Prescient

INVESTMENT MANAGEMENT

EVALUATING THE CABINET-APPROVED SOE PLAN AGAINST A MIXED GLOBAL TRACK RECORD OF FULL OR PARTIAL PRIVATISATIONS

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Last week the Cabinet approved a new State-Owned Enterprise (SOE) plan, which will lay the basis for private equity investment in state companies and listings on the stock exchange. It has already stirred significant debate and discussion – and rightly so, because full or partial privatisation by countries around the world has been met with mixed success.

SOEs have long been a cornerstone of South Africa's economic landscape. These entities play a pivotal role in driving economic growth, infrastructure development, and service delivery throughout the nation. But over the last few decades they have posed significant financial and operational challenges for government.

With mandates encompassing a diverse range of industries, from energy and transportation to telecommunications and healthcare, SOEs have a far-reaching impact on the daily lives of South Africans and the overall health of the economy.

However, implementing the Cabinet-approved SOE plan will not be without its challenges and the result of this – whether positive or negative for South Africa – depends on a host of factors, including effective regulation, investor confidence, and political will.

Is it a good approach? A tough one to call.

Assessing whether the Cabinet-approved SOE plan is a good approach requires a nuanced examination. Looking at international evidence can shed light on the potential outcomes. In various countries, privatisation and partial privatisation of SOEs have yielded mixed results.

While increased efficiency and reduced government financial burden are often the touted benefits, there have been regulatory challenges and concerns over affordability and access to public services.

Internationally, however, countries like Singapore and the United Kingdom have successfully privatised or partially privatised SOEs in sectors such as telecommunications and utilities, resulting in increased efficiency and private-sector investment.

Further, the benefits have included reduced government debt, the introduction of competition into previously monopolistic industries, and, in many instances, innovation.

Conversely, countries like Argentina and Greece have faced significant challenges when privatising key industries, leading to public outcry and issues related to affordability and accessibility. When privatisation coincided with the economic or debt crisis in Greece over a decade ago, the country faced critical issues. These included corruption and political interference, both in terms of the process and the manipulation of sales prices, ineffective regulatory frameworks to execute the privatisation initiatives, and timing.

Key elements to support successful implementation

For the Cabinet-approved SOE plan to succeed, it is our view that several critical elements must be in place:

1. **Regulatory framework:** A robust regulatory framework that ensures fair competition, consumer protection, and prevents monopolies is essential.
2. **Investor confidence:** Attracting private investments requires policies that instil investor confidence, including transparent procedures and dispute resolution mechanisms.
3. **Skilled management:** SOEs will need professional and skilled management to navigate the complexities of privatisation.

Impediments to implementation

Implementing the Cabinet-approved SOE plan will not be without challenges. It is our view that these could include:

1. **Political resistance:** Opposition from various stakeholders, including labour unions and political parties, could pose significant obstacles. Importantly, given the nature of services provided, we can expect differing ideological positions to emerge. Furthermore, concerns over potential job losses should not be underestimated.
2. **Economic uncertainty:** Domestic and international economic conditions can impact the feasibility of privatisation and private investments because if there is economic uncertainty, there could be issues of how a fair price for the assets can be established. There could also be an increase in investor risk aversion and the perceived higher risk of participating in the asset purchases could contribute to market volatility, eroding investor confidence in the process.
3. **Asset valuation:** Determining fair valuations for SOEs and assets can be contentious and complex.

As key lenders to the SOE sector, the investment industry has a vested interest in the success and outcome of the Cabinet-approved SOE plan. Our role as a stakeholder is significant, given the financial implications for us and our clients and the potential impacts on the sector's stability and the country's future as a whole.

It is crucial that there is effective consultation with all relevant stakeholders to address concerns, fine tune policies and ensure a successful rollout and the best outcomes for both the SOEs, the country and broader economy. Thus, an open and transparent dialogue, involving all relevant stakeholders, is encouraged throughout this process. We will be closely monitoring the developments and pronouncements surrounding this initiative. It is important that as investors, we remain committed to actively participating in these discussions and working collaboratively towards a sustainable and prosperous future for the SOE sector and South Africa.

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