The 3rd Annual International Conference on Public Administration and Development Alternatives
04 - 06 July 2018, Stellenbosch University, Saldahna Bay, South Africa

Are State-Owned Enterprises (SOEs) Catalysts for or Inhibitors of South African Economic Growth?

P Madumi
Stellenbosch University, South Africa

Abstract: There is no doubt that State-owned enterprises (SOEs) play an important role in fostering economic growth, globally. Moreover, in South Africa, basic services such as water, electricity, sanitation, and transportation are provided by the state through the SOEs. Against this backdrop, most of these SOEs in South Africa have fallen into complete disarray and they are characterized by the upsurge in unbridled corruption. Whilst corruption is perceived to be on the rise, state capture is one of today's most widely discussed and controversial issues that is affecting these corporations and it is allowing corruption to thrive. Put simply, SOEs in South Africa are misgoverned. South Africa is in a period of low growth, which is likely to continue for the next few years. South Africa's GDP growth is currently below 2%, which not ideal to produce sustainable growth. Undeniably, South Africa is plagued by economic challenges such as lack of service delivery, poor financial management, weak business confidence, low growth, massive unemployment, and corruption which are threats to the economic and financial sustainability of the country. Arguably, if the government is serious in solving these economic challenges, drastic action is required to stimulate economic growth, investment and ultimately creating jobs. The role of SOEs is well-embedded in scholarly arguments, however, there is very little attention paid to the impact of reckless and mismanagement of SOEs in South Africa. Using economic theories relating to SOEs as a conceptual framework, this chapter analyses the economic growth and determines the impact of the SOEs' mismanagement of economic growth and investment in South Africa. It concludes that SOEs can make an essential contribution to the economy, but most of South Africa's SOEs need a serious reform because they are currently negating the economic growth of the country.

Keywords: Economic growth, Market Failure and Corruption, State-owned enterprises, Sustainability

1. Introduction

Many countries regard the public sector as a powerful engine of economic growth and sustainable development. Mainly, the developing countries view public corporations and state-owned companies as an instrumental device to stimulate and accelerate GDP, employment and infrastructure development. In South Africa, State-owned enterprises (SOEs) play a vital role in government activities and to deliver basic services to the people. The government is active in the key sector, such as services, utilities, transportation, and construction. Presumably, the distribution of basic resources and infrastructure development is to some extent dependent on SOEs. In other words, the role of SOEs is to provide basic services and fostering development in order to improve the quality of life of South African. There is a noticeable progress made over the past few years in the delivery of basic services. According to the Community Survey 2016, 89,8% of households used piped water, 63,4% used flush toilets connected to either the public sewerage or to a local septic system, 63,9% of households receive refuse removal services, and that 87,6% of households had access to electricity. The reality, however, is that the government still needs to do lots of work in the area of basic service delivery because, currently, it is failing to provide all citizens with these services and those who do not get the services tend to protest and damage the available limited infrastructure.

While not all inefficiency problems accountable for lack of service delivery, one could say that most of these problems are attributed to the sluggish and underperforming economy. The South African economy grew by 1,3% in 2017 (Stats SA, 2018) and at this rate of growth, the economy is not big enough to eliminate major challenges facing the country. Of greater concern are the triple economic challenges, namely, poverty, inequality, and unemployment. These challenges tend to create a high level of dependency on the government of the day and continue to undermine its effort to deliver adequate basic services to the needy. Although these problems are equally important, evidently, the higher rate of unemployment can perpetuate both poverty and inequality. Put simply, if the government can manage to eliminate unemployment - poverty and inequality will decrease drastically.

To this end, unemployment remains a major problem in South Africa. The recent job statistics indicate a high unemployment rate of about 27.2% (StatsSA, 2018). A striking feature of the unemployment rate is the immense youth unemployment. The recent figures suggest that almost 50% of South Africans between 15 and 34 are unemployed (StatsSA, 2018). The central challenge of eliminating persistent unemployment is that the government has become one of South Africa's biggest job creators, and SOEs are responsible for a fair share of the overall government employment. Disappointingly, most of these SOEs are bankrupt due to corruption and mismanagement, and they desperately need financial injections from government. Scholars attribute the poor performance of SOEs to problems, including leadership, governance, and financial propriety issues. Rhodes, Biondi, Gomes, Melo, Ohemeng, Perez-Lopez & Sutiyon (2012) noted institutional characteristics such as inefficiencies, poor management, mismanagement, corruption, and political interferences as the leading causes of the poor performance of the SOEs.

The fundamental characteristics of corruption and political interference in the running of the SOEs manifested through the most widely discussed and controversial issues in South Africa- state capture. Transparency International (2014) described state capture as a situation where powerful individuals, institutions, companies or groups within or outside a country use corruption to shape a nation's policies, legal environment, and economy to benefit their own private interests. Currently, there is a growing onslaught of public enterprises in South Africa, which results from state capture. This is no surprise because the performance of SOEs in South Africa it increasingly deteriorating, subsequently, negatively affect both a country's economic stability and its growth prospects. One of today's core challenges is to justify the existence of some of the SOEs in our economy. Florio (2014) argues that despite the fact that SOEs still play a significant role in many countries, economists and policymakers no longer seem to have a firm understanding of why SOEs exist. It is no surprise because looking at South Africa, as discussed earlier, that most of SOEs financial performances are severely deteriorating. Due to their financial constraint, they have received several cash injections from the government to enable them to continue to deliver services. This begs the question of the persisting existence and contribution of SOEs to the economy of the country. The focal point of this paper is to analyses and determines the impact of the SOEs' mismanagement of economic growth and investment in South Africa. This is a conceptual paper based on secondary information and it is structured in three parts. It begins with a review of relevant theories that justify the establishment of SOEs and those against their (SOEs) existence. The second part of this paper reviews the state of the SOEs and their mismanagement implications on South Africa's economy. The last section summarizes the conclusions about the roles and consequences of SOEs on the economy.

