014, access to landline telephones increased in the Western Cape and the Free State, declined in the Northern Cape and Gauteng, and remained fairly constant in the other provinces.

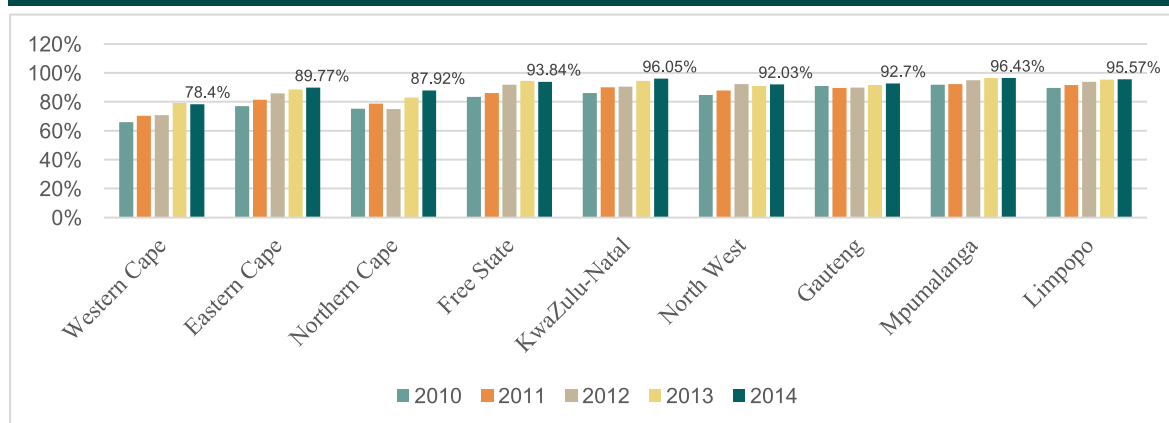
In contrast, between 2010 and 2014, the percentage of rural households with access to a functional cell phone grew significantly (Figure 36).

Figure 35. Rural households with access to functional landline telephones (2010–2014)



Source: Authors' calculations using data from Stats SA (2010; 2011; 2012; 2013; 2014)

Figure 36. Rural households with access to functional cell phones (2010–2014)



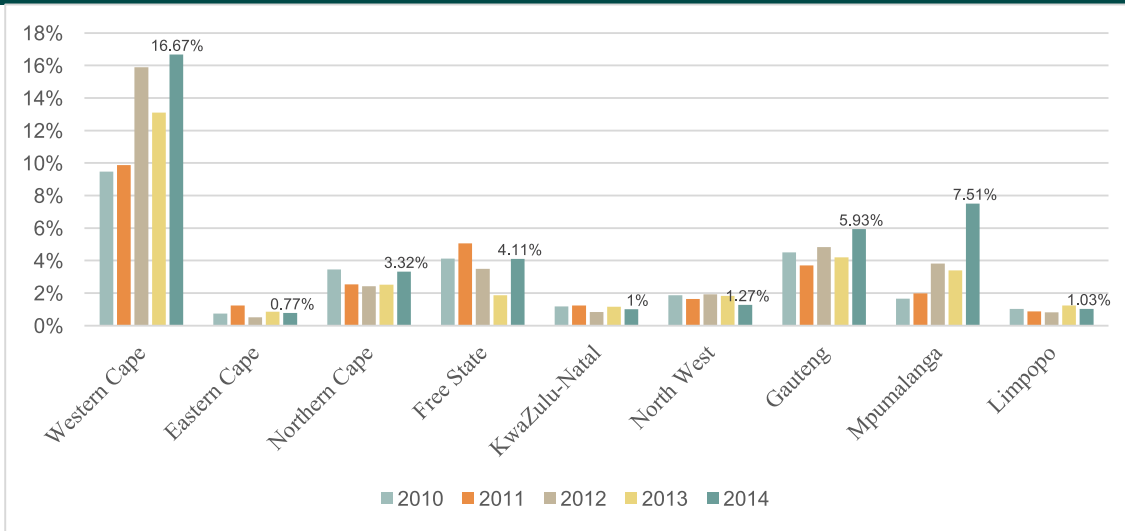
Source: Authors' calculations using data from Stats SA (2010; 2011; 2012; 2013; 2014)

