

BLACK ECONOMIC EMPOWERMENT PROJECT

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The Critical Role of State-owned Enterprises and Development Finance Institutions in Black Economic Empowerment – The case of Eskom, IDC and the DBSA

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Abstract

The underlying motivation for the establishment of state-owned entities and development of finance institutions was to provide the state with instruments to enable the building of a diversified industrial economy. Under the colonial and apartheid government, these were to play a key role in racially based job segregation and Afrikaner empowerment. This paper explores the role of Eskom, the IDC and DBSA during the democratic period in deracialising the economy through black economic empowerment. It explains the political and economic forces underlying the often failed efforts to reform Eskom in the face of power shortages, financial difficulties, questionable investment in capacity and economic empowerment. The paper shows how the IDC and the DBSA have contributed to black economic empowerment. Finally, the paper provides a window into understanding the policy trajectory and decision making of the South African government as it deals with the competing challenges of business interests and black entrepreneurs long denied economic participation because of the injustice of apartheid.

Introduction

In the early decades of the twentieth century a number of state-owned companies (SOC) were established. These included the following:

- Department of Posts and Telegraphs in 1910 that over-saw the development of postal, telephony and broadcasting infrastructure and related services,
- South African Rail and Harbours company (SARH) in 1916,
- Electricity Supply Commission (ESCOM) in 1922 to build generation, transmission and distribution infrastructure (which in the 1980s became a corporatised company, Eskom),
- Iron and Steel Corporation (Iscor) in 1928 to promote South Africa's industrial development,
- Industrial Development Corporation (IDC) in 1940, a development bank to promote industrial financing.
- Development Bank of Southern Africa (DBSA) in 1983 to promote economic growth and development in the Bantustans.

The underlying motivation for the establishment of these corporations was to provide the state with instruments to enable the building of a diversified industrial economy. In particular, the state was concerned with securing the supply of strategic inputs at competitive prices, if not developmental, in a context where the gold mining companies were economically dominant and the country was completely dependent on the importation of foreign equipment and technology. In practice, over the course of the century, the corporations were to also play a key role in racially based job segregation and Afrikaner empowerment, although this was not a simple process, particularly in the first half of the century as the corporations struggled to survive.

The policies of segregation and the marginalisation of black South Africans has resulted in extremely high levels of unemployment, poverty and inequality. (StatsSA, 2017). At the end of 2020, after 26 years of democracy, South Africa's official (narrow) unemployment rate was 32.5% and inequality by 2015 measures was the highest in the world using both the Gini coefficient and the Palma ratio. The top 20% of the population held over 68% of the income (compared to a median of 47% for similar emerging markets). The bottom 40% of the population held 7% of the income (compared to 16% for other emerging markets) (IMF, 2020).

The South African government has used different tools to tackle the stubborn levels of inequality that have plagued the country, including progressive fiscal redistribution. Efforts to reduce inequality have focused on higher social spending, targeted government transfers, and affirmative action to diversify wealth ownership and promote entrepreneurship among the historically marginalised. Through the enactment of the Broad-Based Black Economic Empowerment Act 53 of 2003, government established a legislative framework for the promotion of black economic empowerment (BEE). The Act empowered relevant ministers within government to publish transformation charters for industry, and issue codes of good practice for companies to follow. The Preferential Procurement Policy Framework Act of 2000 and the Preferential Regulation Framework of 2017 provide guidelines for the procurement of goods and services from historically disadvantaged individuals and firms. The broad-based black economic empowerment (BBBEE) and the Preferential Procurement legislations seek to influence the patterns of accumulation in favour of black South Africans. According to Von Holdt (2019), the creation of the conditions for the emergence of a black bourgeoisie is an attempt to address a very real, very material and burning aspiration. Settler colonialism and apartheid had worked explicitly to prevent the emergence of black middle classes and, particularly, entrepreneurs, whether on the land, in commerce or in manufacturing.

Mohamed (2019) argues that the policies of the post-apartheid government have not adequately addressed the structural weaknesses in the economy or managed to significantly improve the allocation of capital towards enhancing the rate of capital accumulation. Zalk (2017) argues that advocacy by the largest conglomerates for orthodox policies amenable to unfettered restructuring were legitimated by ideological claims and asset transfers to politically influential black individuals. Unguided by national strategies and performance requirements, industrial restructuring was undertaken by the conglomerates themselves in concert with increasingly influential institutional

investors (Zalk, 2017) This process resulted in widespread destruction of engineering industrial capabilities; the foreclosure of opportunities to develop globally competitive engineering firms; underinvestment and, ultimately, crisis in the steel sector; with weakened manufacturing linkages and multipliers with the rest of the economy. Furthermore, efforts since 2007 to mobilise industrial policy at scale to promote diversification from heavy industry has been impeded by these lost opportunities and the political economy conditions that spawned them (Zalk, 2017). The IDC and Eskom have been instrumental in the capital accumulation of white people in the minerals and energy complex. The IDC is a financier of choice for business whereas Eskom provided cheap electricity to industry and mines. The DBSA on the other hand was an apartheid institution mandated to support Bantustans in the grand plan of apartheid. In the post-apartheid period, these institutions were restructured and transformed in line with a democratic regime. What has been the role of Eskom, the IDC and the DBSA in what is seen at macro-level as the destruction of capital?

The developmental role of state-owned enterprises and development finance institutions

This paper examines the impact of a state-owned corporation (Eskom) and development finance institutions (IDC and DBSA) on black economic empowerment. It does this through case studies of the state-owned energy utility, Eskom, and the two development finance institutions (DFIs), the Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA). Their impact is examined from four perspectives:

- a qualitative and quantitative assessment of the impact of DFIs and SOCs,
- executives and board representation, including middle level employees,
- BEE funding/procurement from BEE (preferential procurement),
- financing of small and medium enterprises (SMEs),
- contribution to re-industrialisation.

In this paper, it is argued first that the mechanism of black economic empowerment is a social process of the post-apartheid South Africa that has resulted in the formation of a new black elite. Second, it is argued that the development finance institutions and state-owned companies became instruments for the formation of that elite. Third, it is argued that the funding structures, particularly of the DFIs, have undermined the social process, resulting in new methods of accumulation outside the formal processes of the DFIs and SOCs that have led to capture and corruption of these institutions and dissatisfaction of black South Africans due to their belief that BEE is only for the politically connected and corrupt. The dissatisfaction with the implementation of BEE by DFIs and state-owned enterprises has led to the belief that the instrument does not “sting like a bee” and therefore should be scrapped. The paper disagrees with the calls to scrap BEE and suggests that, through the black industrialist programme supported by the Department of Trade and Industry and competition, a new way of elite formation of skilled and capable black South Africans is emerging. The paper concludes by suggesting how the black industrialist programme can be enhanced and become a catalyst for the transformation of South Africa’s minerals and energy complex into a black industrialist complex with South Africa’s National Systems of Innovation in manufacturing, agriculture, technology and electricity impacting positively on South Africa’s carbon footprint.

Eskom

The Electricity Supply Commission (ESCOM) was established in 1922 to build generation, transmission and distribution infrastructure in order to supply electricity at the lowest possible cost. ESCOM (renamed Eskom in 1987) was constitutionally not allowed to make a profit or loss and was exempt from corporate income tax. In 1995, the Government of National Unity (GNU), led by the ANC, amended the Electricity Act and engaged the Electricity Council on the future structure and governance of Eskom and whether it should be a tax-paying or a dividend-paying entity (Eskom, 1996). The government also made a decision about the restructuring of state assets and privatisation of Eskom. The Electricity Council and Eskom’s management spent time with the Department of Public Enterprises looking at different options (Eskom, 1996). Eskom was only critical to the ANC for the

electrification of black urban and rural areas as well as for the proceeds that could emanate from Eskom from tax, dividends and even privatisation. Marquard (2006) argues that the ANC was able to extend Eskom's electrification programme beyond what they had planned and include a clause of their agreement into the RDP section on energy. The ANC government was satisfied that Eskom and the supply of electricity were being addressed through the expansion of the "electricity for all" programme. Moreover, in 1995, South Africa had a 30% reserve margin. As a result of this, Eskom was a sideshow in the early years of South African democracy. For the period between 1994 and 2000, the major things for Eskom were:

- reduction of the tariff by 15% so as to become the world's lowest-cost producer of electricity;
- electrifying an additional 1,750,000 homes, improving the lives of 11 million South Africans;
- changing its staff profile to 50% of management, professional and supervisory staff as black South Africans;
- educating, training and upgrading sufficient numbers of people to meet Eskom's future managerial, technical and other professional staff needs, inter-alia by:
- having on average 370 black trainees and bursary recipients complete their training annually;
- enabling all Eskom employees to become literate.