2. Theoretical Exposition

2.1 Defining State-Owned Enterprises (SOEs)

There are several definitions of a state enterprise. For example, State ownership may refer to state ownership or control of any asset, industry, or enterprise at any level, national, regional or local (municipal); or to common (full-community) non-state ownership. It is a business that is either wholly or partially owned or operated by a government. State-owned enterprises are common throughout the world (Clarke & Kohler, 2005). Black, Hashimzade and Myles (2012:1) define a state enterprise as a firm founded on the initiative of the state and run by it. A state enterprise is likely to exist when there are activities that would be socially beneficial, but which are not attractive to private entrepreneurs or activities that will be profitable but which involve natural monopolies. Whilst, Davies, Lowes and Pass (2005:485) define a state enterprise as the basic production entity that is owned by the state and which operates on the basis of production plans and targets laid down in the country's national plan.

2.2 The Purpose of State-Owned Enterprises

Public enterprises occupy an important position in the national economy of most countries and there are many fundamental reasons why it is unavoidable for developing countries to establish large public enterprises. Conventional wisdom suggests that the establishment of the state corporations is for the good cause, and often positive for the economic growth. The establishment of the public enterprises is a good method of state intervention and management of the economy. It is not surprising, that state intervention is certainly one of the most intensely debated economic and political subjects in this century. Karl Marx suggested that the peoples' misery was the direct result of the private enterprise economy caused and encouraged by the theory of limited state intervention in the economic development of the state. Meanwhile, Keynesian economists argue that at certain times limited State intervention becomes a relatively acceptable practice (Sudgen, 1983). For instance, after the turmoil of the Great Depression state involvement in the economy seemed to be the correct path, with public enterprises being developed in the Western economies through deliberate nationalization of the enterprises (Efird, 2010). Efird (2010) further opined that SOEs have always played important roles in the political economies of nation states. According to Turner and Hulme (1997), SOEs are for the purpose of economic development. In the same vein, Buge, Egeland, Kowalski and Sztajerowska (2013) postulate that SOEs are a vital element of development in most economies. The purpose of SOEs can be summarized in two forms. Firstly, is the delivery of core public services such as postal services, sanitation, power, airports, telecommunications, water, broadcasting and telecommunications and; secondly, for purely commercial purposes such as air transport, banking, real estate development, retailing and shipping. In the simplest terms, profits reaping (generate public funds) is the main purpose behind the creation of such enterprises.

3. Theoretical Justifications for the Existence of SOEs

The economic theory emphasizes the importance of state ownership and the benefits which can be yielded from existing SOEs. Moreover, rewards from the SOEs are almost always debated in terms of economic utility. The basic premise and the reasons behind the existence of SOEs are provided in the next section.

3.1 Market Failures

The simplest economic explanation of state ownership of firms is that it is one of the solutions to market failure problems. Authors such as (Levy, 1979; Lindsay, 1976) argue that the markets are unable to efficiently allocate products or resources to the most welfare-enhancing use and it compels the government to intervene to address these inefficiencies using an array of instruments such as taxation, regulation, and direct ownership the via creation of SOEs. In other words, the government can serve the public interest by maximizing allocation of scarce resources to society as much as possible. Black, Calitz, Steenekamp *et al*. (2003) contend that market failures provide a prima facie case for government intervention. They list the reasons why in reality markets may fail to provide the optimal solution promised by the perfectly competitive model. These include lack of information, lags in adjustment, incomplete markets, non-competitive markets, macroeconomic instability and non-optimal income distribution. In the same strain, Cuervo-Cazurra, Inkpen, Musacchio and Ramaswamy (2014) assert that market failures constitute public goods, in which the rival and non-excludable nature of their consumption will result in their depletion; positive externalities, in which the providers of the externalities are not compensated for this effect and thus will under provide them to society; negative externalities, in which the generators of the externalities do not have to pay for these effects and thus will over-provide them to society; information asymmetries, which result in moral hazard and adverse selection problems; incomplete markets, in which consumers cannot obtain the products even if they are willing to pay their price; and natural monopolies, in which it is more efficient for society to have one provider than to have competition among several firms, and thus there is the danger of undersupply or overpricing.

Competition is one of the key elements that drive a market to achieve efficient resource allocation. In some industries, goods or services are produced by a small number of firms. In the extreme case of a monopoly, one firm has the entire market share. However, competition will be low in markets with few firms if there are substantial barriers to entry that restrict new firms from entering the market. Barriers to entry can result from laws, such as copyrights, patents, and licenses. There are two distinct reasons why unregulated monopolies fail to produce goods in a manner that maximizes social welfare. The first is that, regardless of the returns to scale, a profit-maximizing monopolist will exploit their market power to increase the price above that which would arise in a competitive market. This maximizes the monopolist's profits, but it also reduces the quantity produced.

