

SOEs 'ready for infrastructure programme'

State-owned enterprises could support manufacturing industries

THE South African government is seriously looking into the option of establishing a state-owned steel manufacturing operation to support re-industrialisation of the economy and mainly the downstream manufacturing industries, said Minister of Public Enterprises Malusi Gigaba.

In an interview with *The New Age*, Gigaba re-emphasised the role to be played by the South African state in stimulating economic growth, job creation and skills development.

Gigaba said the massive infrastructure development programme launched by President Jacob Zuma offers South Africa a leveraging opportunity to build a long lasting manufacturing base and state-owned enterprises (SOEs) will have to play a critical role. He said government's plan to establish a state-owned steel player is justifiable given the country's rich mineral reserves and critical inputs, such as iron ore, coal and manganese.

"South Africa must be able to leverage from its minerals through value addition. Countries like Japan have managed to become leading steel manufacturers without having iron ore. It's a complex project but it can be done. Government needs to pursue the goal with unyielding zeal."

Gigaba said government's plan to set up a steel operation is further rationalised by the massive infrastructure development programme launched by the president.

"The amount of steel required in infrastructure development projects like power stations, dams, rails, is massive and justifies the idea of establishing such an operation. When you engage in such a programme you must not narrowly look at the rails, roads and power plants but must broadly look at the opportunities of benefiting the country's manufacturing sector."

Government's plan to establish a steel manufacturing operation comes as it struggles to secure developmental sensitive pricing from ArcelorMittal SA after relinquishing its control of the operation for a song in the early 2000s.

Gigaba said the privatisation of ArcelorMittal SA, formerly Iscor, was "unfortunate" and likened it to giving away family silver. He said government can learn from its past mistakes and there are still options to salvage the situation. Government is looking at all available options but Gigaba was quick to point out that this does not include nationalisation.

Challenging rollout

The minister said the infrastructure rollout



Interview

SIBONELOR RADEBE

programme announced by the president is probably the most challenging in post-apartheid South Africa.

"This is the first time you are going to have such a massive infrastructure development both economic and socially. It is designed to crowd in the private sector, stimulate economy, grow skills and create jobs. For us to achieve that, government needs SOEs to be properly focused. SOEs are the most critical agencies for the programme because there are major risks if government were to fail to deliver on these investments. This goes into stimulating private sector investment confidence and will provide assurance that government means business."

Readiness of SOEs

Gigaba said the SOE sector is ready to carry the infrastructure development programme "in an uneven way".

"I would say some of them, like Transnet and Eskom, are ready. Transnet has expanded its capital expenditure (capex) to R300bn in seven years from R110bn in five years. He said two thirds of Transnet's capital expenditure (capex) is to be funded from its balance sheet. The other R100bn is going to be raised from the private sector. There is appetite in the private sector to come to the party".

He said about 70% of capex needed by Eskom between now and 2017 has been secured largely from government guarantees and loans from developmental financial institutions. "We are confident Eskom will raise the balance."

SOEs in other areas of public infrastructure like water and roads are relatively ready to respond.

Government has the luxury of tapping into lessons from recently completed capital projects such as the 2010 World Cup related infrastructure development, new multi-product pipeline and the Gauteng highway development project, Gigaba said.

Coordination of projects

Government is in a better position to deliver on the infrastructure development programme



FULL CIRCLE: Public Enterprises Minister Malusi Gigaba says the government's infrastructure development programme may see the establishment of a state-owned steel company.

Picture: HERBERT MATIMBA

because of a more efficient coordination between ministers. "All the infrastructure development projects have been identified in an integrated fashion. None of us is acting solo."

Gigaba said the organisation and location of SOE's is largely satisfactory. He said the country's SOE's come in different forms and shapes and run with differing mandates. Some serve a broader role with a bias toward public service rather than commercial fundamentals. These include commuter rail operations, buses and the public broadcaster. He said the more commercially oriented SOEs can be consolidated under one shareholder manager with the responsibility of aligning them to deliver on state expectations.

"One has to consider that a conflict of interest between shareholder management and policy formulation and regulation. Policy and regulation must be separated from execution. On the other hand we need to strengthen the relationship between the policy department and shareholder management."

Challenges

Gigaba said that although the SOE sector is largely ready there are challenges.

These include the aviation sector, which has come under severe pressure. With fuel price hikes and the protracted economic downturn

eroding passenger numbers and revenues, both SAA and SA Express are challenged. Their challenges stem from the fact that they have not been properly capitalised.

Gigaba said government will continue with measures to stabilise leadership at boards of SOEs like Alexkor and Safcoil.

"We have given Denel's CEO the task to expand international operations, stabilise relations with Armscor and the SA National Defence Force so as to improve the companies."

The CEO is under pressure to speed up transformation of Denel to become reflective of the country's demographics.

Gigaba said that, despite good leadership by Eskom, the electricity front is a concern. "We have given assurance to South Africans that we will not implement load shedding. For this to happen we must do everything in our power to decrease demand and increase supply."

sibonelor@thenewage.com