BEE at Eskom

Eskom was a leader in black economic empowerment, but not without any glitches which were to haunt it later. For example, Eskom's procurement spend from black business had increased from R201 million in 1997 to more than R10 billion in 2005. In March 2004, Eskom had signed a memorandum of understanding (MOU) with a black business association, the National African Federated Chamber of Commerce and Industry (Nafcoc). The MOU outlined a cooperation framework for BEE and business unity (Clemence & Njobeni, 2004, as cited in Shangase, 2007).

One of Eskom's remarkable achievements was the sourcing of coal supplies from Eyesizwe, a black-owned coal mining company led by Sipho Nkosi. When Kumba Resources Limited unbundled in 2006, Kumba's coal assets merged with Eyesizwe to form one of the largest black-owned and controlled listed companies, Exxaro Resources Limited. Arguably, the combination of procurement from black suppliers, the deployment of new electricity capacity and a politician, Valli Moosa, as chairman, mixed up a volatile Molotov cocktail (Mondi, 2019). The increase in procurement from black businesses was becoming a source of competition among black entrepreneurs.

In the financial year ending 31 March 2008, Eskom group procurement spend was about R25.4 billion against a target of R19 billion, being 67% of discretionary spend as shown in Table 1 below. (This excludes procurement from Eskom group businesses, public enterprises and state departments, as well as costs relating to human resources such as salaries and wages. It includes expenditure on coal and demand side management.) For 2009 about 70% of all discretionary expenditure was planned for BEE businesses and 20% of that for black women-owned businesses. Eskom also was playing a critical role in the localisation of suppliers and the re-industrialisation of South Africa through the Competitive Supplier Development Programme (CSDP).

The CSDP of the Department of Public Enterprises aimed to increase the competitiveness, capacity and capability of the local supplier base in South Africa. It obliged suppliers with import contracts exceeding USD10 million, to invest 30% of the imported contract value within the power industry and related supplies. In line with this programme, Eskom selected established equipment manufacturers that were willing to develop local factories. By having equipment manufactured in South Africa, Eskom benefitted from the improved competitiveness of the products and the securing of long-term local supply options with local industry. However, both the BEE and CSDP were breeding grounds for rent-seeking at Eskom.

Table 1: Eskom BEE expenditure

BEE expenditure	2008 (Rm)	2007 (Rm)
Eskom Company		
Total BEE expenditure	23 492	15 429
Black women-owned businesses (included in the total BEE expenditure)	3 083	2 039
Eskom group		
Total BEE expenditure	25 447	16 557
Black women-owned businesses (included in the total BEE expenditure)	3 188	2 096

Source: Eskom Integrated Report 2008

Rents and technopolitics at Eskom

Khan (2000) describes patron-client exchanges as a set of transactions that overlap with both rent-seeking and corruption. Patron-client relationships are repeated relationships of exchange between specific patrons and their clients. A number of features distinguish patron-client exchanges from other types of exchange. First, such exchanges are usually personalised. They involve an identifiable patron and identifiable clients (Khan, 2000). The first sign that rent-seeking was becoming embedded in the South African polity involved the ANC's Chancellor House and Japanese electricity equipment supplier, Hitachi, becoming involved in the Eskom build programme. The term rent is used to describe incomes which are above normal and include not just monopoly profits, but also subsidies and transfers organised through the political mechanism, illegal transfers organised by private mafias and short-term super profits made by innovators before competitors imitate their innovations (Khan, 2000). Some rents are legal while others can be illegal. Initially at Eskom, a techno-political regime appeared to be in the making. For Hecht (2011) techno-political regimes have particular characteristics: "These regimes, grounded here in institutions, consist of linked sets of people, engineering and industrial practices, technological artifacts, political programmes and institutional ideologies, which act together to govern technological development and pursue techno-politics."

In the articulation of Eskom as a techno-political organisation, scholars in anthropology, geography, science and technology studies have interpreted how infrastructures mediate exchange over distance, bringing different people, objects and spaces into interaction and forming the base on which to operate modern economic and social systems (Graham, 1996, 2001; Lefebvre, 1991). Jaglin and Dubresson (2016) argue that, internally at Eskom, the inherited techno-political regime has been affected by the disruption externally imposed by the ANC's radical transformation of the economy (ANC, 2014), which led to the departure of technically and professionally competent executives, the loss of skills and difficulty in filling positions. Thus, the former techno-political competence was marked by distinct competence which has now been lost. The collapse of the management structure and shared leadership role of executives, as well as that of the Department of Public Enterprises (DPE), through measures such as cadre deployment, has considerably reduced the strategic capacity and techno-political influence of the engineers. Thus, the state has not demonstrated its own capacity or willingness to promote efficient techno-politics within the power and energy sector, as shown below by Ritchken (2019).

Ritchken (2019) was asked to evaluate the net economic benefit to South Africa of the two bids. He says the Alstom Steinmüller Consortium's bid was financially stronger than the Hitachi Consortium's bid, but included about 10% local content. However, the Hitachi bid included more than 30% local content, but was financially expensive. He

recommended Hitachi, which was awarded the contract by Eskom. The emphasis on local content which resulted in a higher price than what had been offered by competitors, was growth-enhancing through the backward linkages to other local suppliers to Eskom. Khan (2000) interprets the rents to the Hitachi Consortium as growth-enhancing rents which are different from corruption. In an interview, on 4 March 2019 Ritchken told me that, while there was a link between Hitachi and the ANC's Chancellor House, his decision was not influenced by that, but by the local content of the bid. On the subject of the association between the chairman of Eskom, Valli Moosa, who was also chairman of Lereko Investments, and the CEO of Lereko Investments, Popo Molefe, Ritchken was satisfied with the process. However, Popo Molefe was also, at the time, a trustee of the trust that owned the entire share capital of Chancellor House.

AmaBhungane, the investigative journalism institution, did a comparison of the rents (AmaBhungane Reporters, 2010). The investigation showed the following:

Hitachi Power Africa's calculation:

- Total contract value – R38,5 billion
- Local content value at 60% – R23,1 billion
- Profit at 1-3% – R231-million – R693 million
- Chancellor's dividend at 25% and post-tax – R50 million

AmaBhungane's calculation (Amabhungane Reporters, 2010)

- Total contract value (2007) – R38,5 billion
- Local content value at 60% R23,1 billion
- Profit at 1-8% – R231-million – R1,8 billion
- Chancellor's share at 25% – R58-million – R462-million
- Chancellor's dividend post-tax – R38-million – R302-million
- Escalated at 20% (2010) – R45-million – R363-million

The AmaBhungane (2010) estimate shows massive quasi-rents, which raises questions about whether rents were growth-enhancing or reflected corruption. The size of the rents from the Eskom contract became a matter of public interest in 2010, when it became clear that Eskom would require massive tariff hikes to fund its capital projects. The ANC's conflict of interest: it formally opposed the tariff hikes, but stood to benefit from them through Chancellor House.

Governance at Eskom

Valli Moosa only served for three years and in the interview he granted me on 9 April 2019, he stated that he thought he had served South Africa and Eskom well. His term ended in 2008 and he was replaced by Bobby Godsell on 1 July 2008. Eskom was changing its leaders with rapid speed. The first chairman of an incorporated Eskom, Reuel Khoza, left in 2005 and Valli Moosa in 2008. An organisation involved in the deployment of new generation capacity requires stability in leadership until commissioning. When the new chairman, Bobby Godsell, resigned on 9 November 2009, following a breach of corporate governance principles, it highlighted a weakness in governance at Eskom. He was the third chairman to leave Eskom in four years.