In 2014, the three provinces with the highest proportion of households that had access to functional cell phones were Mpumalanga (96.43%), KwaZulu-Natal (96.05%) and Limpopo (95.57%). The three provinces with the lowest access to cell phones (the Western Cape, Northern Cape and Eastern Cape) had a faster growth rate, of more than 10% between 2010 and 2014. The proportion of rural

households with access to cell phones grew from 65.88% to 78.4% in the Western Cape, from 75.14% to 87.92% in the Northern Cape and from 77.08% to 89.77% in the Eastern Cape.

Figure 37 shows the access to the internet at home among rural households over the period 2010–2014.

Figure 37. Rural households with access to the internet at home (2010–2014)



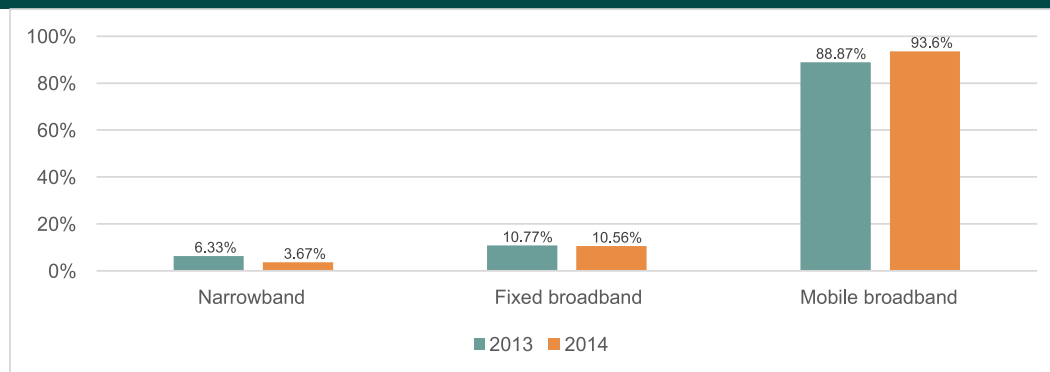
Source: Authors' calculations using data from Stats SA (2010; 2011; 2012; 2013; 2014)

With the exception of the Western Cape, the proportion of rural households with access to internet connections remains low in all provinces, particularly in the Eastern Cape (0.77%), KwaZulu-Natal (1%) and Limpopo (1.03%). This suggests that comparatively more urbanised and economically developed provinces have higher access to computers, hence the need/demand for internet connections. The increase or availability of broadband and affordability are contributing factors to the growth in internet access.

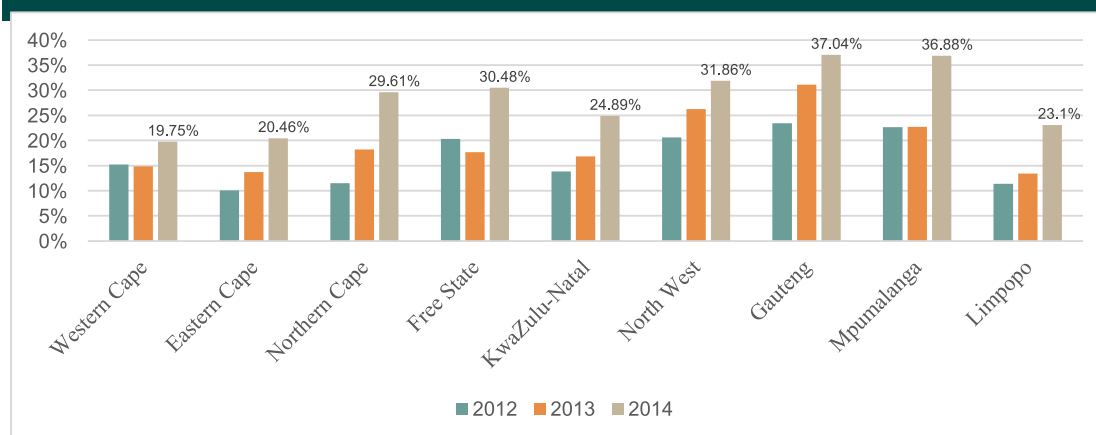
Since 2010, rural households are increasingly accessing the internet via their cell phones rather than via narrowband, fixed broadband and mobile broadband (Figures 38 and 39).

