GREEN PAPER

Development and Transformation Work stream

TITLE: ToR 1 - COMMON UNDERSTANDING AND DEFINITION OF STATE-OWNED ENTITIES

1. INTRODUCTION

1.1 Background

The Presidential Review Committee was appointed by the President of South Africa, the Honourable Mr. J. Zuma, to review the state-owned entities (SOEs) in all three spheres of government. This is a first time that such a study has been undertaken. Similar studies, although limited to a class of SOEs, have been commissioned before. The "common understanding and definition of the SOEs" is one of the twenty one (21) terms of reference of the review which is the subject of this report.

In order to comprehensively address the ToR, the report will focus on three main areas: Firstly the terminology used to name the SOEs; Secondly the definition/description of SOEs; and lastly the classification of SOEs.

Communication is about the creation of a common understanding between parties that are engaged in the exchange of meanings. To give meaning to a common understanding, commonly understood symbols (language, phenomenon, identities, naming, definition, etc.) are required. When the common understanding is achieved, reference to any SOE by name or definition, should be unambiguous and understood to have the same meaning among stakeholders. Any identity exists among other identities; accordingly, SOEs exist as an identity against other identities such as, privately-owned enterprises, foreign-owned enterprises and other existing forms of similar entities.

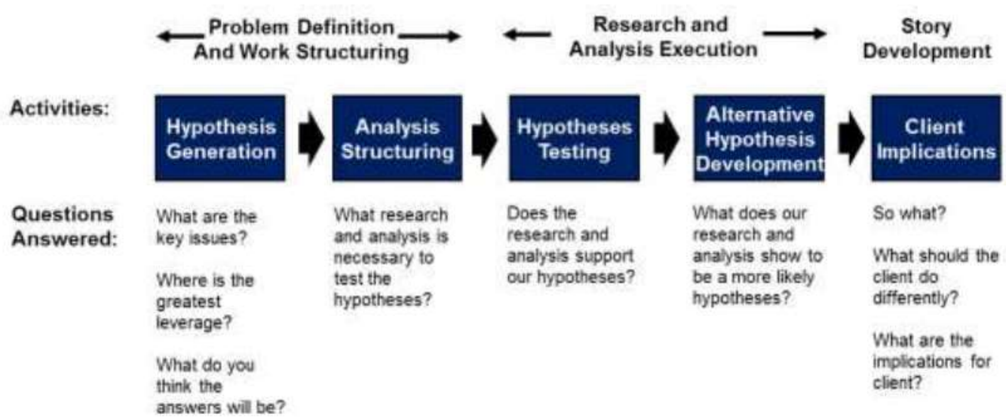
1.2 Objective

The objective of the study is to understand whether or not there is a common understanding and definition of the SOEs in the country. Is the country using common naming terminology to refer to various SOEs? Is the country using similar descriptions to define the various SOEs in the three spheres of government? What are the classification regimes that exist in the country? To what extent does the classification regime promote proper identification of a group of similar SOEs?

1.3 Methodology

The approach and methodology we have adopted in researching this term of reference (ToR) is shown in figure 1 below and discussed in the next paragraph.

Figure 1 – Research approach and methodology for the ToR



The problem definition and work structuring phase comprises relevant questions that are based on requirements of the terms of reference. Initial primary research is undertaken during this first part of phase 1 to understand more about and quantify the problem we are trying to solve. Based on the primary research we are able to anticipate what the answers to our questions are and indeed the solution to the overall problem. The primary research also identifies and structures the tools we will require to gather and analyse information, in a logical sense, that will be relevant to answer the questions.

In-depth research is then conducted using the information gathering and analysis tools. As the research continues we are able to figure out whether our assertions are correct or not. If not, we will have gathered enough information to formulate an emerging view, which is the alternative hypothesis. With all this information we are able to finally make recommendations and the implementation roadmap.

1.4 Data used

There are various methods that we used to gather data for the research and they include the following:

1. Literature review – this includes any relevant literature referring to the ToR as well as government policies and legislations, articles, newspapers, and benchmark material;
2. Surveys – were used to gather information from SOEs in particular relating to the terms of reference of the review;
3. Seminars – a broad spectrum of stakeholders like policy makers, educationists, shareholder ministries, experts, practitioners and other relevant groupings were invited to participate in discussion of specific topics;
4. Round Table discussions – small groups of experts are invited to discuss specific specialist topics;
5. Policy Dialogues – policy makers, analysts are invited to validate emerging recommendation with the respective policy implications

1.5 Outline of the research/what is contained in this paper

The document contains the executive summary; the introduction of the subject matter; the description of the current status in terms of the naming, definition and classification of state-owned entities; the experiences in other countries with regards to the naming, definition and classification of SOEs; conclusion based on the current status and international experiences; policy options that exists to enable proper naming, definition and classification of SOEs.

2. AS-IS ANALYSIS

2.1 Naming of SOEs

There are several names or terminology that is used to refer to state-owned entities both those that are commercial in nature and the non-commercial ones. Some of the popularly used names for state-owned entities that are largely service delivery and not commercial in nature include, inter alias, public entities, state-owned agencies, non-commercial state-owned entities. The names that are often used to denote a state-owned entity that has a commercial mandate and is wholly or partially owned by the state, include the following: commercial state-owned entities, government-owned corporation, government-owned business, government linked company, quasi-governmental organisation, state-owned company, state-owned enterprise, publicly-owned corporation, government business enterprise, or parastatal. The key words that are commonly used to describe commercial SOEs are corporation, company and enterprise. In the next paragraph we explore the meaning of these key words.

A corporation is a company that is created under the laws of a state as a separate legal entity that has privileges and liabilities that are distinct from those of its members. (http://en.wikipedia.org/wiki/corporate) A state-owned entity is often referred to as a corporation if it has been corporatized i.e. although state owned, the SOE operates like a private company with some autonomy. A company is defined as a business organisation, where business means an entity that is engaged in trade of goods, services or both to the consumer. (http://en.wikipedia.org/wiki/company) An enterprise can be referred to as a business or a company. (http://en.wikipedia.org/wiki/enterprise)

It would seem that according to the Wikipedia description of the names corporation, company and enterprise, used in the naming of SOEs, the names can be used interchangeably because they carry more or less the same meaning. Although this does not create ambiguity in naming SOEs, it does create inconsistency if all the words are used at any one time by various stakeholders. For example, there are various global research institutions that depend on the data provided from a country source to give comparative information about countries or even rating them. One of the research companies identified MTN in South Africa as a state-owned company because information that was given stated that the Public Investment Corporation (PIC) is a state-owned entity and is also a shareholder of MTN shares. PIC is indeed a SOE and an asset manager for a privately owned Government Pension Fund (GPF). GPF is the owner of MTN shares and not PIC. Such information should be given consistently with properly defined meaning. One of the effective ways to avoid inconsistency is to develop and adopt a naming standard for the SOEs that should be enforced when SOE naming is used. The naming standard convention has been used successfully in many areas to assist with the common naming.

2.2 Definition of SOEs

In defining SOEs we differentiate between commercial SOEs from non-commercial SOEs. A commercial SOE, or a government-owned corporation (GOC), or a government linked company, or a quasi-governmental organisation, or a state-owned company, or a state-owned enterprise, or a publicly-owned corporation, or a government business enterprise, government business corporation or a parastatal is defined as a legal entity created by a government to undertake commercial activities on behalf of the owner, the government. (http://e.wikipedia.org/wiki/Government-owned_corporation) The legal status of a commercial SOE varies from being a part of government to a private company with a state as a shareholder. (http://e.wikipedia.org/wiki/Government-owned_corporation), (Treasury, 19 Nov 2010)

The non-commercial SOE is largely entity that is created and owned by a government to undertake certain functions of government with the purpose of improving service delivery to the citizens. Typically, these are government agencies or state entities established to pursue purely non-financial objectives and they have no need or goal of satisfying the shareholders with return on their investments. (http://e.wikipedia.org/wiki/Government-owned_corporation)

National and Provincial Entities

There are two main sources for determining what might be referred to as the legal definition of SOEs. Such a definition is arrived at both directly and indirectly. The two sources are: The Public

Finance Management Act of 1999 (PFMA) and The Companies Act 71 of 2008. The PFMA of 1999 is a generic Act for this purpose and is not a specific enabling or founding legislation for any SOE.

Section (1) of the PFMA of 1999 [updated in 2008, pp 8-10] defines the equivalent of a state-owned-enterprise, which it refers to as "national government business enterprise" to be "an entity which:

(a) is a juristic person under the ownership control of the national executive;
(b) has been assigned financial and operational authority to carry on a business activity;
(c) as its principal business, provides goods or services in accordance with ordinary business principles;
(d) is financed fully or substantially from sources other than –
    (i) the National Revenue Fund; or
    (ii) by way of a tax, levy or other statutory money;

A provincial government business enterprise is defined in the same manner except that it is under a provincial government. No definition is given in the PFMA for local government or municipal level business enterprise. National and provincial levels public entities are defined as follows:

"National Public Entity" means –

(a) a national government business enterprise; or
(b) a board, commission, company, corporation, fund or other entity (other than a national government business enterprise) which is :
    (i) established in terms of national legislation;
    (ii) fully or substantially funded either from the National Revenue Fund, or by way of tax, levy or other money imposed in terms of national legislation; and
    (iii) Accountable to Parliament.

A definition along the above specification is given for a "Provincial Public Entity". In the two acts nothing is specified for local government or municipal sphere of government despite the existence of the three spheres of government. Presumably this is left out because it is covered in the relevant Local Government Act, the MFMA.