The Presidency had attempted to intervene in a bid for the reinstatement of the former Eskom CEO Jacob Maroga, who had resigned during a board meeting. According to Godsell, Maroga had offered to resign as chief executive in October 2009.¹ Although Maroga denied this, the then minister of public enterprises, Barbara Hogan, would confirm Godsell's version at the Judicial Commission of Inquiry into Allegations of State Capture (Zondo

¹ (Mail & Guardian, <https://mg.co.za/article/2009-11-09-bobby-godsell-resigns-from-eskom>, 2009)

Commission), as discussed further below. The intervention by the Presidency indicates a piercing of the veil since Eskom was governed by a Shareholder Compact with the Department of Public Enterprises (DPE) and, moreover, that the ministers in Zuma's Cabinet were serving at his behest and could be removed at any time should they have disobeyed the President's instructions. Why would the President be interested in who was running a state-owned company? Arguably, it could be that he had some vested interest in who ran the institution, thus signaling that a patron-client relationship between the president of the Republic of South Africa and government institutions and individuals in his network was emerging. Of importance was the development of a new governance model for SOCs where the President was calling the shots.

Eskom was deploying new generation capacity at Kusile and Medupi. During her testimony before the commission on state capture chaired by Deputy Chief Justice Raymond Zondo, the former minister of public enterprises, Barbara Hogan (Hogan, 2018) detailed how Zuma had tried to reverse the resignation of Maroga after the Eskom board's decision to accept his resignation. Hogan told the commission how she subsequently met with Maroga to resolve the matter and coordinate his "dignified exit" from the power utility. Hogan said she did not want to interfere with the Board's decision. According to Hogan, during a four-and-a-half-hour meeting with Maroga, he had asked her to exercise her authority by reconfirming his position as the chief executive of Eskom (Hogan, 2018).

Malusi Gigaba was appointed minister of public enterprises on 1 November 2010, replacing Barbara Hogan. Following the resignation of Bobby Godsell, Mpho Makwana was appointed as acting chairman of the Eskom board, with executive powers in the absence of a CEO, following the resignation of Jacob Maroga. Although this marked the beginning of a process that would break down governance structures and undermine the sustainability of Eskom, the Eskom board remained independent, with a variety of skills. It included Zee Cele, Jacob Modise, Wendy Lucas-Bull, Uhuru Zikalala, John Mirenge (Rwandan), Lars Josefsson (Swedish), Hee-beom Lee (South Korean), Daniel Dube, Dr Boni Mehlomakulu, Dr Bernie Fanaroff and Paul O'Flaherty (who joined as CFO in January 2010). Brian Dames was appointed as the CEO in June 2010.

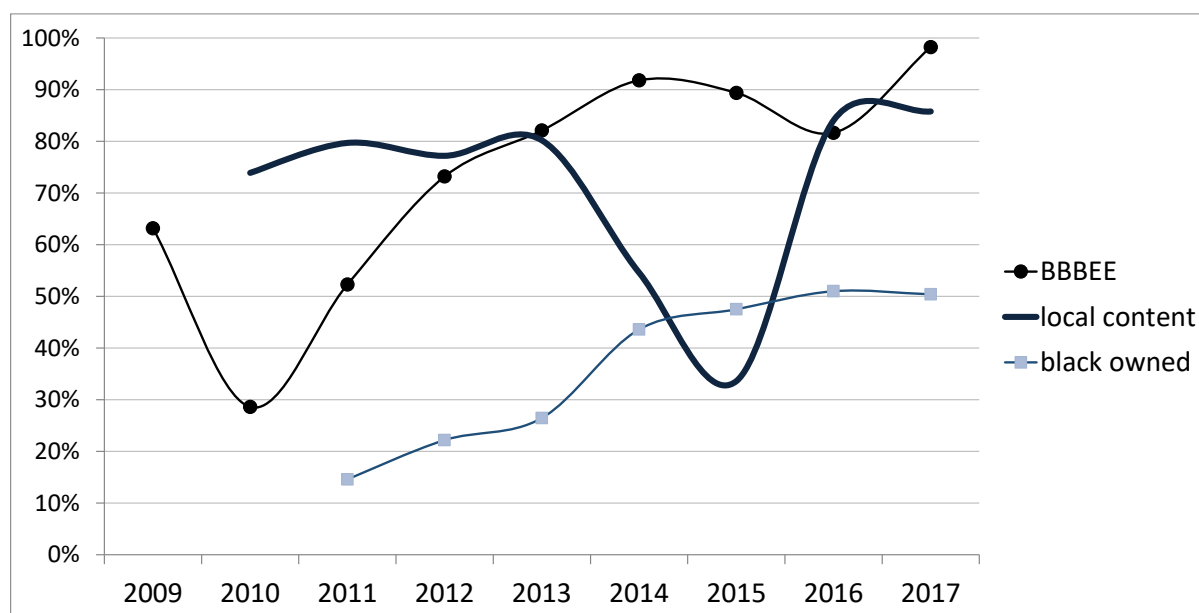
Gigaba appointed Zola Tsotsi as the chairperson after Mpho Makwana retired, having served as a director for three terms and acted as interim chief executive (Bhorat et al., 2017). The following members were appointed during the 2012 financial year: Queendy Gungubele, Neo Lesela, Bajabulile Luthuli, Chwayita Mabude, Yasmin Masithela, Collin Matjila, Mafika Mkwana, Phenyane Sedibe and Lily Zondo. The following board members retired during the year: Zee Cele, Daniel Dube, Lars Josefsson, Hee-beom Lee, Wendy Lucas-Bull, John Mirenge, Jacob Modise and Uhuru Zikalala (Eskom, 2012). The exodus of directors was an indication that something was wrong at Eskom. More concerning was the high board turnover during the period of South Africa's highest post-apartheid capital spend (Bhorat et al., 2017).

The Public Finance Management Act (PFMA) provides for discretion under certain conditions with about R846 billion in public investment programmes at stake for transforming the economy (Bhorat et al., 2017). Bhorat et al. (2017) observe that the loophole was the waving of the requirement to present budget and expenditure plans in parliament, which allowed for discretion and hiding activities from public scrutiny (Bhorat et al., 2017). The battle to transform the economy had shifted away from the economy itself to the state and, in particular, to control over government procurement budgets.

Of the R846 billion in planned public sector capital expenditure in the year 2012, about R200 billion was capital spending by state-owned enterprises (SOEs) whose boards had been restructured by Gigaba. Transnet and Eskom formed two-thirds of the more than R200 billion in SOE spending to leverage in the interests of black economic empowerment during 2010/11 (DTI, 2011). That was about R144 billion or 17% of the government's total procurement budget (Bhorat et al., 2017). Steps were taken in 2009 to align this framework with the BBBEE codes and particularly to bring the SOEs under the auspices of the BBBEE codes (Zalk, 2014). The DTI is a member of the advisory council established in terms of the Broad-Based Black Economic Empowerment (BBBEE) Act and acted as the secretariat to this council during that period.

In December 2014, Lynne Brown became the minister of public enterprises after Malusi Gigaba was moved to the Department of Home Affairs. Brown restructured the Eskom board again and Brian Molefe was appointed as the CEO in April 2015 (Public Protector, 2016). The period between December 2014 and the end of the 2017 financial year saw increased spend by Eskom on black entrepreneurs. Eskom claimed that procurement from BBBEE firms accounted for 98% of measured procurement (essentially excluding imports). Zuma's radical economic transformation was working. Eskom also claimed 86% local content on measured procurement, but that, by definition, excluded imports. Figure 2 shows the share of Eskom's measured procurement from BBBEE, black-owned and local producers. Most of Eskom's measured procurement consisted of primary energy – coal and renewables, and services (Eskom SOC Ltd, 2017).

Figure 1: Share of Eskom measured procurement from BBBEE, black-owned and local producers²



Eskom's multi-year price determination application of 2012 assumed that the first unit of Medupi would be operational in December 2013. Eskom only announced in April 2013 that this would not be the case, which contributed to the crisis and made the entire logic of Eskom's funding application, and the associated regulatory allocation, questionable (Ritchken, 2013). The application further assumed that the first unit of Kusile would be operational by December 2014 and that all of Ingula would be available by March 2015 (i.e. about 3,900 MW available by the end of the 2014/15 financial year). The application also assumed an 82% level of energy availability, which deteriorated to about 76%. The regulator, in turn, correctly based its decisions on Eskom's flawed application.