3.2 Political Strategy

In one way or another, organizational success often depends on political action. In general, politics plays an important role and has many effects on the economy. However, authors such as (Aplin & Hegarty 1980; Boddewyn & Brewer, 1994) suggest observing the influence of organizations on the politics of a given corporate in some state or region. This approach is known as Corporate Political Activity (CPA). On the contrary, the political point of view explains the existence of SOEs as a result of the ideology and the political strategy of government officials regarding private ownership of particular productive assets (Cuervo-Cazurra *et al*., 2014). Cuervo-Cazurra *et al.* (2014) further distinguish four types of economic ideologies or political strategies that result in the creation of SOEs, namely, communism, nationalism, social, and strategic ideology.

First is the (Marx cited in Cuervo-Cazurra *et al*., 2014) argument that communist ideology justifies the creation of SOEs as a way to redistribute wealth from a few private people. Under this view, citizens are the rightful owners of companies. Second is the nationalist ideology, which argues that the government needs to create SOEs to speed up the development of the country and address the inability of private enterprise to achieve this (Bruton, 1998). Third, is a social ideology that proposes that the government needs to invest in SOEs to facilitate the achievement of socially desirable objectives, such as education, healthcare, or poverty reduction? The role of the state is the control of markets, redistribution of income and the provision of welfare services for all citizens (Gildenhuys, 1998:8). According to Swilling (1999), the state creates an enabling environment for all its citizens to enjoy a good life in a democracy with a free-market system. In such cases, the political strategy of the government promotes redistribution and questions the ability of private entrepreneurs to achieve social objectives. Fourth is the economic-strategic ideology that justifies the creation of SOEs as being strategic for the country, such as defence. The definition of which industries have strategic merit and require SOEs varies across countries based on the particular perspectives and political strategies of governments and politicians (Cuervo-Cazurra *et al.*, 2014).

3.3 Socio-Economic Motives

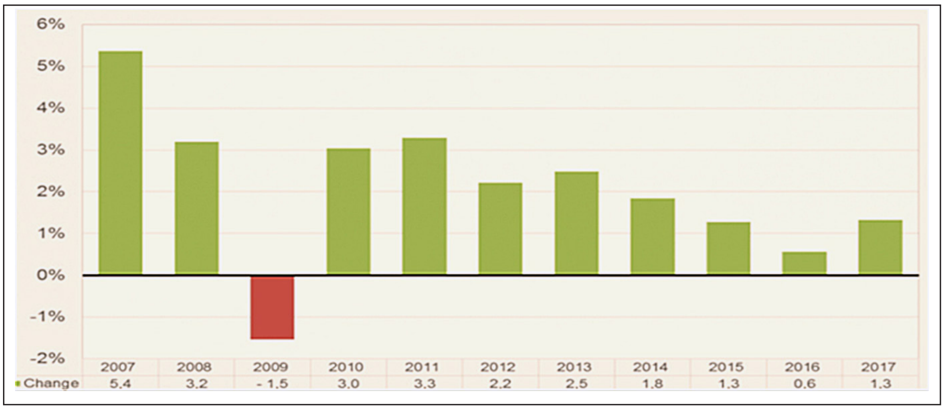
State-owned enterprises (SOEs) account for a substantial proportion of gross domestic product, employment, and assets in many countries. In the Organization for Economic Co-operation and Development (OECD) countries alone, SOEs employ more than six million people and have a value of close to US$ 1.9 trillion (Christiansen, 2011). On the contrary, privatisation forces the new private companies to be efficient, but the costs cut mechanism for these firms is to shed labour in large quantities and this tends to aggravate poverty and inequality (Estache, Gomez-Lobo & Leipziger, 2001). Inequality is a major cause of poverty growth not only in South Africa but worldwide. Authors such as (Malcolm, 2014; Bakkeli, 2017; Alexeev, 1999) consider privatisation to be one of the leading causes of the world inequalities. The main idea here is that the government trade-off state assets, which are owned by everyone, to the affluent minority of the population, consequently increasing the gap between the rich and the poor. In other words, privatization just turns up to be rewarding the wealthy while the rest of the population suffers.

4. Theoretical Case Against the SOEs

4.1 The Principal-Agent Problem

By definition, the Principal-Agent Problem occurs when one person (the agent) is allowed to make decisions on behalf of another person (the principal). For instance, most of the government's own the SOEs on behalf of the people (the principal). These governments then entrust managers (the agent) with the day to day running. In almost every nation in the world politicians are the agents and voters are the principals. The core issue here is that the principal-agent problem generates market failure because most of the agents have a tendency of pursuing their own self-interest instead of the principal. If this is true, then the principal-agent problem can create managerial failure and the SOEs may be sadly run in an undesirable and ineffective way in this instance. On the contrary, State-owned enterprises (SOEs) are often criticised for being inefficient and under-performing due to political interference and the lack of a profit motive and disciplining market forces (Shirley, 1999). On the contrary, it should be noted that there some benefits associated with the agent. Most of the agents do have extensive management experience from the private sector and as such, they will bring the knowledge that can help to create the infrastructure to carry the SOE to the next stage of development and in turn economic growth. They can also turn SOEs which are in a dire circumstance into profit-making firms.