The PFMA of 1999 definition of "for surplus" or "for profit" corporations or companies is not in consonance with the pervasively used identifying titles such as: "state-owned enterprises", "public enterprises", "parastatals", etc. The PFMA does not use the concept of a company, specified in the Companies Act 71 of 2008 under which most of the government's "for surplus" or commercial entities are registered. According to the dictionary definition (South African concise Oxford Dictionary, 2002), "enterprise" means business or company, "business" means commercial activity or commercial organisation, and company means commercial business. From the PFMA, it is also not clear what is meant by company or entity being "substantively" financed or not financed by government.

The Companies Act 71 of 2008 first classifies companies in term of either being "for profit or non-profit" companies. According to Chapter 1 Section 1, on Definitions of the Companies Act of 2008, a "state-owned company" means an enterprise that is registered in terms of the Act as a company, and either (a) falls within the meaning of state-owned enterprise in terms of the Public Finance

Management Act of 1999 [PFMA] or is owned by a municipality at the local government in terms of the Municipal Systems Act 2000. Furthermore the act prescribes that a "state-owned company" name should end its designation with "SOC LTD" meaning State-Owned Company LTD, e.g. Transnet SOC Ltd.

It is important to note that the PFMA refers either to national or provincial business enterprise and not state-owned enterprises as it is the case with the Companies Act of 2008.

Other definitions from literature include the following:

1. Hans Gildenhuge and others of Stellenbosch University describe public-enterprises or parastatals as entities "...in which services are delivered by public institutions following the methods of business rather than the non-profit and total government control approach which is distinctive government service" [Ibids]. Here government acts "as an economic entrepreneur in producing a variety of goods on a commercial basis" p. 69. "The concept of parastatal is broad covering public enterprises (organisations trading goods and/or services) which are wholly or partially owned or controlled by the states" [p.72]

2. State-owned companies are sometimes referred to as parastatals. Chris Heymans (1998) states that "...any corporate organisation set up, funded, owned, and/or resourced through government allocation is deemed a "parastatal".

One of the key findings emanating from the discussion above is that in certain instances different terminology is used to denote the same kind of entity e.g. Companies Act's reference to state-owned enterprise and PFMA referring to the same entity as the business enterprise. There is therefore a need to establish common terminology that will be used consistently throughout government including all government documents.

Municipal Entities

The Municipal System Amendment (MSA) Act, 2003, defines a Municipal Entity as a [company, co-operation, Trust, Fund or any other corporate entity established in terms of any applicable national or provincial legislation and which operates under the ownership control of one or more municipalities, and includes, in a case of a company under such ownership control, any subsidiary of that company] a private company referred to in section 86B(1)(a) or a service utility; or a multi-jurisdictional services utility.

The MSA defines three types of entities that may be established by a municipality with effect from 1 August 2004 (private company, service utility or multi-jurisdictional service utility). Prior to the MSA and MFMA requirements taking effect, municipalities used various arrangements to deliver services and manage the functions they performed. These included formation of trusts, section 21 companies and private companies. It is a requirement for municipalities to review these structures in view of the amended legislative framework and either convert them to an entity as per the amended legal framework or disestablish them, if they are no longer required. A review would cover such aspects as objectives of the entity, purpose for its establishment, activities being performed in an efficient and effective manner, providing value for money, sustainable budgets and viable funding, self-sustainability, appropriateness of governance structures to provide effective municipal oversight, accountability, transparency and reporting. (Treasury, 2010)

PRC Survey

The responses from the survey that was conducted among a representative SOE sample indicate the following key findings:

Responding to a question about their understanding of how SOEs are defined, the most frequently utilised words are "government" or "state" (88 per cent); "commercial" or "business" (35 per cent); "public benefit" or "developmental" (34 per cent); "PFMA" (11 per cent); and "strategic" (6 per cent). A significantly large percentage of respondents recognise SOEs as related to the state or government. The respondents also differentiate between SOEs that are of commercial or business nature from those that are of public good or benefit.

2.3 Primary Classification of SOEs

There are many types of classifications that are used to categorise SOEs. Classification seeks to group SOEs in a certain logical sense that enables their proper management throughout their life-cycle, from establishment to de-establishment. Some of the commonly used classification types include, inter alias, the following:

1. Source of control;
2. Commercial activities;
3. Economic activities;
4. Service delivery activities;
5. Property rights;
6. Source of Funding;
7. Investment types;
8. Legal personality;
9. Functional role e.g. regulator, research entity, etc.
10. Spheres of government ownership e.g. National, Provincial and Local

2.3.1 National and Provincial Spheres

2.3.1.1 Schedule Classification

The Schedule classification is used extensively by the South African Government, primarily for financial management and for purposes of the Public Financial Management Act of 1999 (PFMA). The schedule classification is described in figure 2 below:

Figure 2 – Description of the Schedule Classification

Schedule	Description	Operation and/or Funding characteristics
1	Constitutional Entities	Fully funded by the Government e.g. ICASA, IEC
2	Major Public Entities	Operate under business principles e.g. Eskom, Transnet, SABC, CEF, etc
3a	National Public Entities and SETAs	Fully or substantially funded through NRF, tax levy imposed through legislation e.g. Housing development Agency, Competition Commission and Tribunal
3b	National Government Business Enterprises	Operate under business principles with limited borrowing e.g. PIC
3c	Provincial Public Entities	Fully or substantially funded through NRF, tax levy imposed through legislation
3d	Provincial Government Business Enterprises	Operate under business principles with limited borrowing e.g. Algoa bus company, Natal trust farm

Source – PFMA (1999), National Treasury (22 October 2010)

The borrowing powers determine the schedule classification under which an SOE is categorised. (National Treasury, 22 October 2010) In our interaction with relevant policy departments, Treasury in particular, it has emerged that the schedule classification is limited to SOEs financial management, budgeting and compliance to the PFMA. This limitation led the Treasury and Department of Public Services and Administration (DPSA) to undertake a project to develop a classification framework that seeks to facilitate standardisation and transparency, and to improve the review/oversight of existing and future entities (National Treasury, 2010.11.19). The classification framework is discussed next.

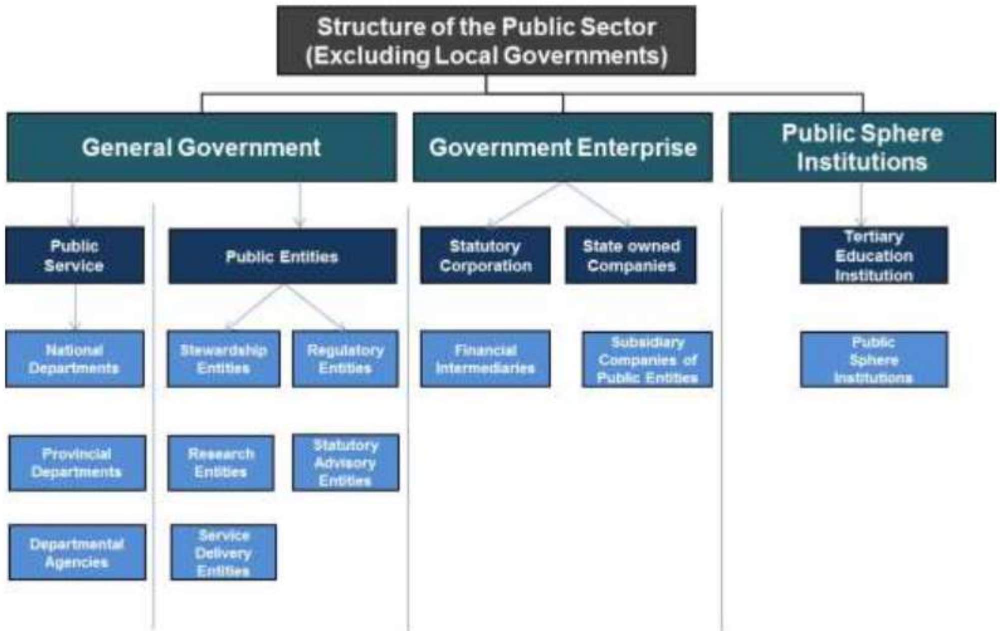
2.3.1.2 Classification Framework

According to (National Treasury, 2010.11.19) the principles underpinning the development of the classification framework are stated as follows:

1. The framework seeks to promote the basic values and principles governing public administration as set out in Chapter 10 of the Constitution;
2. It must clearly define an exclusive list of allowed corporate forms;
3. It provides the possibility of a growth path towards greater autonomy;
4. It facilitates standardisation and transparency, and to improve the review/oversight of existing and future entities; and
5. It must identify and provide a set of definitions and standard attributes for each of the corporate forms.

The classification framework topology is shown in figure 3 below:

Figure 3 – Proposed Classification Framework



Source – National Treasury (19 November 2010)

According to (National Treasury, 2012.03.15), the definition relating to the classification framework is as follows:

1. **Stewardship, Research or Service Delivery Entity Corporate Forms (SRSD entities)**
   This applies to a public entity that:
   - Acts as steward of natural, cultural or other national assets on behalf of citizens, or
   - Undertakes primarily public interest or merit research, or
   - Is tasked with the delivery of well-defined goods or services that are not regulatory or advisory services.

2. **Regulatory Entity**
   A public entity established to perform regulatory or quasi-judicial functions in a manner that enhance public confidence in the level of independence and expertise underpinning its rulings and decisions.

3. **Statutory Advisory Entity**
   A Statutory Advisory Entity renders independent, expert advisory services to a specific Minister or to Government as a whole. Experts serving on advisory entities are not public servants. All advisory entities must submit advisory reports to the relevant Minister. They are likely to have their own secretariats consisting of public servants seconded from the department, although the parent department may provide the secretariat function, a statutory advisory entity with its own secretariat must have separate financial management systems and prepare its accounts on an accrual basis.