Response to failed deployment – the Eskom war room

In 2015, the government established an electricity war room in the presidency's Department of Planning, Monitoring and Evaluation to address ongoing electricity supply disruptions. The electricity war room was led by then deputy president, Cyril Ramaphosa, and was tasked with overseeing the implementation of a five-point plan to address the electricity challenges facing the country. Central to these interventions was the need for a coherent short-, medium-, and long-term plan for the financial sustainability of Eskom, built on evidence-based options, formulation and scenario planning. However, Eskom had liquidity and sustainability issues (Mondi, 2018). The independent auditors gave a qualified opinion for the financial year ending 31 March 2017. Sizwe Ntsaluba Gobodo, the auditors of Eskom, noted that section 55(2) (b) (i) of the Public Finance Management Act (PFMA) required the

² Source: TIPS, An Initial review of State-Owned Companies, Volume 1, March 2018, Pretoria, Pg.17.

entity to disclose in a note with the consolidated and separate financial statements, particulars of all irregular expenditure that had occurred during the financial year (Mondi, 2018).

Furthermore, the auditors noted that Eskom did not have an adequate system of identifying and recognising all irregular expenditure and there were no satisfactory alternative procedures it could perform to obtain reasonable assurance that all irregular expenditure had been properly recorded (Mondi, 2018). Consequently, Sizwe Ntsaluba Gobodo were unable to determine whether any adjustment was necessary to the balance of irregular expenditure, stated as R2.996 million. As a result, they concluded that there was irregular expenditure of R2.996 million. Of major concern was the role of Eskom's Audit and Risk Committee. The committee did not respond to the irregular expenditure as presented by independent auditors. Nevertheless, the committee stated in 2017 that "the committee is of the opinion, based on the information and explanations provided by management and the assurance of the forensic department (Mondi, 2018) that:

- The expertise, resources and experience of the finance function under the leadership of the chief financial officer are adequate;
- The system and process of risk management and compliance processes are adequate;
- The internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements and accountability for assets and liabilities is maintained;
- The internal audit charter approved by the committee was adhered to;
- The expertise, resources and experience of the assurance and forensic department are adequate;
- The assurance and forensic department, under the leadership of the senior general manager, assurance and forensic, are operated effectively;
- The information contained in the integrated report and related information on the Eskom website is reliable and does not contradict the information in the annual financial statements;
- Eskom and the group have access to adequate resources and facilities to be able to continue their operations for the foreseeable future, supporting the going-concern assumption; and
- It is satisfied with the audit quality of the external audit as well as the independence and objectivity of the external auditors, having considered the matters set out in section 94(8) of the Companies Act."

In addition, the committee stated that it was "satisfied, notwithstanding the aspects considered in relation to the annual financial statements, that nothing significant has come to the attention of the committee to indicate any material breakdown in the functioning of the controls, procedures and systems during the year under review and that the controls are still appropriate to ensure compliance with the requirements of the Companies Act, the PFMA and IFRS" (Mondi, 2018; Bhorat et al., 2017).

By contrast, the independent auditors concluded that effective steps were not taken to prevent irregular expenditure as required by the PFMA and effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R547 million, in contravention of the PFMA. Neither the committee nor the board appeared to be concerned about irregular expenditure totalling R2.996 million or the fruitless and wasteful expenditure amounting to R547 million (Bhorat et al., 2017).

A financial and economic crisis

At the end of December 2017, South Africa was on the brink of an economic and a financial crisis. Eskom had failed to release its interim financial results, which were due on 30 September 2017, and lenders were not willing to extend credit or roll over maturing loans (Mondi, 2017). In January 2018, the deputy president, Cyril Ramaphosa³,

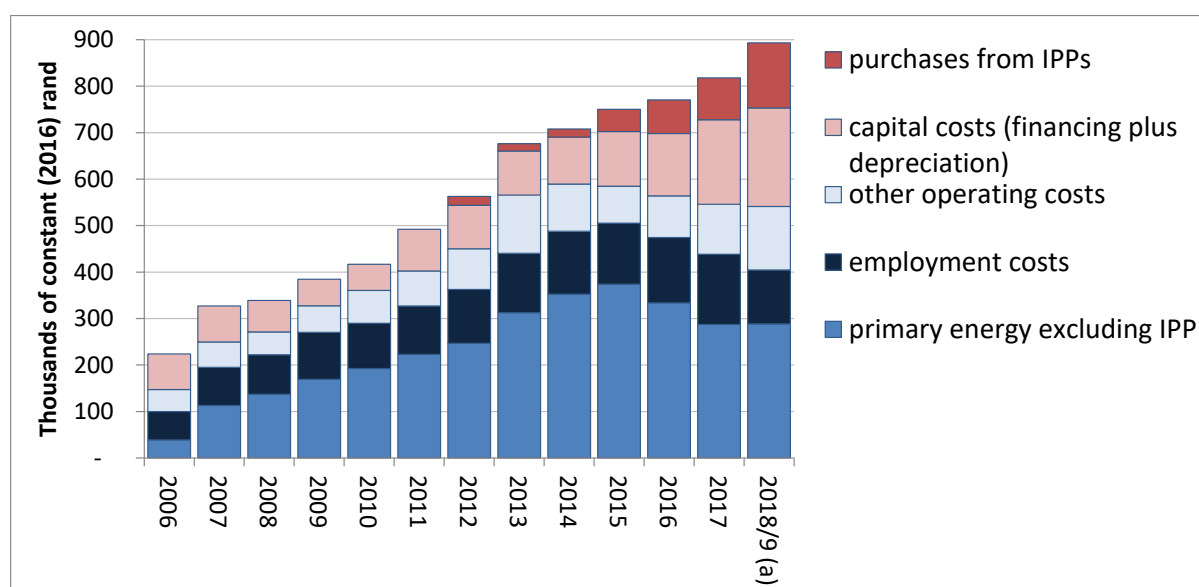
³ Following his appointment as the president of the governing African National Congress (ANC) at its 54th national elective conference, held at Nasrec, in Johannesburg, in December 2017, Cyril Ramaphosa was expected to assume the presidency of the Republic of South Africa, which was effected in February 2018, after horse-trading with the incumbent, Jacob Zuma.

following his assumption of the presidency of the governing ANC at its 54th national elective conference held in Johannesburg in December 2017, was tasked with the resolution of Eskom's probability of default because of its fragile liquidity position and an inability to service existing debt.

What made lenders unwilling to extend credit to Eskom, which led to ratings agencies down-grading Eskom? What did they know that left the South African government and Eskom in the dark and prompted their failure to take the necessary steps to rectify Eskom's financial position? In order to understand Eskom's financial position, it is important to go inside the Eskom financials for the period between 2006 and 2018 to understand the evolution of Eskom's financial deterioration.

Eskom is best examined through the analysis of its financial statements since, in the period before 2006, Eskom was in a healthy financial position and had sufficient reserves to meet any sudden increase in demand for electricity. That changed in early 2006, when demand exceeded the electricity supply, resulting in blackouts. It is therefore important to investigate and analyse the interventions that Eskom embarked on in the period between 2006 and 2018. A desktop analysis shows that the main cost drivers for this SOE were capital costs, followed by purchases of renewable energy.