Figure 1: South African Annual GDP Growth



Source: Stats SA (2018)

4.2 Free-Rider Problem

The free rider problem is an economic concept of a market failure that occurs when individuals are able to consume a good without paying. In other words, few people pay for the consumption of goods and services while the majority gets to utilize them for free. Consequently, this may discourage the few who are willing to pay. Private companies find it difficult to produce public goods. Ulbrich (2003:95) argues that the biggest reason why it is difficult to rely on the market to produce public goods and services is the free rider problem. In the case of public goods or services, free riding would simply mean that there will be insufficient payers to cover the costs of private profit undertaken during production. A private producer cannot build street lightings or flood control systems that can be used only by people who pay for them (Fourie & Mohr, 2004:388). All people can benefit from them or directly use them. As a result, no one will be willing to pay for public goods and services that is roads, street lights, and subsidised electricity. In the end, no private producer will be willing to supply that product (Cowen, 1988:101).

4.3 The Soft Budget Constraint Syndrome

According to Kornai and Weibull (1983:153-155), the 'softening' of the budget constraint appears when the strict relationship between the expenditure and the earnings of an economic unit (firm, household, and government) has been relaxed, because excess expenditure will be paid by some other institution, typically by the paternalistic State. Put simply, the soft budget constraint refers to the expectation of a bailout by a business in case of financial distress. Chang (2007) maintains that this means that being part of the government structure, SOEs have the ability to secure financing from the national government, thus, bankruptcy or insolvency never poses a real threat to them. Chang further stressed that SOEs can act as if their budgets are soft or malleable because of the "infinite" source of money they could secure from the national treasury in case they need it. This might be true because the existence of soft budget-constraints in developing countries like South Africa is clear and unlimited.

5. State of the SOEs and Implications Their Mismanagement on the South Africa's Economy

Economic growth in South Africa is currently growing at a sluggish pace and it enough to forester sustainable development which required country. Figure 1 shows that the country's GDP has contracted form 2.5% in 2013 to 0.6% in 2016, and followed by a recovery of 1.3% in 2017. Moreover, the World Bank has projected that South Africa GDP growth of 1.1% in 2018.

According to the Investment Climate Statement (ICS, 2017), there are approximately 700 SOEs that exist in South Africa (at the national, provincial, and local levels). The Department of Public Enterprises (DPE) has oversight responsibility for only six SOEs, namely Alexkor (diamonds), Denel (military equipment), Eskom (electricity generation), South African Express Airways, South African Forestry Company (SAFCOL) (forestry), and Transnet (transportation). Most importantly, these six SOEs employ approximately 105,000 people and their overall fixed investment was 19% of GDP (ICS, 2017). Table 1 on the next page provides a summary list of some of South African major SOEs and their designated departments in according to the National Treasury.

Table 1: Major South African SOEs

No	Schedule 2	Department
1	Air Traffic and Navigation Service Company	Transport
2	Airport Company of South Africa	Transport
3	Alexkor	Public Enterprises
4	Armscor	Defence
5	Central Energy Fund	Minerals and Energy
6	Denel	Public Enterprises
7	Development Bank of Southern Africa	National Treasury
8	Eskom Holdings (Pty) Ltd	Public Enterprises
9	Industrial Development Trust	Public Works
10	Industrial Development Corporation of SA	Trade and Industry
11	Land and Agricultural Bank of South Africa	Agriculture
12	South African Broadcasting Corporation	Communications
13	South African Forestry Company	Public Enterprises
14	South African Nuclear Energy Corporation	Minerals and Energy
15	South African Post Office Limited	Communications
16	Telkom SA Limited	Communications
17	Trans-Caledon Tunnel Authority	Water Affairs and Forestry
18	Transnet Limited	Public Enterprises

Source: National Treasury (n.d)

5.1 Challenges Facing SOEs

Poverty is the mother all developmental challenges that are confronting most South Africans in general. Lack of sustained economic growth and job creation are some of the major challenges which demand immediate attention in order to tackle the socio-economic problems which continue to plague South Africa today. It is not surprising that there are ebullient discussions amongst South Africans from all walks on the mismanagement of SOEs. SOEs were created to serve as one of the solutions of the socio-economic problem. Such socio-economic contribution by SOEs in the economy appears to mirror an international trend in developing countries (OECD, 2015). Castells (2001) affirms that the government's effort to establish and safeguard basic infrastructure is largely provided through SOEs as an instrument of social development. Nevertheless, most of South Africa's SOEs are continually criticized for their poor performance.

It is important to note that the poor performance of the SOEs, it is not strictly a post-apartheid phenomenon. In spite of the imperative role played by the SOEs in the early 1920s, they started to crumble in the 1980s. Klopper (2010) underlines that in the late 1980s a number of SOEs faced privatization because they were financially unsustainable, and were funded from limited state resources. Furthermore, they were not an attractive proposition, enabling them to acquire immediate capital for additional projects and were so inefficient that they elicited unwanted criticism against the government. At this juncture, it is imperative to emphasize that the foregoing statement is not the justification of the equally important poor performance of SOEs in the post-apartheid era. Of course, the state of the SOEs has worsened in the current dispensation. In the same vein, the office of the Public Protector 2014 report (cited in Thabane, 2018) describes the South African Broadcasting Corporation (SABC), a state-owned enterprise, to be "symptomatic of pathological corporate governance deficiencies".