4. **GOVERNMENT ENTERPRISES**
   All government enterprises are 'private' companies registered in terms of section 32 of the Companies Act, 1973 over which the state exercises ownership control, or in which the state has a material interest. They perform functions that lend themselves to commercialisation

typically for strategic reasons or because of certain inefficiencies in the market. They should access the capital markets directly on the basis of their financial performance and the quality of their business(es).

The corporate forms for government enterprises are divided into two sub-groups according to the strategic nature of the products they deliver, namely:

- Commercial strategic goods, which are delivered by statutory corporations and financial intermediaries; and
- Commercial competitive goods, which are delivered by state owned companies, subsidiary companies of public entities and state interest companies.

5. **Statutory Corporations**

A government enterprise that the Government has established to supply on commercial basis specific goods or services that are of a strategic nature - in the sense that they address specific market inefficiencies and development objectives (e.g. under-supply in rural areas or monopolistic markets). One of the primary objectives of using this corporate form to deliver a function is to enable the entity to access capital markets directly on the basis of its balance sheet, and the quality of the business.

6. **Financial Intermediaries**

A statutory corporation involved in financial intermediation or with banking or quasibanking objectives. Many of these entities are development finance institutions established by Government in order to provide low interest loans for different investment purposes. The Government is the sole shareholder. A financial intermediary may establish subsidiaries. Every subsidiary must be listed as a state owned company or state interest company and must submit annual financial statements and annual report to the parent company.

7. **State Interest Company**

A private business enterprise with commercial objectives in which the State, a statutory corporation, a state owned company or a subsidiary of a state owned company does not have 'ownership control', but still retains a material interest. A material interest is defined as owning ten percent or more of the shares of the company, irrespective of the value of the shares. Subsidiaries of state interest companies would also be state interest companies if the indirect shareholding in them is ten percent or more. Certain state interest companies may be listed on the Johannesburg Stock Exchange or other international stock exchanges, or there may be plans to list them. These would constitute a separate subcategory within this group of entities.

8. **Public Interest Institutions**

The following types of institutions are regarded as public interest institutions:

- Institutions responsible for overseeing, developing, licensing or regulating a particular industry or profession (e.g. South African Association for Consulting Engineers, occupational therapists).
- Private organisations designated as welfare organisations in terms of welfare legislation. These organisations often receive Government subsidies or grants. Sporting and recreational federation that receive Government grants.
- Private institutions or committees responsible for arranging sporting events of national importance (e.g. 2010 soccer world cup and the Olympic games) for which Government plays an important role in terms of financing, planning and providing certain guarantees.

- Education institutions that receive Government grants.

It must be noted that the classification framework in figure 4 was developed only for National and Provincial SOEs. Whilst it does not cater for public entities like municipality, PPPs, and Trusts, it would seem that it comprehensively classifies national and provincial SOEs according to their functional roles and the extent of their funding autonomy. Unlike the schedule classification, this classification framework seems to be better suited to help manage SOE's full life circle.

The framework recognises that there are SOEs that are commercial and non-commercial in nature and that funding straddles between being fully funded by Government on the one extreme and totally funding from business operations on the other. According to the framework there are three categories at the top level, firstly the General Government entities: these are largely Government departments and agencies, they are non-commercial in nature and depend on Government for funding; secondly Government Enterprises: these are public entities that operate like a private business and may or may not be funded by Government; thirdly the Public Sphere Institutions which are also largely non-commercial and fully funded by Government.

According to the national guide for creating public entities at national sphere of government "SOEs, in accordance with their formats, have different levels of autonomy. Government Enterprises, which generate their own income, have the most autonomy as these entities operate in a competitive market place and decisions are made in accordance with the business principles. These entities normally pay tax and could in future be required to pay dividends. SOEs, other than the Government Enterprises, are normally extensions of a department with a mandate to fulfil a specific economic or social responsibility of Government. These entities are more reliant on Government funding and public money, either by means of a transfer from the Revenue Fund or through statutory money. As such, these entities have the least autonomy and are also accountable to Government for this money. In addition, the relevant Minister has the responsibility to approve these entities' annual budgets". (DPSA, Treasury, 2002)

Our analysis show that the classification framework is in line with the commonly used grouping of SOEs by role, for example research entities, regulatory entities, constitutional entities, financial institutions, etc. The need for such a role-based classification is also supported by the survey's finding on the types of activities performed by SOEs: Common terminologies denoting the type of activity in which an SOE is involved include 'supply' or 'provide' (39 per cent); 'regulate' or 'coordinate' (23 per cent); 'promote' (13 per cent); 'develop' or 'improve' (10 per cent); 'finance' (9 per cent); and 'conserve' or 'maintain' (6 per cent).

It would seem that the classification framework would make it easier to conduct periodic reviews on individual SOE categories, which would be necessary from time to time to assess continued relevance and/or need for policy and regulatory change. For example in past the Government has conducted reviews on Constitutional entities, Financial Development Intermediaries (FDIs), Research entities, etc. Notwithstanding the suitability of the classification framework, the framework has not been implemented although it was proposed to parliament as far back as 2004. The research could not establish the reasons for the delay and could only infer that there are gaps.

2.3.2 Municipal Sphere

According to the updated municipal entities 2010 report, a municipal entity is a mechanism used by a municipality to deliver services to its community. Each municipal entity is an "organ of state" and must comply with the legislative framework which ensures accountability, transparency and consultative processes, similar to requirements that apply to a municipality in its own right.

Municipal entities are accountable to the municipality or municipalities (e.g. a multi-jurisdictional entity) that established the entity. The entity must perform according to a service delivery agreement and performance objectives set by the municipality. As their debts, liabilities and decisions are made on behalf of the municipality, they may be disestablished if they fail to perform satisfactorily or if they experience serious or persistent financial problems. (National Treasury, 2010)

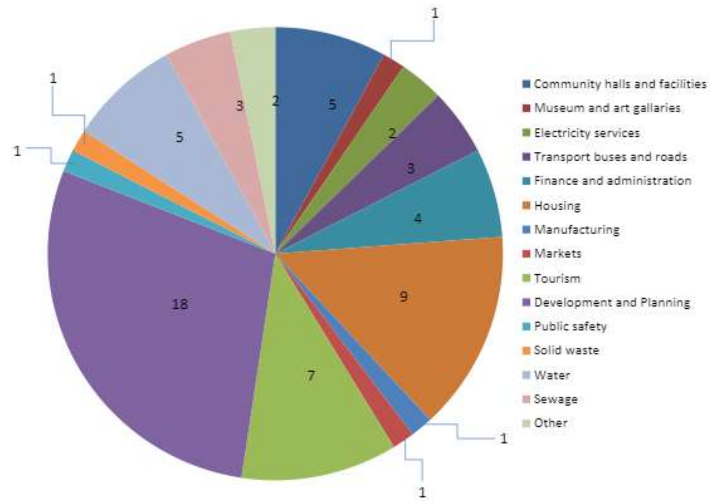
The table below depicts the number of municipal entities that exist in the country and the number of those that have been di-established: (National Treasury, 2010)

Number	Province	Number of Entities	Number of Di-established Entities	Total
1	Eastern Cape	11	4	15
2	Free State	4	1	5
3	Gauteng	26	19	45
4	KwaZulu Natal	9	7	16
5	Limpopo	2	0	2
6	Mpumalanga	4	0	4
7	North West	2	0	2
8	Northern Cape	1	1	2
9	Western Cape	4	2	6
Total		63	34	97

The full list of municipal entities is shown as Appendix 3 and a complete list of di-established entities is shown in Appendix 4.

The Entities are categorised into various types and these together with their respective number of entities are depicted in figure 1 below: (National Treasury, 2010)

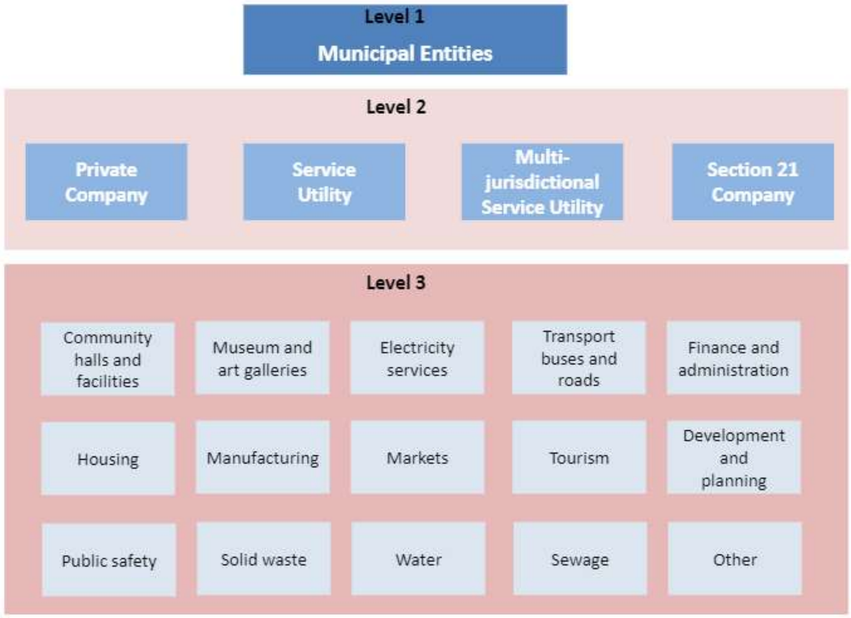
Figure 1 – Types of Municipal Entities



Source – (National Treasury, 2010)

The classification of Municipal entities is depicted in figure 3 below:

Figure 3 – Classification of Municipal Entities



Any municipal entity that is established can either be a private company, or a service utility, or a multi-jurisdictional service utility, or section 21company. Each of the level 2 entities will further be categorised as any one of the level 3 types.