In 2014, the majority (93.6%) of rural households used mobile broadband to access the internet, compared to 88.87% in 2013. Between 2013 and 2014, households using narrowband and fixed broadband declined, from 6.33% to 3.67% and from 10.77% to 10.56% respectively.

About a third of households access the internet via cell phone or other mobile services in Gauteng (37.04%), Mpumalanga (36.88%), North West (31.86%) and Free State (30.48%). The lowest proportion is found in the Western Cape (19.75%).

Figure 38. Services used to access internet at home (2013–2014)

Source: Authors' calculations using Stats SA (2013; 2014)

Figure 39. Households that access the internet via cell phone or other mobile services (2012–2014)

Source: Authors' calculations using data from Stats SA (2012; 2013; 2014)

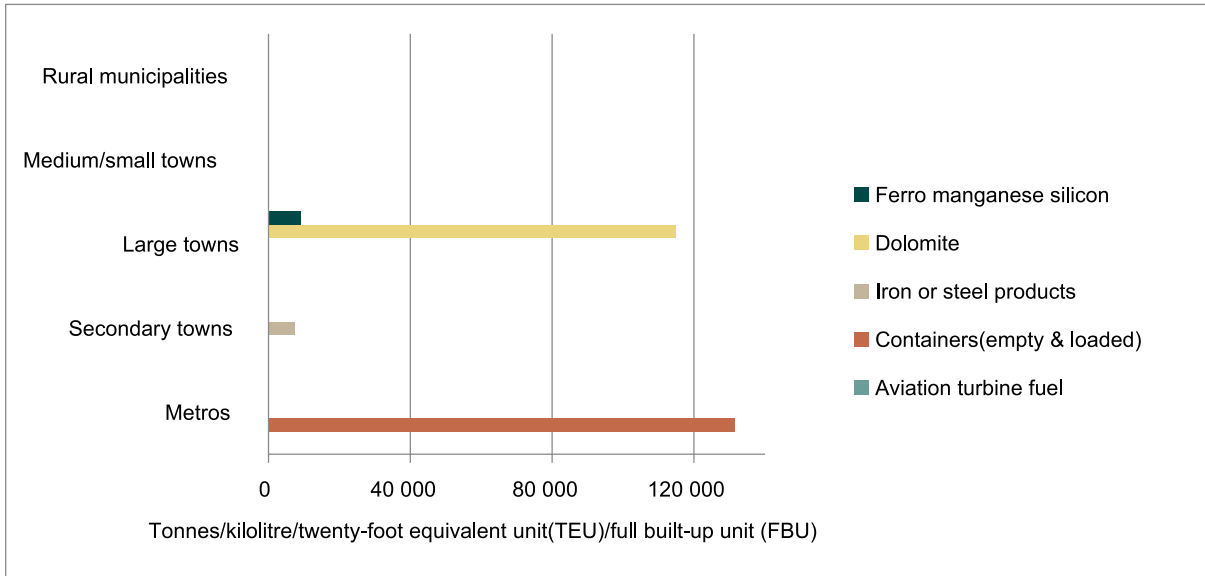
4.6.4. Transnet

Transnet plays a strategic role in the transport sector, by contributing to competitiveness, growth and the development of the economy through delivering reliable freight transport and providing rail and port infrastructure.