Qobo (2018) claims that South Africa has seen an increased failure of various SOEs, in the past 10 years, which has negatively affected public finances and economic growth. Qobo (2018) further points out that the bailing out of crumbling SOEs has negative effects on the welfare of the nation. This is because funds are diverted away from critical public services such as education, health, and housing towards incentivizing inefficiencies and wastage.

It is worth noting that the Soft Budget Constraint Syndrome is an extreme problem which is perpetuated by the mismanagement of SOEs funds in South Africa. For instance, in the 2015-2016 the debt of the nine South Africa's SOEs was about R700 billion plus R51 billion repayable interest. A noteworthy contributor to the SOEs' debt is the SAA over the period of 1991 to 2012 this public enterprise received R11 billion of the public funds (Korhonen, 2017). Consequently, the Auditor-General has raised concerns about SAA's 'ability to generate sufficient cash to fund operations' (Ensor, 2018). During 2017, SAA received R5-billion of bailout, including a portion of R3-billion that was meant to settle SAA's debt with Citibank. Another R5-billion payment to SAA was due at the end of March 2018 (Qobo, 2018).

In 2017, SABC urgently needed a massive R3bn bailout to keep it from collapse which was more than double its last government bailout of R1.47bn in 2009 (Ferreira, 2017). Muller (2017) points out that Eskom holds up to R350 billion in government guarantees because it is financial instability. Muller further claims that before the 2007 load-shedding debacle gripped South Africa, the running of Eskom seemed unquestionable and that it was functioning efficiently. Compounding to the challenges which are facing Eskom, it is the increasing municipalities' arrears which is currently about R 12 billion. Ferreira (2018) noted that Denel needs a R3 billion capital injection. Although we restricted our discussion to these four SOEs, it should be noted that there are not the only SOEs which are in disarray. The South African Post Office, the Land Bank and the Road Accident Fund are the other examples of the public enterprises which are consistently demanding the capital injection from the government. Although it is critical to have these SOEs, It is clear that they continue to put pressure on the country's economy. This is because they have often altered the government's fiscal balances and policy priorities.

Another cardinal problem which exacerbates the mismanagement and the failure of the SOEs was that in past recent years South Africa was no run longer as a democracy but as an oligarchy. Most of the SOEs were notorious in the hands of the oligarchy of the former president, Mr. Jacob Zuma and one big family business, the Guptas. Oligarchy is mostly strengthened by the Principal-Agent Problem. This problem arises is when the agent (leadership) fails to balance their own interests with those of the owners (public). Martin and Solomon (2017) contended that political power is a mechanism that can be used to extract financial benefits from the state, and consequently, the needs of ordinary citizens will not be satisfied. In addition, they argued that power is interest driven in South Africa and the economy is becoming increasingly centralized, where only a small segment of society is benefiting from it. Many commentators argue that South Africa was recently captured by President Jacob Zuma and the Gupta family. Carbore (2016), points out that the Gupta family was alleged to be powerful and have an influence in the appointment of government ministers, officials and boards of directors to state entities like the country's Electricity Supply Commission (ESKOM), the rail agency – Passenger Rail Agency of South Africa (PRASA), South African Airways (SAA) – the national airline and the national broadcaster, the South African Broadcasting Commission (SABC) to name but a few.

Broadly speaking, the highest degree of human depravity, which is confronting these SOEs is corruption. Bhorat, Buthelezi, Chipkin, Duma, Mondi, Peter, Qobo, Swilling, and Friedenstein (2017) maintain that the decomposition of South African state institutions has long been blamed on corruption, but it remains imperative to note that state capture is a far greater, systemic threat. Arguing in a similar vein, Ennser-Jedenastik (2014) notes that patronage contributes to the mismanagement of SOEs in most of the developing countries. This is true because in South Africa some of SOEs' employees are solely appointed because of their loyalty to the ruling party (ANC) as opposed to being employed based on merit. For instance, in 2011 Mr. Hlaudi Motsoeneng was appointed as the chief operating officer of the SABC without necessary qualification and he disarrayed the SABC.

In some cases, free rider problem does contribute to poor performance of these SOEs. Due to higher levels of unemployment in South Africa, the majority of people are unable to pay for the services which are provided by some of these enterprises. However, they still expect and plan to utilize the services free of charge. For instance, some people are stealing electricity from ESKOM through illegal electricity connections and this may affect the quality of electricity supply, which in turn negatively affects the economy. On the whole, the free-rider problem leads to market failure of the public goods. Challenges facing SOEs in South Africa most of the economists conclude, under some simple premises, that establishing SOEs in an economy improves the welfare of society overall. However, in conduct SOEs seldom live up to the same standards. Subsequently, in most developing countries, there is a general call to reduce the overall level of state ownership through privatization efforts.