We note that the classification defined for the national and provincial entities on the one hand is different from the classification defined for municipal entities. We also observe that it should not be difficult to further classify level 3 entities as service delivery entities, or research entities, or constitutional entities, or regulatory entities, or commercial entities, or stewardship entities, or financial development intermediary, as defined in the National and Provincial classification framework.

2.4 *Secondary Classification of SOEs*

2.4.1 Strategic sector classification

The other classification that is specifically considered for commercial SOEs, relates to the economic sectors in which the SOEs play a direct and/or indirect role. In the next paragraphs we briefly describe the economic sectors and their respective trends in general and then identify SOEs that play a significant role in those sectors, and how they are classified or otherwise.

2.4.1.1 Economic sectors

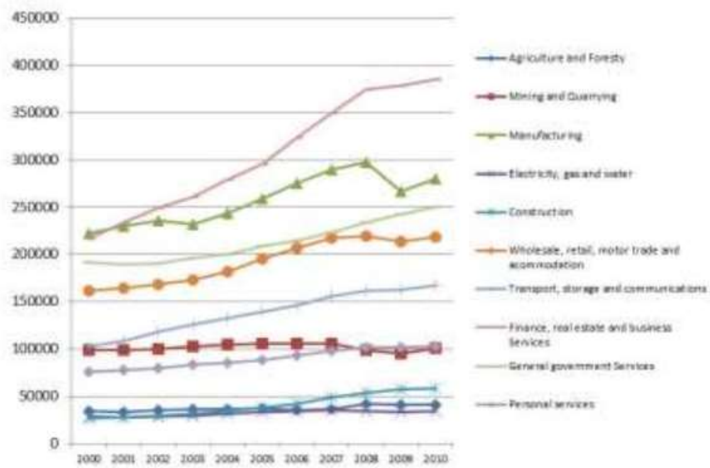
According to the DTI the economic sector classification differentiates between production and consumption sectors. Production sector largely comprises the economic activities that produce goods while the consumption sector comprises economic activities that consume goods and services. The production and consumption sector classification is mainly used for tracking key economic activities for which the SOEs play an important role. The production and consumption sector classification is described in figure 5 below:

Figure 5 – Description of Production and Consumption Sector Classification

Production Sector	Comment	Consumption Sector	Comment
Agriculture, Forestry and Fishing	Largely rural	Wholesale and Retail Trade	Largely urban
Mining and Quarrying	Largely rural	Transport, Storage and Communications	Largely urban
Manufacturing	Largely industrialised & urban areas	Financial Intermediation, Insurance, Real Estate & Business Services	Largely urban
Electricity, Gas and Water	Largely industrialised areas; power stations mainly in rural areas	Personal Services	Largely urban
Construction	Largely urban	Government Services	Largely urban

Between year 2000 and 2010 there has been a marked decline in the economic outputs of the production sector and a marginal increase in the consumption sector as showed in figure 6 below:

Figure 6 – Relative sector performance trend



Source – SARB (2010 Q1)

Key findings from figure 6 are as follows:

1. Significant growth from 2000 to 2010 in the Finance, Insurance and Real Estate and Business Services;
2. Over the same period Mining, Quarrying sector declined;
3. Manufacturing sector grew only marginally from 2000 to 2008, and fell significantly in 2009;
4. The transport, storage and communications as well as the personal service sectors grew steady over the entire period; and
5. Key sectors like agriculture and forestry, electricity, gas and water had an insignificant growth.

According to IPAP 2 (2011) "Economic growth leading up to the financial crisis of 2008 was driven increasingly by unsustainable increase in private credit extension and consumption not sufficiently underpinned by growth of the production driven sectors of the economy. Thus the consumption-driven sectors grew by 114% between 1994 and 2010, a 7.1% annual growth). By contrast, the production-driven sectors grew only by 38.3% (2.4% annually)". The Gross Domestic Product (GDP) contribution by each sector is outlined in appendix 1 and a brief description of the sectors overview and opportunities that exist for the knowledge economy is outlined in Appendix 2.

The key finding is that the sectors that should be enabling economic growth and thereby creating significant number of jobs have been declining. This decline has a direct bearing on the SOEs operating in those sectors as well. In our research, we did not find a comprehensive study in South Africa that is conducted periodically, to determine the contribution of SOEs to the GDP at sectoral level. The overall percentage contribution of SOEs as a percentage of the GDP in South Africa is about 8% and global average percentage contribution of SOEs as a percentage of GDP is about 11% (KPMG, Merafe, 2011). Such a study should, inter alias, identify and highlight levers that SOEs can pull to improve their contribution to the sector GDP. The major commercial entities like Transnet and Eskom, through their respective operations and provision of infrastructure, have a significant role to play in improving the declining growth in the production-driven sectors.

2.4.1.2 IPAP 2 Strategic Sectors

The manufacturing sector is further classified into various sub-sectors. This classification is used for purposes of the Industrial Policy Action Plan (IPAP 2), a core strategic plan of the country's industrial development effort. IPAP 2, among other things, identifies sectors, together with their respective backward linkages that have overall growth potential and are also able to create significant employment opportunities. These then become sectors of focus to drive industrial development. The sectors, within the dotted lines, in figure 7 are identified in IPAP 2 as the sectors with high employment and growth multipliers. These will be the strategic sector focus of IPAP 2 until 2013. This means that government will put in place interventions that will promote and grow the overall contribution of the strategic sectors. It is expected that the SOEs in the IPAP 2 strategic sectors should play an important role in contributing to the economic growth objectives.

Figure 7 – IPAP 2 Value added sectors with high employment and growth multiplier

Source – IPAP 2 (2011)

In addition to the high employment and growth sectors, on the 7th December 2011, the ministers of Economic Development, Finance and Trade and Industry jointly announced the coming into effect of the "amended regulations to the Preferential Procurement Policy Framework Act (PPPFA) which was promulgated in June 2011 by the Minister of Finance. The new act enables, inter alias, the following:

1. The DTI may designate sectors and products for local procurement;
2. The designated instrument serves to do the following:
   - Strengthen public procurement in support of the multipliers derived from reducing the trade deficit;
   - Strengthening and diversifying SA's industrial base; and
   - Build-up competitive value-adding exports into the rest of the continent, high growth developing economies and traditional export markets.
3. The "first wave" of designations which became effective on the 7th December 2011 are:
   - Power Pylons;
   - Rolling Stock;
   - Buses;
   - Canned vegetables;
   - Clothing;
   - Textiles;
   - Footwear;
   - Leather products; and
   - Set top boxes.
4. Each designation will stipulate a minimum level of local content for the relevant sectors or set of products. Where relevant, the designations also set out specific recommendations for ensuring competition amongst domestic producers and value-for-money for the state.

2.4.1.3 NPC's National Development Plan

The National Planning Commission (NPC) has also identified sectors and clusters that will serve as a platform to launch into a new growth trajectory. They used the following criteria to identified the sectors: (NPC, 2011)

1. Sectors that have potential to stimulate economic growth or create jobs or both;
2. They cover areas of existing competitive advantage and our main resource industries;
3. Where there is evidence that there is substantial growing global demand in these areas, that they will contribute to rising terms of trade and that they have potential to stimulate domestic linkages e.g. a new are with evidence to grow is capture in the statement by Angloplat that "Half of the platinum mined is used in engine catalysts that scrub noxious gases from car exhausts — but it is increasingly being substituted with palladium, which is cheaper. SA supplies about 80% of the world's platinum. Fuel cells can produce electricity continually as long as an input, such as platinum, is supplied. They are used for backup electrical systems and to power cars. By developing fuel cell technology to provide electricity for a variety of uses, Amplats intends to create a pure platinum off-take market". Business day (06.12.2011)

Sector	Relevant areas
The agro-industrial cluster	• Farming activities • Downstream processing of foodstuff and beverages • Upstream suppliers of inputs into food manufacturing and into farming
The minerals and metal cluster	• Mining and quarrying activities • Supplier industries to the mining sector and downstream beneficiation of minerals that are mined
Manufacturing	• Capital-intensive industries
Construction/infrastructure cluster	• Infrastructure • Construction assets
Green (knowledge) Economy	• Organic farming • Biofuels • Biomass power and heat generation • Fuel cells – platinum as input • Energy efficient equipment – copper as input • Nuclear energy – uranium as input

Sector	Relevant areas
	• Renewable energy – using wind and solar • Biogas • Heat pump and solar water heater • Eco-lodges (TIPS, 200*)
Finance Sector	• Credit and loans • Raising of capital • Trading of financial assets and properties • Investment and management of savings • Provision of banking and insurance services
Retail and business services	• Wide set of activities from office cleaning, computer repair, real estate and bank-office processing among others
Tourism cluster	• People visiting the country's tourism areas
Public sector employment	•

Although the NDP recognises the importance of promoting the sectors that have potential to generate labour absorbing jobs, care should be taken to nature the transition to the knowledge economy and optimal usage of information and communication technologies. This transition should be expedited in areas where South Africa already has a leading edge. (NPC, 2011)

2.4.1.4 Developmental state strategic sector

In our research we did not come across strategic sectors that are identified to specifically drive a developmental state. We make an attempt to define the developmental state strategic sectors/clusters in the conclusion section of this document.