Figure 2: Eskom cost drivers in constant (2016) rand

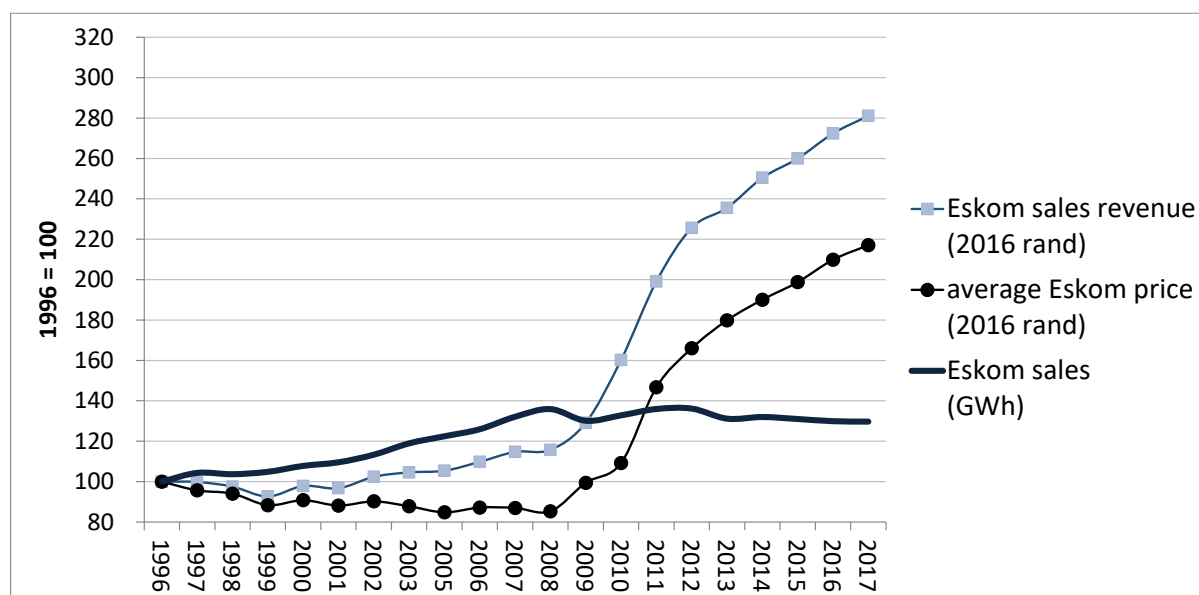


Source: Eskom annual reports, relevant years

Figure 2 above shows how these costs have risen steeply since 2013, despite stagnant sales in volume terms (CDE, 2019). Stagnant sales volumes were a symptom of decline in demand for Eskom's products. Demand shrank from 2008, even as Eskom's prices and revenues rose steeply. In large part, the decline in demand reflected a move toward less electricity-intensive technologies and lines; downsizing at the aluminium, steel and ferro-alloys refineries with the end of the metals boom; and increasing supply from the renewable energy independent producers programme (REIPPP) (TIPS, 2018).

The decline in Eskom sales largely reflected trends in the mining value chain. As gold mining declined, it was replaced by less energy-intensive production of iron ore, coal and platinum. The share of the mines and refineries in Eskom's total sales consequently dropped from half to just over a third between 1998 and 2018 (TIPS, 2018), as shown in Figure 3 below.

Figure 3: Indices of Eskom's average tariff and sales revenue in constant (2016) rand (deflated with CPI) and sales in GWh (1996 = 100)



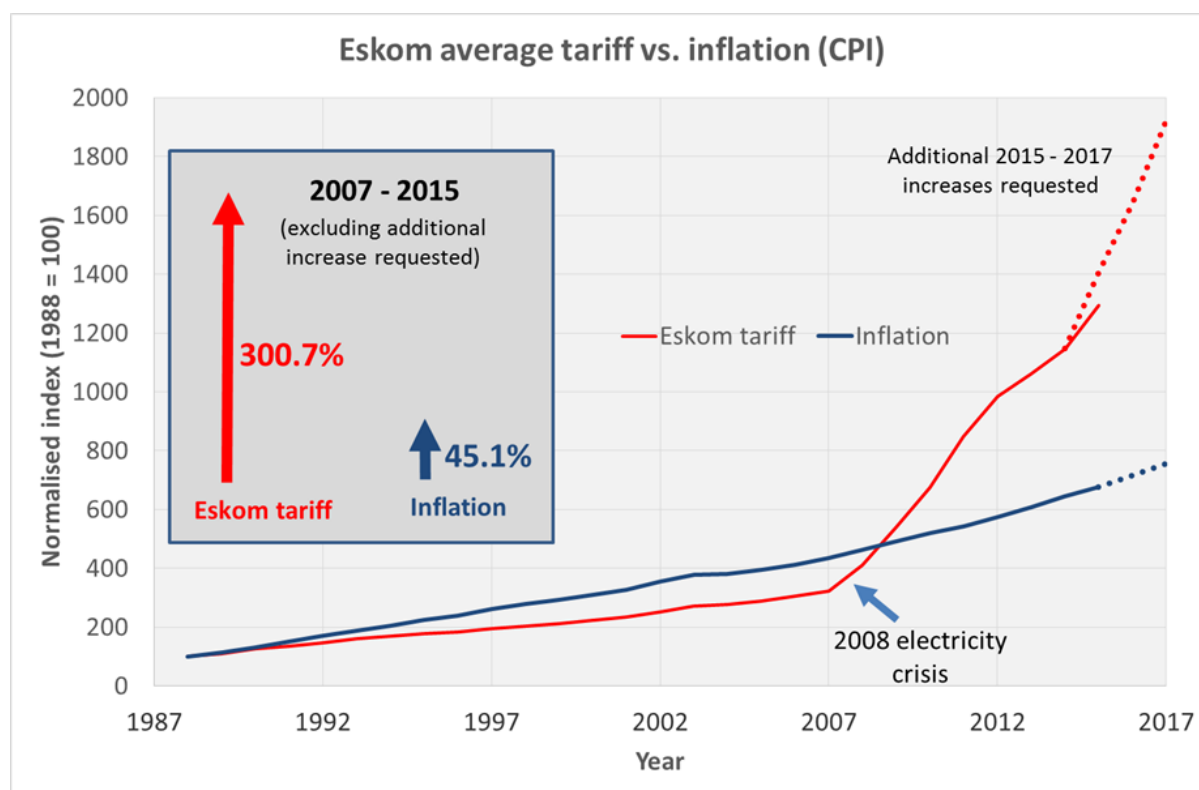
Source: Eskom annual reports, relevant years

The increase in Eskom's sales resulted from steep tariff increases between 2008 and 2015, as shown in Figure 4 below. In the period from 1988 up to the 2008 electricity crisis, electricity tariff increases did not keep pace with inflation (TIPS, 2018). This was partly due to government policy to keep electricity tariffs as low as possible for poor communities, but also due to Eskom having an oversupply of electricity (in the 1990s) and not investing in new capacity (in the 2000s) (TIPS, 2018). Between 1988 and 2007, electricity tariffs increased by 223%, while inflation over this period was 335% (TIPS, 2018). From the 2008 electricity crisis onwards, there was a clear and sharp inflection point for electricity tariffs in South Africa. From 2007 to 2015, electricity tariffs increased by 300%, whereas inflation over this period was 45%. Thus electricity tariffs tripled in eight years (TIPS, 2018; Moolman, 2017).

Funding Eskom

The National Electricity Regulator of South Africa (Nersa) approved an increase of 9.4% for 2016/17 and one of 2.2% for 2017/18. In a letter dated 2 March 2018, addressed to Eskom CEO Phakamani Hadebe, Chris Forlee, the chief executive of Nersa, approved an increase of 5.23% for the 2018/19 financial year.