Figures 40–42 illustrate freight commodities transported along the three main corridors: Gauteng–Natal, Cape–Gauteng and Natal–Gauteng. The freight flow type is for domestic, imports and exports. Freight commodities are

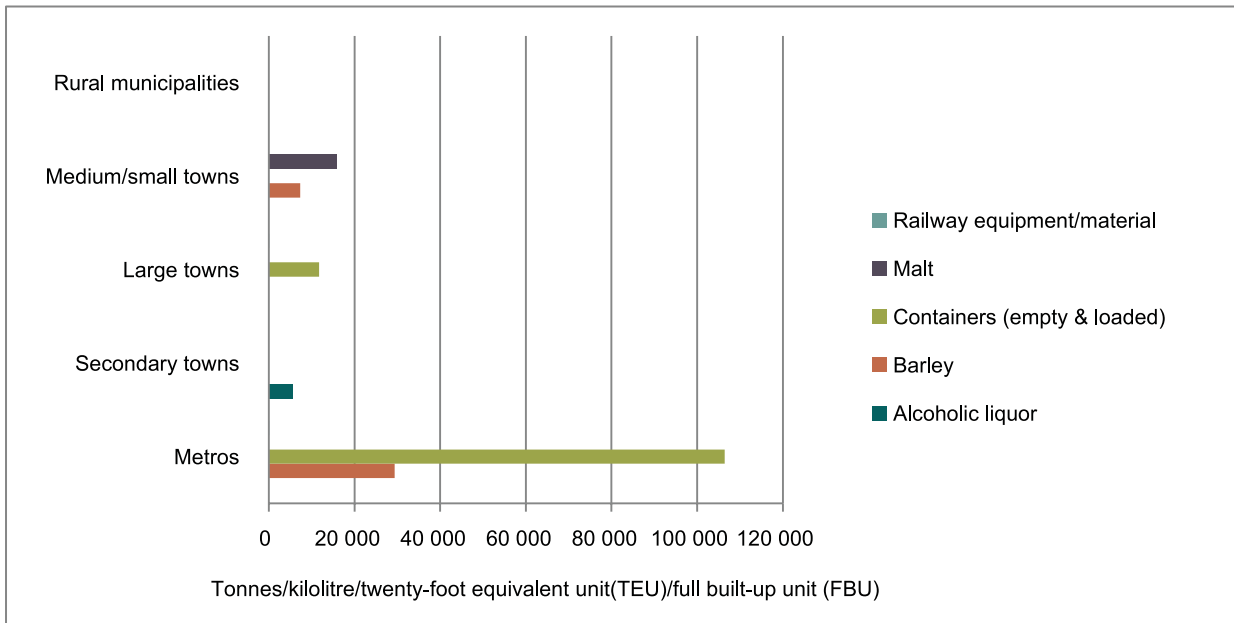
largely transported from metros, secondary towns, large towns and medium or small towns and are less likely to be transported from rural areas. These findings highlight the importance of transport infrastructure and investment. The findings suggest that rural areas are excluded from transport and economic activity as well as from the benefits that accrue from such activities, which has implications for rural development. The very nature of the commodities being transported show clearly the lack of rural focus.

Figure 40. Freight commodities Gauteng–Natal Corridor (2015/16)