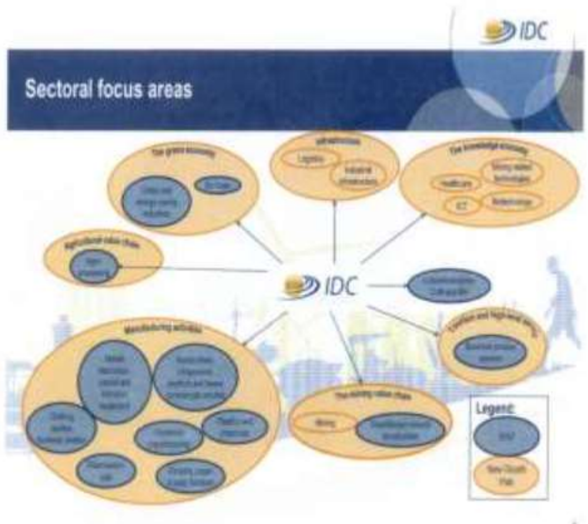
2.4.1.5 Strategic SOEs

Again we have not find strategic SOEs defined anywhere in a comprehensive manner. We gave treatment to this area in the conclusion section of this document.

Based on the discussion on the sectors above, it is clear that there are a number of strategic sectors that have been identified by one government programme or the other. The overall intended outcome of the strategic sectors is to grow the economy in a sustainable manner. A key success factor to this growth challenge is the participation of all stakeholders in a focussed and coordinated manner. SOEs, as one stakeholder, should be grouped accordingly and in an optimal way to ensure maximum contribution to this nation-wide strategic thrust. It is also important to note that development of IPAP 2 was done in consultation with other important government departments like DST, DHET, EDD, NT, DPE etc., but direct involvement of SOEs seem not to have taken place.

Although the NGP, IPAP 2 and NDP have made a determination of how the SOEs can play a role in the strategic sectors, a comprehensive overall SOE specific programme that map the strategic sectors seem not to exist as evidenced on the survey's findings. IDC has recently made an attempt to define this map, perhaps because of its proximity to EDD as shareholder ministry, and is shown in figure 8 below:

Figure 8 – IDC map to IPAP2 and NGP



3. INTERNATIONAL EXPERIENCE

3.1 Naming of SOEs

The Organisation for Economic Co-operation and Development (OECD), an international organisation helping governments tackle the economic, social and governance challenges and has conducted many reviews of commercial state-owned entities uses the term state-owned enterprises to denote commercial state-owned entities. It differentiates between public entities, which are non-commercial state-owned entities, from state-owned enterprise.

Various countries in the world use different naming conventions for their SOEs. For example in India, a state-owned commercial entity is referred to as a Public Sector Undertaking (PSU). (http://en.wkipedia.org/wiki/Public-sector_undertaking) This term is used to refer to companies in which the government (either the federal Union Government or the many state or territorial governments, or both) own a majority of the company's equity. India defines the majority as 51 per cent or more.

Another example is Indonesia, where the commercial state-owned entities or government-owned corporations are easily identifiable by their names. Company names with suffix PERSERO means that the company is wholly or majority owned by the government. The government control the government-owned corporations under one single ministry, the Ministry of State Enterprises. The Ministry acts like the CEO of a holding company.

3.2 *Definition of SOEs*

In many countries ownership by the state is a key consideration in the definition of state-owned entities or government-owned entities or government-owned companies (GOCs). GOCs can be fully owned or partially owned by Government. As a definitional issue, it is difficult to determine categorically what level of state ownership would qualify an entity to be considered as "state-owned", since governments can also own shares, without implying any special interference. As an example, the Chinese Investment Corporation agreed in 2007 to acquire a 9.9% interest in the global investment bank Morgan Stanley, but it is unlikely that this would qualify the latter as a government-owned corporation. (http://e.wikipedia.org/wiki/Government-owned_corporation)

Government-owned or state-run enterprises are often the result of corporatization, a process in which government agencies and departments are re-organized as semi-autonomous corporate entities, sometimes with partial shares listed on stock exchanges.

The term government-linked company (GLC) is sometimes used to refer to corporate entities that may be private or public (listed on a stock exchange) where an existing government owns a stake using a holding company. There are two main definitions of GLCs that are dependent on the proportion of the corporate entity a government owns. One definition purports that a company is classified as a GLC if a government owns an effective controlling interest (>50%), while the second definition suggests that any corporate entity that has a government as a shareholder is a GLC. (http://e.wikipedia.org/wiki/Government-owned_corporation)

A quasi-governmental organization, corporation, business, or agency (parastatal) or a "quasi-autonomous national government organisation" (Quango) is an entity that is treated by national laws and regulations to be under the guidance of the government, but also separate and autonomous from the government. While the entity may receive some revenue from charging customers for its services, these organizations are often partially or majorly funded by the government. They are usually considered highly important to smooth running of society, and are sometimes propped up with cash infusions in times of crisis to help surmount situations that would bankrupt a normal privately-owned business. They may also possess law-enforcement authority, usually related to their functions. (http://e.wikipedia.org/wiki/Government-owned_corporation)

3.3 *Classification of SOEs*

In Western Europe there was a massive nationalization throughout the 20th century, especially after World War II, to ensure government's control over natural monopolies and to some extent certain strategic industry sectors. Typical sectors included telecommunications, power, petroleum, railways, airports, airlines, public transport, health care, postal services and sometimes banks. Many large industrial corporations were also nationalized or created as government corporations, including among others, British Steel, Statoil and Irish Sugar. Starting in the late 1970s and accelerating through the 1980s and 1990s many of these corporations were privatized, though many still remain wholly or partially owned by the respective governments.

In the next paragraph we give examples of SOE classification considerations in selected countries:

Namibia

In Namibia, SOEs are classified into three broad categories as follows below: (Namibia, 20.11.2010)

5. Category 1: Economic and productive SOEs;
6. Category 2: Regulatory SOEs; and
7. Category 3: Service rendering SOEs.

Each category is further classified into large, medium or small depending on either size or/and strategic importance. (Namibia: 20.11. 2010)

China

In **China** there are three distinct classifications of state-owned commercial entities that drive the industrial development objectives, and they are described in figure 9 below:

Figure 9 – Classification of state-owned-enterprises in China

Category/Class	Industry Included	Ownership objective	No. of SOEs
Strategic and key industries	Defense, power generation and distribution, telecom, oil & petrochemical, coal, civil aviation, shipping	Maintaining 100 percent state ownership or absolute control; Increasing state-owned assets in these industries	40
Basic and pillar industries	Machinery, auto, IT, construction, steel, base metals, chemicals, land surveying, R&D.	Absolute or conditional relative controlling stake; enhancing the influence of state ownership even as the ownership share is reduced where appropriate	60
Other industries	Trading, investment, medicine, construction materials, agriculture, geological exploration	Maintaining necessary influence by controlling stakes in key companies; In non-key companies state ownership will be clearly reduced	40

Source – OECD (2009): State owned enterprises in China

From figure 9, it is clear that most of the biggest and profitable Chinese state-owned commercial entities operate within the strategic and key industry classification. The State Asset Supervision & Administration Commission (SASAC), a commission of the state council, wields considerate power over state-owned commercial entities in China.

In 2006 SOEs contributed 35.8 per cent of industrial value-added. Based on a 43.3% contribution of industry to the GDP together with other sectoral data, it can be roughly estimated that SOE's share in the GDP was 29.7 per cent. Based on the same assumption, the SOE's share in the GDP of 2002 and 1998 could be estimated at 34.5 per cent and 37.6 per cent respectively.

New Zealand

In New Zealand, State-Owned Enterprises (SOEs) are owned by the Crown but operate as commercial businesses. They were set up by the State-Owned Enterprises Act 1986, are registered as public companies and are bound by the provisions of the Companies Act. SOEs are distinguished from other kinds of Crown entities and structured as companies because they provide services directly to the public through market transactions, i.e. the quality and quantity of services provided and their prices are determined through the market. (www.Treasury.gov.nz/state sector)

The description of the **New Zealand** classification of state-owned entities is shown in figure 9 below:

Figure 9 – Classification of state-owned entities in New Zealand

Type/Class of Entity	Description	Expectations
Commercial Enterprises	Companies where commercial performance is the priority (mostly state-owned-enterprises)	State-owned-enterprises should be as profitable and efficient as companies not owned by the government
Crown Financial Institutions	Entities responsible for investing government funds (the Crown (government) Financial Institutions (CFIs	Guardians must invest on a prudent, commercial basis maximising return without undue risk
Multiple Objective Companies	A group of other entities spanning a wide variety of activities. This group includes the Crown (Government) Research Institutes (CRIs)	CRIs should operate in a financially responsible manner and maintain financial viability, which means generating an adequate rate of return on shareholders' funds

Source – New Zealand Treasury website

The Crown Company Monitoring and Advisory Unit (CCMAU), created by the New Zealand Treasury in 1993 to provide high quality advice to ministers on the subject of its 37 state-owned commercial entities, is responsible, inter alias, for this kind of classification.

India

State owned enterprises (SOEs) in India are widespread at all three levels of administration: Central, State and Local. They continue to act as the "nerve centres" of large swathes of the Indian economy and directly influence the lives of Indian people in a number of ways. (OECD, 2009a)

At any level of government an SOE can take several specific forms and the main forms are the following (OECD, 2009a)

1. ***Government companies***. This is the main kind of SOEs in India today. A government company, according to the Indian Companies Act, 1956 is one in which not less than 51 per cent of the paid-up share capital is held by the central government or by the state governments.
2. ***Public corporations***. A public corporation is an SOE set up under a specific enactment by the central or the state governments. Their equivalent in OECD countries would be statutory corporations.
3. ***Departmental enterprises.*** A departmental enterprise is an enterprise set up by the central or the state governments to carry out an economic activity controlled by a ministry itself, a ministerial department or by an inter-departmental committee/board. Their equivalent in OECD countries would be quasi-corporations.
4. ***Public sector banks and public sector financial institutions***. Government owned banks are kept separate in Indian documentation from public corporations inter alia because they are

subject to a separate legislation, namely The Banking Companies (Acquisitions) Act and the Banking Companies Act of 1949. Public sector financial institutions do not include public sector banks. Mostly they are engaged in providing long-term finance or refinancing institutions lending to industries.