Figure 4: Eskom average tariffs vs. inflation (CPI)

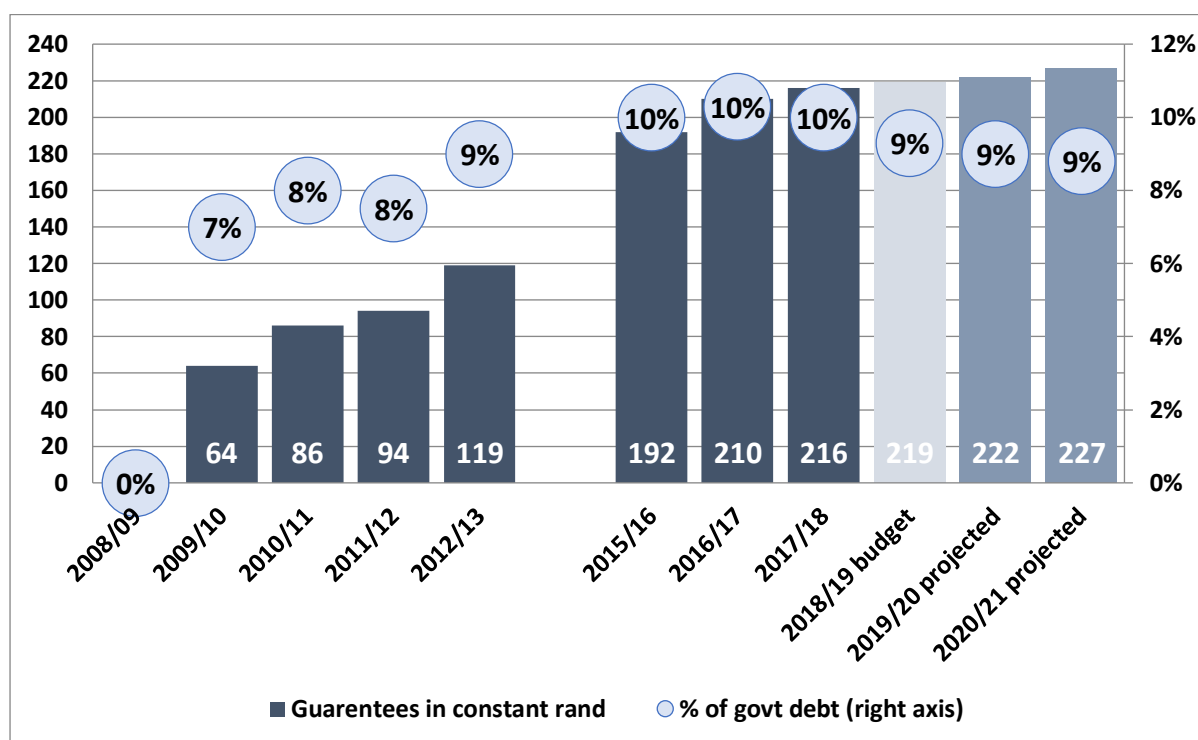


Source: Moolman (2017)

Eskom's illiquidity had led to the downgrade of its credit rating by ratings agency Moody's, from B1 to Ba3. Banks, financial institutions and lenders were concerned about going concern status, as a result of its apparent inability to meet loan capital and interest repayments from operating income for the months ahead. The liquidity crisis resulted from domestic financial institutions refusing to provide short-term facilities to Eskom because of the perceived poor leadership and governance of the previous Eskom chairperson, board and executive management, which had been exposed by the media as a result of a series of leaks referred to as the Gupta Leaks (Bhorat et al., 2017).

The ratings downgrades led to increased lenders' requirements for government guarantees of Eskom's debt. By 31 March 2018, R240.5 billion of the government guarantees had been used, as shown in Figure 5 below, relating to loans and bond issuances, both foreign and local (TIPS, 2018). Of the total facility of R350 billion, 79% had been committed, 17% was under negotiation and only 4% remained available for future funding. Investors generally rely on the resolution of governance-related issues and associated investigations before any firm commitments on funding can be made.

Figure 5: Treasury guarantees of Eskom debt, in billions of constant (2016) rand as a percentage of total net government debt



Source: Eskom 2018

Furthermore, investors required stability in executive management. As shown in Table 2 below, the ratings downgrades resulted from deep concerns of ratings agencies regarding governance and leadership at Eskom, and they were closely monitoring leadership stability and improvements in governance. Any further downgrades would exacerbate the prevailing situation, putting Eskom’s funding plan at risk (Eskom, 2018). Standard & Poor’s (S&P) was concerned about the viability of Eskom and needed reassurances and action by the government that it would stand behind Eskom. Their statement reflected their concerns:

“The negative outlook reflects that on the sovereign and our view of uncertainty regarding the government’s commitment and ability to provide timely support to Eskom for any funding shortfalls, which could be exacerbated if the outcome of the ongoing legal battle against Eskom and Nersa results in tariff growth remaining muted beyond March 31, 2018.”...“But the reality is that Eskom is under pressure and they are requiring more support from the government ... more than what the government had actually budgeted for. It is hurting Eskom for now, but it could eventually hurt the government’s balance sheet” (Creamer, 2017).

Eskom – a collective responsibility?

President Ramaphosa (2019) has argued that Eskom is our collective responsibility as a nation and everyone should ensure that it is supported. President Ramaphosa conceded, in line with the recommendations of both the Eskom Sustainability Task Team and the Technical Review Team, that Eskom should deploy its most skilled and experienced personnel to where they were needed most. Ramaphosa showed his hand when Freeman Nomvalo was appointed as the chief restructuring officer (CRO). Nomvalo had worked for many years for the National Treasury, as the state general accountant and later as the chief executive of the State Information and Technology Agency (SITA), before going private. He later joined the South African Institute of Chartered Accountants (SAICA) as its chief executive. This signalled that the president may not necessarily have had his way in deciding the future of Eskom because, beyond finance, Eskom had operational challenges.



The tabling of the Integrated Resource Plan (IRP) 2019 on 20 October 2019 by the minister of mineral resources and energy, Gwede Mantashe, signalled the government's commitment to anchoring Eskom as a dominant player in the generation of electricity from coal-fired power stations. Beyond Medupi and Kusile, Mantashe reiterated the significance of coal in electricity generation in South Africa for the foreseeable future (DMRE, 2019). The minister did not acknowledge the level of indebtedness of Eskom of R450 billion nor its failure to generate sufficient cash flows to service the debt and its consequent reliance on cash injections from the National Treasury to meet its financial obligations. Furthermore because of the design life of the existing coal fleet and the abundance of coal resources, new investments would be needed in more efficient coal technologies (high-efficiency, low-emission (HELE) technology, including supercritical and ultra-supercritical power plants with carbon capture, use and storage (CCUS)) to comply with climate and environmental requirements, a condition precedent set by the Organisation for Economic Cooperation and Development and the financial institutions that funded the Kusile and Medupi coal power plants (DMRE, 2019).

Table 2 below shows South Africa's energy mix as proposed by the IRP 2019. It shows that the pace and scale of new capacity developments required up to 2030 had been curtailed, compared with what had been proposed in the IRP 2010. The IRP 2010 is discussed further below to show its potential and to emphasise the differences from IRP 2019. Moreover, the ministerial determinations for capacity beyond Bid Window 4 (27 signed projects) issued under IRP 2010 are being reviewed and revised in line with the new projected system requirements for the period ending in 2030. Table 2 shows that South Africa carries a huge energy risk between 2019 and 2022, as the country is putting its hopes on both Kusile and Medupi and battery storage technology as a mitigant during this period. The significant change in the energy mix, as shown in Table 2 post-2030, indicates the sensitivity of the results to the input assumptions. The Department of Mineral Resources and Energy (DMRE) has committed itself to an in-depth analysis of the assumptions and economic implications of the electricity infrastructure development path chosen post-2030 to mitigate the potential risks.



Table 2: Integrated Resource Plan (IRP) 2019

Recommended Plan IRP 2019	Coal		Nuclear	Hydro	Storage	PV		Wind	CSP	Diesel	Gas & Other*
Current Base	37149		1860	2100	2912	1474		1980	300	3830	499
2019	2155	-2373						244	300		***
2020	1433	-557				114		300			
2021	1433	-1403				300		818			
2022	711	-844			513	400	1000	1600			
2023	750	-555				1000		1600			500
2024			1860					1600		1000	500
2025						1000		1600			500
2026		-1219						1600			500
2027	750	-847						1600		2000	500
2028		-475				1000		1600			500
2029		-1694			1575	1000		1600			500
2030		-1050		2500		1000		1600			500
TOTAL INSTALLED CAPACITY by 2030 (MW)	33364		1860	4600	5000	8288		17742	600	6380	
% Total Installed Capacity % of MW)	43		2.36	5.84	6.35	10.52		22.53	0.76	8.1	
% Annual Energy Contribution (% of MWh)	58.8		4.5	8.4	1.2	6.3		17.8	0.6	1.3	

Source: DMRE

* Distributed Generation, CoGen, Biomass, Landfill

** Allocation to the extent of the short-term capacity and energy gap

Keeping the lights on

No sooner had the Minister of Mineral Resources and Energy presented the IRP 2019, than the Minister of Finance was on hand in Parliament on 23 October 2019 to table a special appropriation bill requesting Parliament to approve an amount of R59 billion appropriated out of the National Revenue Fund. The Department of Public Enterprises requested R26 billion for the 2019/2020 financial year; and R33 billion for the 2020/2021 financial year. The bill was tabled to assist Eskom to meet its financial obligations. The minister's request to Parliament was done in the context of increasing the national government debt as a ratio of GDP, which had increased by more than 30% in the past 10 years and, including the Eskom support, could be approaching 80% by the end of March 2028.