5.2 Opportunities of SOEs

Although there are a couple of drawbacks linked to the management of the SOEs, they remain an important instrument in any governments which is serious with enhancing their economy and have a sustainable investment. Despite the current the poor performance, SOEs played a crucial developmental role in South Africa in the past years. Jerome and Rangata (2003:6-7) argue that in the early 1920s, SOEs had become instrumental in shaping the South African economy. Their initial mandate was to strengthen import-substitution industries and operate as exclusive franchises. Eskom was required to produce and maintain electrical power distribution and The Iron and Steel Corporation (later Iscor) to secure iron and steel production. The Industrial Development Corporation (later IDC) was to assist in the establishment of new industries such as the Phosphate Development Corporation to mine and process phosphate minerals to advance agriculture and peripheral practices. The Armaments Development and Production Corporation and later Armaments Corporation of South Africa (Armscor), responsible for all research and development pertaining to munitions and military paraphernalia; and South African Airways (SAA), which functions as the national airline. Jerome & Rangata (2003) further suggest that all were established to ensure the country's sustainability and self-sufficiency.

SOEs such as Eskom, Transnet, and Telkom are playing a huge role in the infrastructural development in South Africa. The investment in infrastructure does have positive effects on the economy. In 2012, Transnet launched a R300 billion infrastructure with the prospect of creating 588 000 jobs (Doke, 2015). The economy would grow at a slower pace these SOEs this disinvesting on infrastructure investment. South Africa has relatively high levels of unemployment and job creation is a very critical concern. "Jobs are the cornerstone of economic and social development" (World Bank, 2013:2). The government is creating and maintaining jobs via these SOEs, but that is not enough to offset unemployment and poverty. In 2017, Eskom, Transnet, and Telkom were having 47 658, 58 828 and 20 341 employees, respectively (Writer, 2017).

Market failures provide a rationale for government interventions via SOEs. Most economic arguments for government intervention are based on the idea that the marketplace cannot provide public goods. Put simply, a market failure occurs when the supply of a good or service is insufficient to meet demand leading to inefficient distribution of resources in the economy. Government intervention is critical in order to ensure economic growth and to provide social services, such as health and water, which the private sector could not readily offer. On the whole, the private sector fails to distribute resources fairly to the poor relative to the rich. Bishnoi (2015) claims that since SOEs are controlled and owned by the state basic services and goods are made affordable for the citizen. Thus, SOEs do not primarily focus on making profits, but to provide services to the people. As aforementioned, through ESKOM about 87, 6% of households had access to electricity and at affordable prices.

SOEs are also an important force behind international trade. In South Africa, SOEs are active internationally and engaged in trade increased global competition for finance, talent, and resources. Thus, they stimulate economic growth and sustainable development. South Africa has eight commercial ports: Richards Bay and Durban in KZN, East London, Port Elizabeth and the Port of Ngqura in the Eastern Cape, and Mossel Bay, Cape Town, and Saldanha in the Western Cape. Transnet National Ports Authority (NPA) manages the ports and Transnet Port Terminals is responsible for managing most port and cargo terminal operations (Doke, 2015). Drawing from the above discussion, SOEs, if well managed are capable to create wealth in the economy and wellbeing and jobs for its citizens.

6. Conclusion and Recommendations

This paper examined the challenges and opportunities facing SOEs in South Africa and how they affect the economy. It was noted that there are several advantages to SOEs. SOEs play an important role in South Africa's economy and their influential role can be observed in both domestic and international trade. The remarkable feature of the SOEs are their significant contribution to the maintenance of the basic infrastructure of South Africa, in turn, creating jobs and driving growth in existing and emerging industries, which is positive for the economy and society. The other advantage is their ability to continue to render the core category of essential goods and services, such as electricity, water, telecommunications, transport, education under severe pressure of the ever increasing population. However, SOEs are currently facing huge difficulties and are in a dire state. The main problems facing SOEs are mismanagement and corruption. This notion is articulated well by the principal-agent problem. Thus, mismanagement and rampant corruption occur because SOEs are managed not by their owners (public), but rather by principals (Board members). The board members normally serve their own interest, and they are loyal and accountable only to whatever political party is in power.

In view of these challenges, the paper makes several recommendations. These include, among others, SOE board members must be independent and need to loyal to the owner (the people). Thus, there must be a clear government ownership policy which stipulates board members are not the owners of the SOEs and they must regularly report to the owner on their performance. In other words, SOEs must be managed according to principles of transparency and accountability. In this regard, their performance must be monitored and reported on a timely, and transparent via the parliament. Further, the appointment of key senior managers in SOEs must be discussed and be inclusive of all those who are affected (the people). SOEs can be transparent and accountable through active citizen participation. This can be realised if, for instance, the interviews of such post should be conducted and televised through the parliament TV channel. Most importantly, if the government seriously wants to curb mismanagement and looting of funds in SOEs, this paper recommends that there must start to deal with unethical conduct without any biases. While it is important that the state provides financial support to SOEs, the government should consider merging SOEs which are in the dire state, like SAA and SA Express. Conversely, the government should also allow for privatisation such SOEs if they might not be revived. This will preserve the taxpayer's money which is used to provide bailouts for such SOEs. To sum up, it would seem that SOEs continue to be the catalysts for sustainable economic growth if they are well managed.

References

Alexeev, M. 1999. The effect of privatization on wealth distribution in Russia. *Economics of Transition*, 7(2):449-465.