5. ***Co-operative societies***. Co-operative entities involved in business in India are, insofar as they are established pursuant to some policy objective, considered as SOEs.
6. ***Autonomous bodies***. An important instrument for public authorities is autonomous bodies set up as societies under the various ministries to promote designated objectives.
7. ***Trusts***. Public trusts form of organization is generally an SOE holding assets of the central or the state governments in trusts. The central government has 199 major and minor ports established under the Indian Port Trusts Act 1908.
8. ***Deemed government companies***. Deemed government companies are SOEs covered by the Indian Companies Act having a majority stake of the central government in their equity but managed by the private sector. There are such 68 companies.

India keeps track of the contribution that SOEs have on the economic sectors as shown in table 1 below:

Table 1. Contribution of SOEs to GDP, by sector (In Rs. Crore)

	GDP of agriculture SOEs	GDP of agriculture	% share of SOEs in total agriculture GDP	GDP of manufacturing SOEs	GDP of manufacturing	% share of SOEs in manufacturing GDP	GDP of utilities2 SOEs	GDP of utilities	% share of SOEs in utilities GDP	GDP of construction SOEs	GDP of construction sector	% share of SOEs in construction GDP
1993-94	10218	229172	4.46	44665	125402	35.62	18112	20011	90.51	2317	39240	5.9
1996-97	13629	345020	3.95	55025	220759	24.93	35318	37617	93.89	3865	60382	6.4
1999-00	17094	446515	3.83	71667	264114	27.13	44921	48662	92.31	16381	102007	16.06
2002-03	17616	472060	3.73	75536	346029	21.83	46626	54531	85.5	16626	135172	12.3
2005-06	18826	615845	3.06	73862	519387	14.22	43619	64406	67.73	19267	264616	7.28

Source: Ministry of Statistics & Programme Implementation (Government of India, New Delhi), National Accounts Statistics: 2007-08, p27, 159

From the selected list of countries, it is clear that different classification models are used by each country. What is common though with all of them is that they have amplified the strategic SOE classification. In addition, India and China, two of the countries regarded as developmental and are members of BRICS, also track on a periodic basis, the contribution of SOEs in the economic sectors, as shown above. This backs the notion that, if SOEs are important stakeholders in driving the developmental state, then their contribution to economic growth and development should be established and monitored on a continuous basis.

4. CONCLUSION

4.1 Naming of SOEs

We have shown the importance of using common terminology to enhance common understanding of meaning. In South Africa different names are used to denote the same meaning. We have also given examples where the lack of common understanding of terminology can give incorrect results, sometimes with far reaching consequences. Different countries use different names to denote SOEs.

However they seem to be using the naming consistently. OECD consistently uses the name state-owned enterprises to denote commercial state-owned entities. To this end, it is important for the country to have a naming standard that will facilitate the common understanding of terminology.

4.2 Definition of SOEs

Naming or terminology used for state-owned entities is linked to their definition. We have differentiated between the commercial and non-commercial state-owned entities. We have further defined the commercial state-owned entity as a legal entity created by a government to undertake commercial activities on behalf of the owner, the government. The non-commercial entity is defined as an entity that is created and owned by a government to undertake certain functions of government with the purpose of improving service delivery to the citizens.

From a South African perspective, we found two sources from which a legal definition of state-owned entities is described in detail. The two sources are the PFMA and the Companies Act. The definitions in the two sources are not consistent and different names are used for the same meaning.

Similar to South Africa, the other countries that we studied seem to derive their definitions from the Acts or the legal framework. They differentiate between commercial state-owned entities and non-commercial state-owned entities in the same way that South Africa do.

The country would need to review and update all the policies and legislation that refer to SOEs with a common definition. Any new policy or legislation that refers to SOEs should use the common definition. These activities could be coordinated through the naming standard unit.

4.3 Classification of SOEs

We should continue to use the schedule classification for budgeting and financial management as well as for purposes of the PFMA. It would seem that this classification is working well for the National Treasury.

We have shown the importance of the classification framework that was proposed by the Treasury and the DPSA. From our stakeholder engagement, it would seem that the development of the framework is incomplete. We have confirmed that the classification framework does not include the municipality SOEs. We would need to develop a similar classification framework or incorporate them in the same framework if possible.

We have listed the strategic sectors of both IPAP 2 and NDP and we explored the criteria that are used to identify them. The NDP strategic sectors are for a long term economic horizon (up to 2030) whereas the IPAP 2 sectors are for a short term horizon, up to 2014.

South Africa is a developmental state and intends to use the state-owned entities, inter alias, to pursue the developmental agenda. This will require that state-owned entities are leveraged and measured accurately for their contribution to the developmental agenda. Although the NDP does not explicitly refer to the developmental state, the NDP is a long term plan for development.

Therefore the strategic sectors or clusters for the NDP must also drive the objectives of a developmental state. It would seem that an extensive periodic measure of each SOE contribution to the sector is not done in South Africa. Furthermore we have not found evidence that SA SOEs are reviewed on a periodical basis. This is in fact supported by findings of the PWC's SOE survey which stated that "The outcome of the subjective review indicated that SOEs are aligned to their mandate and there is a degree of uncertainty as to whether their mandate is regularly reviewed to comply with the changing needs as contained in the Developmental State Agenda and the New Growth Path" (PRC, PWC, 2011).

We have shown that most of the international countries that we studied use SOEs as levers for economic growth and development. China and India in particular measure, on a regular basis, the extent to which each SOE contributes to its sector as a percentage of GDP. This analysis helps determine the relative performance of SOEs. The benchmarking study showed that most of the countries have defined strategic SOEs. For example in China SOEs in the key industry are strategic SOEs and they are 100% owned by the state to ensure full control. In Namibia Category 1 SOEs are further classified as strategic or otherwise. China has developed a classification-prioritisation matrix framework with which it uses to rationalise non-performing commercial SOEs

5. RECOMMENDATIONS

We have made recommendations in three key areas:

1. Naming of SOEs
2. Definition of SOEs
3. Classification and categorisation of SOEs

5.1 Naming of SOEs

The PRC recommends that a SOE naming standard be developed and a programme be initiated to ensure that all government documents where SOE naming is used, comply with the naming standard. While the naming standard is being developed, we recommend that the name "public entities" be used for non-commercial state-owned entities. We further recommend that naming of classes of SOEs be used consistently and according to their functional role e.g. research public entity, regulator public entity, etc. Furthermore, the name "state-owned enterprise" should be used to denote commercial state-owned entities. The naming of classes of SOEs must be consistent and used according to the sphere of location e.g. national state-owned enterprise, provincial state-owned enterprise, and local state-owned enterprise. A naming standard unit should be established that will develop the naming standard and ensure that the standard is enforced wherever the SOE naming is used.

5.2 Definition of SOEs

It is recommended that the state adopts the following generic definitions/descriptions for purposes of defining SOES:

1. A state-owned enterprise is a legal entity created by government to undertake commercial activities on behalf of the owner, government. Their legal status varies from being a part of government into private companies with a state as a shareholder. State-owned enterprises should refer to business entities established by national, provincial or local governments,

and whose supervisory officials are from the government. This definition should include, inter alias, the following:

   a. wholly and partially state-funded entities;
   b. where the state owns significant share equity (25% and more) in the entity or company.

2. A public entity is an entity that is created and owned by a government to undertake certain functions of government with the purpose of improving service delivery and other forms of public benefit to the citizens.

The PRC further recommend that an initiative be undertaken to ensure that existing and new policies, legislation and any other document types, conform to this definition. The naming standard unit can coordinate and be accountable for this initiative.

5.3 Classification of SOEs

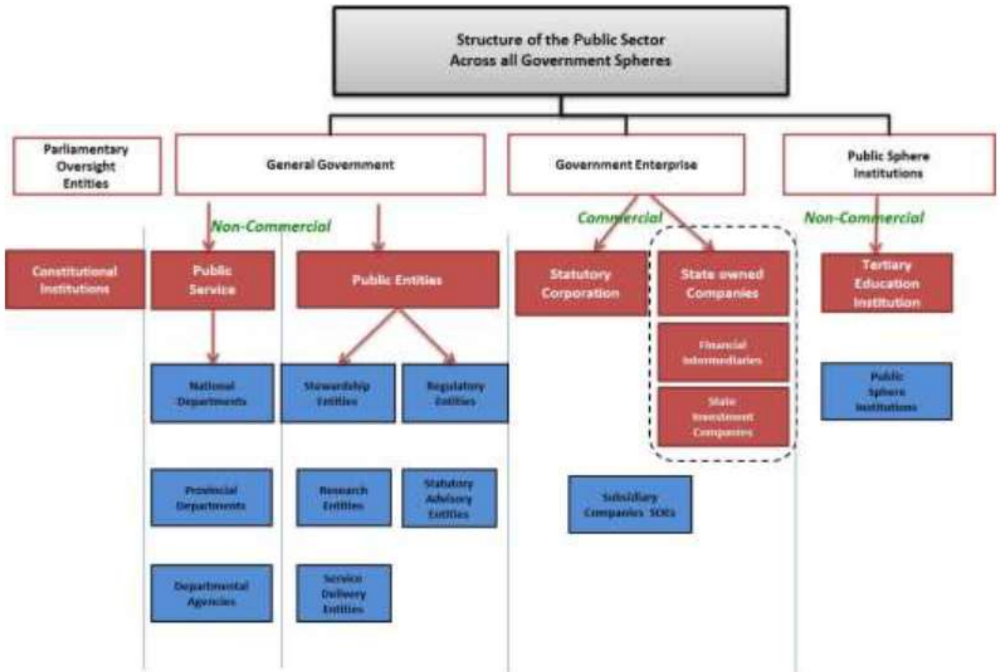
Consistent classification and categorisation is critical for enhancing common understanding by all stakeholders. Consistent categorisation and classification of state-owned entities should be used in all government documentations to include acts, policies, programmes, and websites.