In his request for the approval of the bill, the Minister of Finance reiterated that Eskom's problems went beyond financial and included operational and corporate governance weaknesses. He stated:

“And if we are to reduce a complex problem to the lowest common denominator – being the financial problem – we are not solving the problem. We must appoint the correct board of directors, a competent management team and be in a position to hold everyone accountable for the operations” (Mboweni, 2019).

Therefore, a world-class CEO and board with both operational experience and financial expertise were required to halt the continuing failure of Eskom to keep the lights on. However, it came as a surprise on 18 November 2019 when André de Ruyter was appointed as the new CEO of Eskom, given his failure to improve the performance of Nampak during his tenure as CEO. Nampak’s share price had fallen by 84% in the five years preceding De Ruyter’s departure for Eskom, with the market value dropping from R29 billion in 2014 to R5 billion on 19 November 2019.

Nevertheless, the ministers of mineral resources and energy, finance and public enterprises appeared to be well coordinated in their attempt to win South Africans’ hearts and minds in resolving the energy crisis. On 28 October 2019, the Minister of Public Enterprises, Pravin Gordhan, presented the ‘Roadmap for Eskom in a Reformed Electricity Supply Industry’.

The Eskom Roadmap and the IRP 2019 have offered some certainty regarding the future energy mix of South Africa and a reformed Eskom. However, the lack of financial detail, rising debt in the sovereign and the failure to deal with how South Africa will take itself out of its levels of indebtedness (approaching a debt to GDP ratio of 80% by 2028) is of concern. In the absence of an economic growth strategy, a contracting economy makes IRP 2019 a riskier plan. The Eskom Roadmap and the sovereign’s ability to service its debt while faced with rising unemployment at 30 percent, poverty and widening inequality mean a just energy transition will be a site of struggle.

The Industrial Development Corporation

The Industrial Development Corporation (IDC) of South Africa Limited was established in 1940 through an Act of Parliament (Industrial Development Corporation Act, 22 of 1940) and is fully owned by the South African Government. IDC priorities are aligned with the national policy direction as set out in the National Development Plan (NDP), Industrial Policy Action Plan (IPAP) and industry Master Plans. Its mandate is to maximise development impact through job-rich industrialisation, while contributing to an inclusive economy by, among other activities, funding black-owned and empowered companies, black industrialists, women, and youth-owned and empowered enterprises. At the same time, the IDC ensures that its long-term sustainability is achieved through prudent financial and human resource management, safeguarding the natural environment and increasingly positioning itself as a centre of excellence for development finance (IDC, 2020).

Mondi and Bardien (2012) have argued that the IDC conformed to Chalmers Johnson’s (Johnson, 1982) description of a high-speed growth institution, at least in South Africa during apartheid. From its very modest beginnings, the organisation became an instrument of the country’s industrial development. Not only did it respond passively to requests for funding by the private sector based on economic merit like a commercial bank would do, but it also undertook large-scale and risky projects, sometimes at the behest of the political authorities and sometimes of its own volition, developing its own projects when the opportunity arose to do so (Mondi & Bardien, 2012). The IDC actively entered a diverse range of industries from petro-chemicals to shipping, either alone or in partnership with domestic or foreign parties.

Funding and governance

The IDC invests in various sectors of the economy by deploying a range of instruments in order to promote industrial development. For example, in the 1960s, it developed export credit schemes to source new markets for South African manufactured goods. Other instruments include low interest loans, import credit schemes, equity investments, structured financing options and payment holidays. More importantly, the IDC adopted a long-term approach to its investment activities, recognising that certain projects would not achieve profitability in the early years of operation. The organisation was also flexible in its approach to assist its business partners during temporary downturns in the business cycle (Bardien & Mondi, 2012).

Answerable to political oversight, the IDC operates within the ruling political framework by not only adapting its mandate to the new political realities, but also pre-emptively making inputs into policy formulation. Yet, at the same time, successive IDC leadership has been careful to keep the organisation's operational independence, lest its governance succumbs to undue political influence. In the 2020 financial year, the IDC experienced weaknesses in its performance as seen in its portfolio and the impact of COVID-19 on global asset prices that fed into the largest knock yet on the IDC balance sheet. Some IDC clients' performance prior to the impact of COVID-19 were already in distress and the COVID-19 pandemic exacerbated its problems. The IDC recorded about R2 billion in credit losses in the last quarter of the 2020 financial year as customers underperformed, while a further R26 billion was taken off the balance sheet during that quarter due to a downward revaluation of equity investments in the wake of the pandemic's ripple across the world (IDC, 2020). Over the entire financial year, R22 billion of the revaluation was linked to a fall in the share price of Sasol, which constitutes a large part of the IDC investment portfolio. The weakened balance sheet has reduced the IDC's ability to drive industrial development.

Perhaps, the IDC focus in the deracialisation of the South African economy could account for its declining performance. This can be seen from the IDC's alignment with government mandate by extending credit to grow sustainable industries, support entrepreneurs and improve lives. This is a marked change from its industrial development role which led to the expansion and deepening of industry and the creation of world champions such as Sasol and BHP Billiton. The IDC's industrial development now takes the form of providing non-financial support to entrepreneurs, developing and managing specialised funding products to address specific development outcomes, undertaking industry and economic research and participating in government and private sector industry and economic development initiatives. The description of the IDC by Mondi and Bardien (2012) of a high-speed growth institution is diminishing – if not already vanished – with the destruction of apartheid.

Structural economic barriers

Several studies on barriers to entry in South Africa show that the economy remains highly concentrated in terms of control by large companies over markets (IDTT, 2018). The dominance of resource-based sectors and concentration within these sectors thus serves to hinder structural transformation in the South African economy. In order to foster entry of firms, reduce concentration and promote structural transformation in South Africa, adequate finance, among a raft of other industrial policy measures, is required (Goga, Bosiu, & Bell, 2019). While the need for structural transformation of the economy for development is broadly accepted, how this occurs has been subject to debate.

The IDC, in its attempts to be relevant and appease its political masters in the transformation of the economy, has towed the political line, unlike its insular past described by Fine and Rustonjee (1996). Its recent approaches have focussed more on the deracialisation of the economy, with a special focus on women and youth. Arguably this approach to deracialise and improve gender representation has sacrificed structural transformation of the economy. Black, women and youth shareholders at MTN, Vodacom and Telkom have not resulted in open and dynamic competition in the sector. Hence, the focus on deracialisation and black-economic empowerment, while it has changed ownership, has not contributed to competition and lower costs of business. This perspective is supported by the IDC's focus and reporting to broader society of stakeholder engagement and performance. The IDC recognises competing needs from multiple stakeholders in a capital-scarce environment that require certain trade-offs to be made in order to fulfil its mandate. According to the IDC, this requires proactively tough, yet balanced, decisions to direct resources effectively towards strategic focus areas that will create the best long-term value while balancing the short-term needs of our stakeholders (IDC, 2020).

The performance of the IDC

The IDC performance is reflected in Table 3 below. The IDC has struggled to disburse its commitments indicating a difficult trading environment particularly in the last two financial periods of reporting. In 2018 the IDC disbursed about 14.6 billion, R11.4 billion in 2019 and R12.1 billion in 2020. In 2018 the IDC funding of black industrialists,

women-empowered businesses, youth empowered businesses and support for government's localisation initiatives amount to about R17.8 billion which declined to about R8.7 billion in 2020 signalling the difficulties in the economy as a result unreliable electricity supply and the difficult economic conditions in South Africa. The IDC's fragility is indicated by the revaluation of its equity and write downs could also be a function of poor investment decision relating to the funding of designated groups. Further research is required to reject this suggestion.