Aplin, J. & Hegarty, H. 1980. Political influence: Strategies employed by organizations to impact legislation in business and economic matters. *Academy of Management Journal*, (23):438-450.

Bakkeli, N.Z. 2017. Income inequality and privatisation: a multilevel analysis comparing prefectural size of private sectors in Western China 4(7). Available at: https://doi.org/10.1186/s40711-017-0055-4. Accessed on 20 May 2018.

Bhorat, H., Buthelezi, M., Chipkin, I., Duma, S., Mondi, L., Peter, C., Qobo, M., Swilling, M. & Friedenstein, H. 2017. Betrayal of The Promise: How South Africa is Being Stolen, The State Capacity Research Project. Available at: https://www.outa.co.za/wp-content/uploads/2017/06/Betrayal-of-the-Promise-25052017.pdf. Accessed on 22 March 2018.

Bishnoi, B. 2015. What are the Advantages & Disadvantages of Government Company? Available at: http://www.publishyourarticles.net/knowledge-hub/business-studies/what-are-the-advantages-a-disadvantages-of-government-company/768/. Accessed on 20 May 2018.

Black, J., Hashimzade, N. & Myles, G. 2012. A dictionary of Economics. London: Oxford University Press.

Boddewyn, J.J. & Brewer, T.L. 1994. International-business political behavior: New theoretical directions. *Academy of Management Review*, (19):119-143.

Bruton, H.J. 1998. A reconsideration of import substitution. *Journal of Economic Literature*, (36):903-936.

Buge, M., Egeland, M., Kowalski, P. & Sztajerowska, M. 2013. State-Owned Enterprises in the Global Economy: Reason for Concern? VOX: CEPR's Policy Portal. 2 May. Available at: http://voxeu.org/article/state-owned-enterprisesglobal-economy-reason-concern. Accessed on 21 May 2018.

Carbone, G. 2016. South Africa The need for change, Milano: Ledizioni LediPublishing

Castells, M. 2001. Information technology and global development. In Muller, J., Cloete, N. and Badat, S. (eds), *Challenges of Globalisation: South African Debates with Manuel Castells*. Centre for Higher Education Transformation/Maskew Miller Longman: Cape Town, pp. 152-67.

Chang, H. 2007. National Development Strategies Policy Notes: State-Owned Enterprise Reform, Available at: http://esa.un.org/techcoop/documents/PN_SOEReformNote.pdf. Accessed on 22 March 2018.

Chavez, D. & Torres, S. 2014. Reorienting development: State-owned enterprises in Latin America and the world. Amsterdam: Transnational Institute.

Christiansen, H. 2011. The size and composition of the SOE sector in OECD countries. OECD Corporate Governance Working Papers (No. 5). Paris, France: OECD Publishing.

Clarke, A. & Kohler, P. 2005. Property law: commentary and materials. Cambridge University Press: Cambridge.

Cowen, T. 1988. The theory of market failure: A critical examination. Fairfax: George Mason University Press.

Country Economy. 2018. South Africa GDP –Gross Domestic Product. Available at: https://countryeconomy.com/gdp/south-africa. Accessed on 29 August 2018.

Cuervo-Cazurra, A., Inkpen, A., Aldo Musacchio & Ramaswamy, K. 2014. Governments as Owners: State-Owned Multinational Companies. Special Issue on Governments as Owners: Globalizing State-Owned Enterprises edited by Alvaro Cuervo-Cazurra, Andrew Inkpen, Aldo Musacchio and Kannan Ramaswamy. *Journal of International Business Studies*, 45(8):919-942.

Davies, L., Lowes, B. & Pass, C.L. 2005. Collins dictionary of Economics. London: HarperCollins.

Doke, L. 2015. Investment still needed in transport infrastructure. Available at: https://mg.co.za/article/2015-07-17-investment-still-needed-in-transport-infrastructure Accessed on 22 March 2018.

Ennser-Jedenastik, L. 2014. The Politics of Patronage and Coalition: How Parties Allocate Managerial Positions in State-Owned Enterprises, *Political Studies*, 62(2):398-417.

Ensor, L. 2018. Auditor-general Kimi Makwetu: SAA had a net loss of R5.6bn. Available at: https://www.businesslive.co.za/bd/national/2018-03-08-auditor-general-kimi makwetu-says-saa-and-mango-given-qualified-opinions/. Accessed on 22 March 2018.

Estache, A., Gomez-Lobo, A. & Leipziger, D. 2001. Utilities Privatization and the Poor: Lessons and Evidence from Latin America, *World Development*, 29(7):1179-1198,

Ferreira, E. 2018. Gordhan slams Denel after it pleas for R3 billion lifeline. Available at: https://www.iol.co.za/news/politics/gordhan-slams-denel-after-it-pleas-for-r3-billion-lifeline-13130150. Accessed on 22 March 2018.

Ferreira, T. 2017. SABC wants R3bn bailout. Available at: https://www.channel24.co.za/TV/News/sabc-wants-r3bn-bailout-20170914. Accessed on 22 March 2018.

Florio, M. 2014. Contemporary public enterprises: innovation, accountability, governance. *Journal of Economic Policy Reform,* 17(3):201-208.

Fourie, D.J. 2001. The restructuring of state-owned enterprises: South African initiatives. *Asian Journal of Public Administration*, 23(2):205-216.