The PRC recommends that we continue with the following classifications:

1. Government sphere classification i.e. National, Provincial and Local as required by the provisions of the Constitution of South Africa
2. Schedule classification for the budgetary and financial management as well as for the purpose of the PFMA.

The PRC recommends the Taxonomy for the classification of the SOEs as shown in figure 10 below. The Taxonomy is an enhancement of the work started by the National Treasury and the DPSA.

Figure 10 – SOE Classification Taxonomy



Source – National Treasury/DPSA/PRC

<u>Common terminology for SOEs</u>

Acknowledging the fact that the area of state owned entities is awash with various terminology and abbreviations, the PRC recommends adoption of the following generic terminology that already exists:

1. **Constitutional Institutions** (listed in Schedule 1 of the PFMA), for example the Municipal Demarcation Board or the Commission for Gender Equality;

2. **Public entities including Statutory Corporations** (listed in Schedule 3A of the PFMA), which includes stewardship bodies, regulators and advisory bodies, for example, museums, the National Energy Regulatory and the Human Sciences Research Council; as well as statutory corporations such as Rand Water and the South African Bureau of Standards;

3. **State Owned Companies (SOC's)** which include companies in which the state is the sole shareholder, for example Transnet and ESKOM; State Interest Companies in which the state owns a partial share, for example, Telkom; and the Development Finance Institutions – for example the Development Bank of Southern Africa or the Industrial Development Corporation. These are listed under Schedule 2 to the PFMA and are registered in accordance with the companies Act.

<u>Strategic Sectors</u>

In developing the strategic sectors for the developmental state we have considered the NDP strategic sectors and noted the criteria they have used to determine the strategic sectors. In our analysis we identified six criteria for the establishment of strategic sectors, and they are:

1. Addressing areas of security of supply
2. Sectors with potential for significant growth and employment creation
3. Endowment with natural minerals/herbs/coast
4. Leverage the country's competitive advantage
5. Strengthens democracy and cohesiveness
6. Create knowledge based economy

Based in the criteria we identified the following strategic sectors in the table below:

Strategic sectors	Criteria	Comments
Manufacturing – value added sectors	2	Identified by IPAP 2 as highest growth and employment sectors
Construction/Infrastructure cluster	2	Infrastructure and construction assets. R800bn is planned for infrastructure over a three year period. The construction of infrastructure tends to create a significant number of jobs
Mining and quarrying	3	SA is endowed with minerals like platinum, gold, manganese, uranium, ore and coal SA supplies 80% of platinum to the global markets. There are key new discoveries of usage of platinum (bio cells) which can create global competitive advantage. There are opportunities of beneficiation.
Electricity and water	1	The constitution of the Republic treats these as basic needs and constitutionally has to be provided to the citizens of the country. Security of supply becomes important for electricity and water.
Pharmaceuticals	3 and 6	The country is endowed with natural herbs some of which are inputs into pharmaceutical products. Government spends a significant amount of money on drugs for government owned hospitals. Access to drugs especially by poor communities is increasingly becoming difficult because of the cost of drugs. This is seen as development failure and therefore requires intervention.
Financial services sector	2 and 4	This sector is the early adopters and

Strategic sectors	Criteria	Comments
		implementers of new, cutting edge technology and has created unique competencies to compete globally. According to WEF's competitive index 2010, SA was ranked high on financial market development.
Tourism and creative arts	5	Endowed with game
Transport	6	Improve transport network and enable flow of goods and services (usage of platinum
Retail and business services	2	Wide set of activities form office cleaning, computer repairs, real estate and back office processing
Agro-industrial cluster	2	Farming activities; downstream processing of foodstuff and beverages; upstream suppliers of inputs into food manufacturing and into farming

Strategic SOEs

Lastly, the PRC recommends that we derive the strategic SOE definition from a statement by Ha Joon Chang on the SA developmental state "For various historical reasons, South Africa has built a wide range of organizations that are ingredients of a developmental state. The DTI (Department of Trade and Industry) is in a position to play the role of the pilot agency, especially if it can closely coordinate its activities with the Presidency. There are also serious financial resources and analytical capacities in the DBSA (Development Bank of Southern Africa) and the IDC (Industrial Development Corporation). There are also a significant number of SOEs with technological and business capabilities of international standards". (Chang, 2009) The key sentence used being "SOEs with technological and business capabilities of international reputation".

Based on this definitional statement the PRC recommends that Eskom, Transnet, Prasa, PetroSA, IDC and DBSA be the strategic SOEs. Strategic means that the government must ensure that the SOEs are resourced sufficiently but also rigorously monitored.

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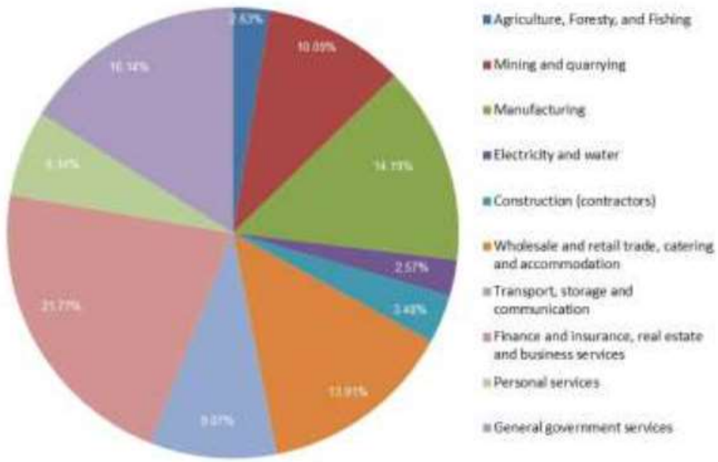
3. APPENDIX

Appendix 1 – Economic Sector Contribution to Gross Domestic Product (GDP) – 2011 Q1



Key findings are the following:

- Financial sector is the largest contributor to the GDP by a fifth;
- More than 60% of the contributions to the GDP come from four sectors, manufacturing, wholesale and retail trade, catering and accommodation, financial and general government.
- The production driven sectors contribute just over 30% to the GDP and the consumption driven sectors contribute just below 70%.

Appendix 2 – Economic Sector overview and opportunities for knowledge economy (2000 – 2008)

1. Agriculture, Forestry and Fishing

- **Sector overview**
  - Market failures e.g. France; recent financial meltdown e.g. USA, EU, etc.
  - A key sector in government's quest to halve unemployment and eradicate poverty by 2014
  - Contribution to total GDP has declined as South Africa has diversified production to other areas
  - Cereals and grains are key crops, occupying more than 60% of area under cultivation.
  - Corn, the country's most important crop, is a dietary staple, source of livestock feed and an export crop. Corn production reached its second highest level in 2008 at 12.7 million tons
  - Key exports include wine, citrus fruit, grapes, apples, pears, quinces and sugar
  - Key imports include rice, wheat, soya-beans, palm oil, under natured ethyl alcohol and fish products
  - The UK, Netherlands, Germany, Mozambique and United States are major export destinations
  - Sector achieved its greatest ever trade surplus of R11.2 Billion in 2008

- Exports grew annually by 9.5% between 2000 and 2008

- **Opportunities**
  - Organic farming
  - Biofuels
  - Biomass power and heat generation

2. **Mining and Quarrying**
   - **Sector overview**
     - Sector's contribution to GDP has fallen gradually from 20% in the 1960s to 6.8% from 2000 to 2008
     - Despite stagnant production, mining remains an important source of employment in South Africa. Approximately 2.7% of the economically active population is employed in the mineral industry (Minerals Bureau, 2002). However, direct employment in the sector has been on a gradual decrease for the past two decades
     - South Africa produces about 59 different minerals from 1115 mines and quarries, although gold, diamonds, coal and platinum play the greatest role in the current economy Gold's position as the most important export commodity in the country has diminished compared to the rise in production of Platinum Group Metals (PGMs)
     - Platinum, gold and coal combined accounted for 62% of total mining product exports in 2008
     - South Africa's dominant imported mineral commodity is crude oil which amounted to 68% of all mineral imports in 2008
     - China continues to be a leader in the demand for mining and quarrying products globally. It is estimated that China is likely to account for over 30% of world demand by 2010 and more than 40% by 2020. Trade relations with China are key for South Africa's Mining and Quarrying sector to sustain future demand for mineral exports
     - South Africa's mineral resource base and the expected demand growth from highly populated emerging economies will continue to have a decisive impact on the country's economic future, if constraints facing the sector are overcome. New investment potential remains strong in this sector (GCIS, 2008)
     - Mining companies dominate the Energy Intensive User Group (EIUG) of South Africa, the members of which all consume more than 100 GWh of electricity per annum
     - Half of Platinum mined is used in engine catalysts that scrub noxious gases from car exhausts. This usage of platinum is being substituted with palladium, which is cheaper
     - SA supplies about 80% of the world's platinum
     - Fuel cells can produce electricity continually as long as an input, such as platinum, is supplied
     - Fuel cells are used for backup electrical systems and to power cars
     - According to Amplats studies, engine catalyst demand may halve in three decades; industrial off-take will rise to about 30% of production; fuel cells will absorb up to 15% and jewellery about 20%
   - **Opportunities**
     - use of platinum as an input into the manufacture of fuel cells
     - uranium industry could capitalise on a sustained drive towards nuclear energy
     - Copper is an important input into the development of energy efficient equipment ranging from electrical motors to power cables and transformers