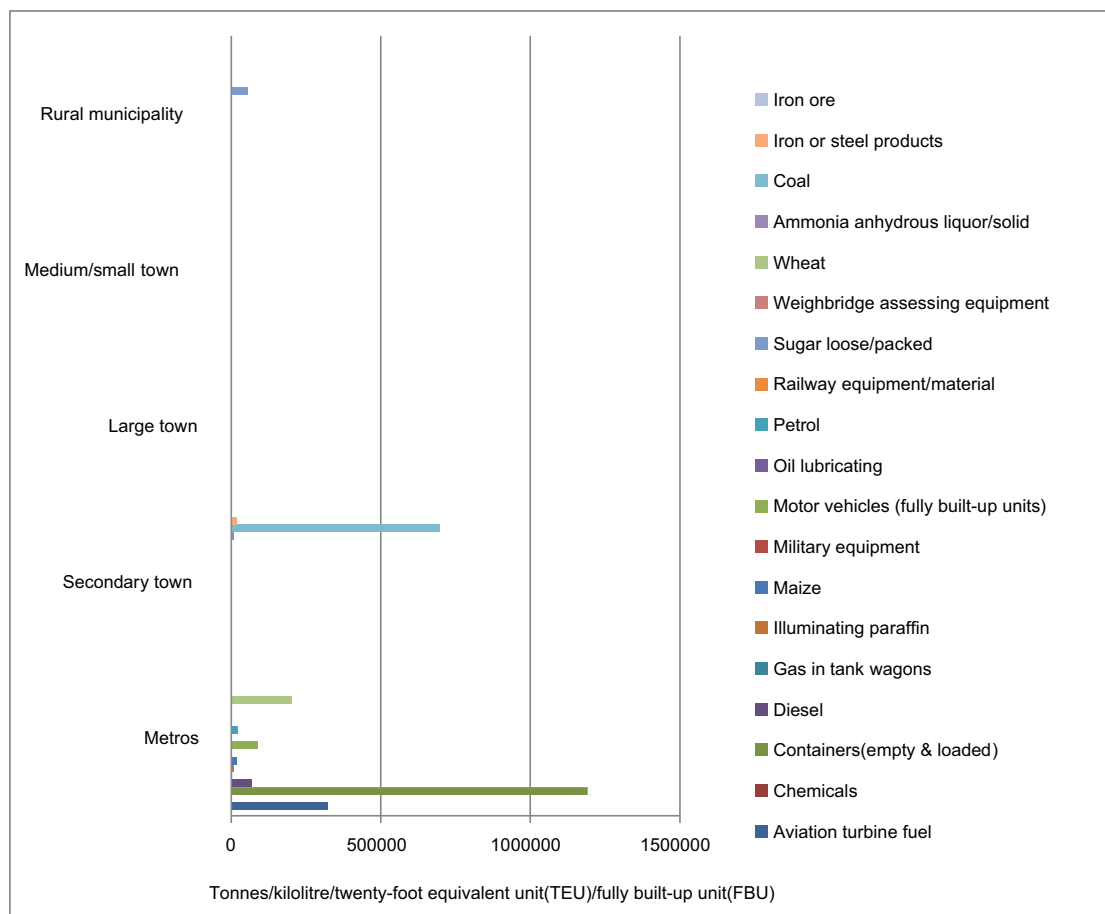


Source: Transnet (2015)

Figure 41. Freight commodities Cape–Gauteng corridor (2015/16)



Source: Transnet (2015)

Figure 42. Freight commodities Natal–Gauteng corridor (2015/16)

Source: Transnet (2015)

4.7 Conclusion and Recommendations

Rural areas in South Africa are particularly vulnerable in terms of access to services, infrastructure and economic opportunities. SOCs have a responsibility to align to the country's national goals and support government's initiatives aimed at addressing the socio-economic legacy of the past. The four SOCs (Eskom, Telkom, Transnet and SAPO) do not have a specific rural focus, unless such a focus is being driven by the parent/sector department responsible for the SOC (e.g. Eskom). It is also not clear whether SOCs are actually required to have an explicit rural focus/dimension to their activities. SOCs would benefit from clear guidelines on what their roles are in terms of furthering South Africa's developmental agenda.

With respect to creating conditions for rural development from infrastructure-led growth by SOCs, the Commission recommends that:

- The Department of Telecommunications and Postal Services ensures that SAPO modernises and broadens focus towards becoming a one-stop shop in rural

areas, where communities/customers can renew (car, driver's) licences and access financial products such as banking (ATM, etc.).

- The Department of Public Enterprises ensures that Transnet contributes to regional economic growth and development by connecting business to customers, goods to markets. Transnet should also transport agricultural goods, so as to include rural communities from rural areas where they produced to urban areas where they are consumed, processed, or sent out of the country.
- The Department of Telecommunications and Postal Services puts measures in place to improve Telkom's network infrastructure in rural areas, so as to improve cellular network coverage. Telkom and SAPO, under the guidance of the Department of Telecommunications and Postal Services, should forge a partnership to develop the mobile market.

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