Fourie, L. & Mohr, P. 2004. Economics for South African students. Van Schaik: Pretoria.

Gildenhuys, J.S.H. 1988. South African Public Administration. Pine Town: Owen Burgess Publishers.

Investment Climate Statement (ICS). 2017. South Africa –8-State Owned Enterprises. Available at: https://www.export.gov/article?id=South-Africa-State-Owned-Enterprises. Accessed on 29 August 2018.

Jerome, A. & Rangata, M. 2003. The Tortuous Road to Privatisation and Restructuring of State Assets in South Africa: Lessons from African Privatisation Experience. Cape Town: Development Policy Research Institute.

Klopper, H. 2010. Research Report on State Owned Enterprises. Available at: http://www.whoownswhom.co.za. Accessed on 22 March 2018.

Korhonen, M. 2017. ANALYSIS: For all the billions, SA Airways bailout money not enough to buy Emirates. Available at: https://africacheck.org/2017/10/30/analysis-billions-sa-airways-bailout-money-not-enough-buy-emirates/. Accessed on 30 March 2018.

Kornai, J. & Weibull, J.W. 1983. Paternalism, Buyers' and Sellers' Market. *Mathematical Social Sciences,* 6(2):153-169.

Levy, B. 1987. A theory of public enterprise behavior. *Journal of Economic Behavior and Organization*, 8:75-96.

Lindsay, C.M. 1976. A theory of public enterprise. *Journal of Political Economy*, (84):1061-1077.

Malcolm, K. 2014. Managing the Boundary between Public and Private Policing. New Perspectives in Policing Bulletin. Washington, DC: Department of Justice and the National Institute of Justice.

Martin, M.E. & Solomon, H. 2017. Understanding the Phenomenon of "State Capture" in South Africa, Southern African Peace and Security Studies, 5(1):21-33.

Marx, K. 1967. Capital: A critique of political economy. New York: International Publishers.

Muller, S.M. 2017. SA needs to sober up to save itself from sickly SEOs. Available at: https://mg.co.za/article/2017-09-13-sa-needs-to-sober-up-to-save-itself-from-sickly-state-owned-enterprises. Accessed on 14 March 2018.

National Treasury. (n.d). Governance Oversight Role Over State Owned Entities (SOE's). Available at: http://www.treasury.gov.za/publications/other/soe/Governance%20Oversight%20Role.pdf. Accessed on 29 August 2018.

OECD. 2005. OECD Comparative Report on Corporate Governance of State-owned Enterprises. Paris: OECD Publishing.

OECD. 2011. Organisation for Economic-Operation and Development. Paris: OECD Publishing.

OECD. 2014. Guidelines on the Governance of State-Owned Enterprises for Southern Africa. Available at: https://www.oecd.org/daf/ca/soe-guidelines-southern-africa.pdf. Accessed on 6 April 2018.

OECD. 2015. OECD Guidelines on Corporate Governance of State-Owned Enterprises (2015 Edition). Paris: OECD Publishing.

Rhodes, M.L., Biondi, L., Gomes, R., Melo, A.I., Ohemeng, F., Perez-Lopez, G. & Thynne, I. 1994. The incorporated company as an instrument of government: A quest for a comparative understanding. *Governance,* (7):59-82.

Shapiro, D. & Globerman, S. 2012. The international activities and impacts of state-owned enterprises. Sovereign investment: Concerns and policy reactions, 98-144.

StatsSA. 2018. Economic growth better than what many expected. Available at: http://www.statssa.gov.za/?p=10985. Accessed on 29 August 2018.

StatsSA. 2018. Quarterly Labour Force Survey. Available at: http://www.statssa.gov.za/?p=11361. Accessed on 29 August 2018.

Sudgen, R. 1983. After the New Right, Heinemann Educational Books. *Journal of Social Policy*, 12(4):572-573.

Swilling, M. 1999. Changing concepts of governance. *Africanus*, 29(2):20-40.

Transparency International. 2014. State capture: An Overview. Available at: https://www.transparency.org/files/content/corruptionqas/State_capture_an_overview_2014.pdf. Accessed on 29 August 2018.

Ulbrich, H.H. 2003. Public finance in theory and practice. Abingdon: Routledge.

Wong, C.Y.S. 2004. Improving Corporate Governance in SOEs: An Integrated Approach, in Corporate Governance International, 7(2):1-11.

World Bank. 2013. Jobs, a world development report. Washington, DC. Available at: https://siteresources.worldbank.org/EXTNWDR2013/Resources/82580241320950747192/8260293-1322665883147/WDR_2013_Report.pdf. Accessed on 14 April 2018.

World Bank Group. 2014. Corporate governance of state-owned enterprises: A toolkit (English). Available at: http://documents.worldbank.org/curated/en/228331468169750340/Corporate-governance-of. Accessed on 14 April 2018.

Writer, S. 2017. CEO vs employee salaries at Eskom, SAA and other state companies. Available at: https://businesstech.co.za/news/wealth/194164/ceo-vs-employee-salaries-at-eskom-saa-and-other-state-companies/a. Accessed on 14 April 2018.

Zhong, H. 2014. Where is the Future: China's SOEs Reform? *Journal of the Washington Institute of China Studies*, 1(1):105-115.