3. **Manufacturing**
   - **Sector overview**
     - A critical sector of the South African economy that has contributed approximately a third of GDP from 1999 to 2008

- Contains a variety of important sub-sectors namely food and beverages; textiles and clothing; wood and paper; petroleum products, chemicals and plastics; other non-metallic mineral products (glass and cement); metals and metal products; electrical machinery and apparatus, as well as transport equipment
- The slowing down in the country's economic growth with the global recession can be attributed mainly to the poor performance of Manufacturing in this period. This poor performance is linked to a depleted export market for manufactured goods and weak demand for durable consumer goods
- Investment to develop additional capacity in the sector is required to create further employment opportunities. The latter is important as Manufacturing employment has declined persistently from the early 1990s onwards
- A few sectors drive the performance of the Manufacturing sector. These include the production of motor vehicles, parts and accessories; basic chemicals; basic iron and steel and other chemicals. Motor vehicles, parts and accessories have more than doubled its operations since 1994 and this can be attributed to the Motor Industry Development Programme (MIDP).
- The other sub-sector that has shown significant growth is basic chemicals, whose share of total manufacturing grew to over 13% in 2008
- Textiles and clothing, as well as machinery and equipment, have shown the most notable declines in their shares of total manufacturing
- Skills shortages are one of the main factors hindering the sector's ability to adjust innovate and expand. With a relatively low level of highly skilled employees, the ability to produce technologically advanced goods that require high value addition and provide greater returns is limited. Manufacturing diversification is also constrained through this feature
- South Africa's imports of goods and services for manufacturing activities have increased relatively faster than exports since 2000

- **Opportunities**
  - **Transport and equipment** – 1. Bus manufacture linked to improved public transport; 2. wind power and concentrating solar power (CSP); 3. components for renewable energy technologies that can be produced within existing industries include gearboxes, steel frames and pylons, fibreglass forms, coatings and motors.
  - **Petroleum products, Chemicals and Plastics** - a variety of important sub-sectors namely food and beverages; textiles and clothing; wood and paper; petroleum products, chemicals and plastics; other non-metallic mineral products (glass and cement); metals and metal products; electrical machinery and apparatus, as well as transport equipment

4. Utilities (Electricity, Gas and Water)

- **Sector overview**
  - Utilities sector contributed just above 2% of GDP in 2008, from a peak of 3.1% in 1995
  - Value addition in this sector since the 1970s has been dominated by the water services industry
  - Eskom produces 96% of all electricity in the country. 95% of all Eskom electricity sales are also within South Africa, with the remaining 5% sold to SADC countries (Eskom, 2009)
  - Coal is relied upon to produce 93% of the country's electricity, with nuclear (5%), pumped storage (1.4%) and hydro (0.4%) making up the balance (NERSA, 2007)
  - Following a period of inadequate infrastructure investment and load shedding in 2008, Eskom has embarked on an electricity capacity expansion plan amounting to R300 billion

over five years. The first unit of the Medupi Coal-Fired Power Station is expected to come on line in 2012, and the first unit of the Kusile Coal-Fired Power Station in 2013
- The national electrification process (universal access by 2012) and free basic electricity can be expected to place increasing pressure on the country's electricity reserve margin
- Employment in the electricity, gas and steam industry has declined from a high of almost 80 000 in the mid-1980s to reach just over 40 000 in 2008, with a period of moderate growth taking place between 2004 and 2008
- Since 1994 access to water supply infrastructure has improved in terms of population reach. At present 88% of the population has access to a basic level of service (DWAF, 2008)
- Currently 2.4 million people are without access to a basic level of water supply; a further 3.3 million people have access to a water supply but the water obtained does not meet the basic services standard

- **Opportunities**
  - The expansion of the renewable energy industry in South Africa represents a significant economic opportunity in the electricity industry
  - South Africa is also characterised by a significant renewable energy resource in wind and solar, reasonable resources in biomass and biogas
  - The diversification of the South Africa's electricity mix is increasingly recognised as a viable and important step for decarbonising the national grid, reducing company related electricity emissions and supporting labour intensive industries in which South Africa may be able to develop comparative advantage
  - A number of opportunities for financial support and technology transfer are evident in the electricity industry e.g. wind and solar energy

5. **Construction**
- **Sector overview**
  - In 2008 the Construction sector contributed roughly 4% of GDP in South Africa, up from 2% in 2005
  - Construction comprises residential buildings (houses and residential property), non-residential buildings (industrial buildings) and civil works (government infrastructure). Labour intensity in construction makes it an important sector for economic growth
  - In 2008 the building sector (residential and non-residential) accounted for 59% of all construction activity compared to 41% for civil construction
  - Government investment in infrastructure, stadiums and housing has helped shield the sector from the global economic crisis. A public investments programme of approximately R787bn over the three financial years to March 2012 has been announced
  - Construction activities, especially of the civil or public kind (airport upgrades, roads, Gautrain, public housing etc.) are expected to expand in the foreseeable futurere
- **Opportunities**
  - Significant potential construction related opportunities exist in the implementation of large-scale heat pump, solar water heater or insulated rollout

6. **Trade, Catering and Accommodation Services**
- **Sector overview**
  - The Trade, Catering and Accommodation Services sector is the third largest in South Africa, and accounts for almost 14% of total GDP
  - Encompasses the sub-sectors of wholesale and retail trade, as well as catering and accommodation, which includes the tourism industry

- The most labour intensive sector in South Africa, accounting for approximately 21% of total employment
- Gender distribution of labour is the most equal of all sectors, with women accounting for around 49% of sector's total labour force
- Sector has been hard hit by the economic downturn, evident in a contraction in growth, marked decline in vehicle sales and decreases in employment
- Investment has increased markedly in the sector in the past decade, despite the global economic recession

- **Opportunities**
  - Retailers in South Africa have already begun to work in partnership with agricultural industries to promote local organic produce. Related benefits for the economy include increased domestic demand for agricultural products and efforts to promote South African manufactured goods, although efforts will be required to keep pace with growing national demand
  - The development of eco-lodges, carbon neutral accommodation and community based tourism

7. Transport, Storage and Communication

- **Sector overview**
  - In 2008, the communications industry accounted for approximately 5% of GDP
  - Investment in mobile telecommunications has spurred a recent industry boom, supported by the shift from analogue to digital transmission by the national broadcaster
  - Significant commercial opportunities are evident in communications through addressing the nation's digital requirements
  - In 2008, the transport and storage industry contributed 6.5% of GDP, with the contribution rising steadily since 1992
  - The movement of goods and people is critical for economic activity, and transport costs are as high as 16% of GDP in South Africa (CSIR, 2008).
  - Shipping costs in particular determine the viability of exports and affect overall economic performance
  - Investments in rail have been lagging since the early 1990s. The lack of investment in rail infrastructure has led to a dramatic increase in road corridor traffic. Rail has also declined as an urban transport mode, with minibus taxis becoming the main transport mode for the majority of urban dwellers
  - Transnet announced an R80 billion infrastructure investment plan for the period 2007-2012, with the bulk of spending on Transnet Freight Rail, in order to revitalise the general freight business (Transnet, 2007)
  - The implementation of Bus Rapid Transit (BRT) systems countrywide should boost demand for transport (especially buses), supporting the integrated public transport system
  - Growth in transport and storage has risen dramatically since 2000, following sluggish growth since the 1970s. This sharp increase can be attributed to the World Cup, road upgrades, the development of the Gautrain and the expansion of port operations
- **Opportunities**
  - Significant opportunities exist in the Information and Communication Technology (ICT) industry to support the development of, amongst others e.g. energy efficient hardware components and digital infrastructure; Energy monitoring tools and software, including in relation to smart meters; Greenhouse gas emissions reporting and monitoring software; The promotion of effective videoconferencing facilities to address company travel costs and reduce emissions is an additional area of potential growth; support for

electronic waste (e-waste) recycling, in which ICT companies can play an important intermediary function

8. **Financial, Insurance, Retail Estate and Business Services**
    - **Sector overview**
        - The Financial Services sector, which includes Finance, Insurance, Real Estate and Business Services, has grown steadily to account for almost one-fifth of South Africa's economic activity
        - Sectorial contribution to GDP rose from 12.3% in 1990 to 17.3% in 2007. Sector growth has been three times faster than that for the secondary sector
        - This growth emanates from the country's well developed and increasing deregulated Financial Services sector with sophisticated banking, bond and insurance markets
        - Although the 2008 global financial crisis is likely to put a damper on domestic financial service growth, the sector is likely to retain its leading position in the economy
        - Given the high wages offered in this sector, a severe downturn in Financial Services could impact on overall domestic demand, making economic recovery that much more sluggish
        - The sector's role is highlighted in the National Industrial Policy Framework (NIPF) as a crucial cross-cutting intermediary in effectively allocating capital resources for industrial upgrading, productive investment and easing costs of capital for small and medium
        - In 2008, 1.98 million people were employed in the Financial Services sector, 98% of which were formally employed.
        - From the late 1980s, the rate of employment growth in Financial Services has accelerated faster than in all economic sectors as a whole, but appears closer to overall employment growth after 2003
        - The sector was characterised by a net trade surplus of R13.1Billion in 2008