Table 3: IDC Funding

	2020			2019	2018
Indicator	Actual	Base	Stretch	Actual	Actual
Development impact		Target	Target		
Value of funding disbursed plus payment guarantees issued (R'billions) ¹	12.1	19.7	21.7	11.4	14.6
Funding to Black Industrialists (R'billions)	2.7	6.1	8.9	4.7	7.8
Funding to women-empowered businesses (R'billions)	2.2	2.0	2.5	2.8	2.0
Funding to youth-empowered businesses (R'billions)	0.9	1.0	1.5	0.7	1.0
Funding to support government localisation initiatives (R'billions)	2.9	6.1	7.0	4.7	7.0
Expected direct jobs created and saved (number)	10 205	32 501	40 015	17 887	22 193

Source: (Goga, Bosiu & Bell, 2019)

Policymakers, the IDC and many other scholars have argued that the IDC is filling a gap in the market (Goga, Bosiu & Bell, 2019). This argument is premised on the market failure theory and suggests that development finance institutions (DFIs) or national development banks should step in to provide much-needed industrial finance, sometimes at discounted rates. However, the thinking on the importance of DFIs has changed over time to a clear case for the need for development banks, particularly where the private sector outperforms the public finance institutions.

Goga et al. (2019) analysed how the IDC is positioned to facilitate structural transformation and inclusive growth of the South African economy. They assessed the IDC's investments in the economy as well as the broader context and policy environment within which the IDC functions. They have also shown that South Africa's financial institutions typically provide only short- to medium-term finance, with SMEs and black-owned businesses still experiencing significant challenges in accessing finance (Goga et al., 2019). In addition to patient capital, DFIs also generally provide concessional funding in the form of lower interest rates and grants, as well as other non-financial support initiatives linked to finance provided. Lower interest rates are particularly important given that one of the challenges for SMEs is the relatively high cost of finance associated with the private banking sector (Goga et al., 2019).

Counterintuitively, the IDC does not generally provide lower interest rates on its loans. In fact, the IDC's pricing of loans is not more competitive than commercial banks, with businesses often approaching the IDC as a lender of last resort. The IDC's funding model appears to be a challenge for providing concessional funding as well for the process of accessing IDC funding. The IDC dealmakers are passive and only act on the approach to it by entrepreneurs. The private sector actors, such as business partners, are active in seeking business through networks but also spend a lot of time assisting existing clients to expand or even acquire others to build scale. In the context of a concentrated economy, access to longer-term finance is critical to ensure that businesses can sustainably compete by building capabilities, particularly in sectors where scale is important.

The IDC and black economic empowerment

The IDC's first coherent policy on black economic empowerment was adopted in September 2002, with the following value proposition (Gihwala, 2011): “the provision of finance and access to equity for the meaningful facilitation of transfer of ownership, management and control of South African industries and the encouragement of entrepreneurship from black communities” (IDC, 2010: 2).

The IDC's BEE funding principles were as follows:

- To ensure the creation of ownership of businesses for historically disadvantaged persons (HDPs);
- To ensure management capacity and entrepreneurship development through transfer of skills;
- To facilitate the advancement of HDP employees through share and/or profit participation;
- To adopt appropriate policies for affirmative action employment and procurement practices and these to be filtered to funded transactions.

The IDC BEE Policy was backed by the establishment of the BEE Strategic Business Unit (SBU) in 2002 whose funding criteria for black businesses was to ensure that black businesses had access to finance and, as a result, that lending criteria were less onerous than its normal lending criteria. To further aid this, the contribution rate was reduced to between 5% and 10% of transaction value. The floor rate was later reduced to 2.5% in 2002. For this “cheap” money the IDC Empowerment SBU's investment ethos was to ensure that the black entrepreneur was operationally involved in the business (Gihwala, 2011). Data between 1995 and 2005 shows that most BEE deals in this period were for acquisitions. The IDC's BEE policy evolved from a purely acquisition-based focus to expansionary investments from the early 2000s (IDC, 2003, 2015), with it seeking to provide concessional loans and equity funding to assist black businesses (IDC, 2003).

In 2013, the IDC also intensified its focus on funding for black industrialists (IDC, 2015). IDC's funding of black industrialists occurs through its own funding channels as well as co-funding of black industrialists identified through the DTT's Black Industrialist Scheme (BIS) that was launched in 2016 (Goga, Bosiu, & Bell, 2019). The BIS aims to promote the participation of black industrialists as manufacturers in key sectors identified in the IPAP. In the 2020 financial year, the IDC approved R3.1 billion (2019: R6.0 billion), or 26% of total approvals, in funding for Black Industrialists, R2.2 billion (2019: R2.8 billion) for women-empowered businesses and R854 million (2019: R823 million) for youth-empowered businesses. Over the past five years, these approvals amounted to R24.5 billion, R11.7 billion and R6.0 billion, respectively.

The Development Bank of Southern Africa

The Development Bank of Southern Africa (DBSA) was established in 1983 to perform a broad economic development function within the homeland constitutional dispensation that prevailed at the time. The DBSA Board of Directors is governed by the Development Bank of Southern Africa Act, No. 13 of 1997 (Amended Act No. 41 of 2014) (DBSA Act). It has undergone various changes during the post-apartheid period and its primary purpose is to promote inclusive and sustainable economic development, growth and regional integration through infrastructure finance and development that improves the quality of life for people in Africa.

The DBSA sees its role as the creator of a pipeline of potential blended finance programmes and projects, potentially exceeding R1 trillion, which includes the following:

- structuring blended finance solutions;
- providing a support function to project owners across the public sector to prepare blended finance projects;
- assisting with identifying and developing appropriate funding structures and sources of revenue, financial models and financial delivery mechanisms and incentives for the projects;
- engaging with financial institutions and the market;
- developing financial instruments that will enable investments;

- unlocking bankable blended finance projects being presented to the private sector for funding;
- establishing a central repository of this structured blended finance expertise;
- establishing of a multi-stakeholder Infrastructure Fund and a Strategic Advisory Committee for fund oversight.

Unlike the IDC whose focus is predominantly on South Africa as it pursues its transformation goals of deracialising the South African economy, 30% of the DBSA's balance sheet is directed towards regional development and integration strategy. These investments are predominantly aimed at the Southern African Development Community (SADC) and include countries outside of SADC for selected Regional Economic Communities, such as the tripartite free trade area linking SADC, the Common Market for Eastern and Southern Africa (COMESA) and the UN Economic Commission for Africa (UNECA) as well as corridor development. The DBSA investments across the continent facilitate connectivity and trade within Africa, bringing benefit locally and regionally.

Sectoral infrastructure investment

The DBSA takes a holistic view of infrastructure development by addressing the entire infrastructure value chain and focusing on key long-term strategic interventions. Its integrated approach to infrastructure development starts with planning, preparing, financing, building and maintaining. The DBSA provides long term pre-financing support and services to under-resourced municipalities, including infrastructure planning and project implementation support. It then performs strategic, end-to-end project development and preparation with the purpose of de-risking projects and delivering project concepts to bankability. This is followed by providing a range of financing solutions that drive development impact by investing in results-based infrastructure projects through leveraging skills and capabilities in order to accelerate project management and implementation in key priority areas. Finally, the DBSA supports the maintenance and improvement of social and economic infrastructure projects. Africa's transformation is at the centre of its development agenda. To improve the quality of Africa's growth, the DBSA aims to broaden the process of transformation by ensuring that growth is shared and is equitable for all African citizens and countries.

The DBSA works across six key sectors. These are energy, ICT (information communications technology), transport, water, social and municipalities. In each of the sectors, the DBSA provides financing in the form of equity, senior and mezzanine debt for balance sheet lending and project financing structures. In addition, it develops additional financing products to meet evolving infrastructure requirements. Its client base includes municipalities in South Africa, the private sector, SOEs, sovereigns and public-private partnerships (PPPs) across the continent. It measures its performance and impact in each of the sectors through its rigorous project preparation life cycle. In the 2020 financial year, the DBSA unlocked infrastructure of about R0.9billion which was a growth of about 56% from the previous financial year and about 75% above the target as shown in Table 4 below. The DBSA prepared and committed to projects estimated at R2.4 billion a decline of about 65 percent from the previous financial year due to difficult trading condition and the onset of Covid -19. As a result, the targeted R5 billion value for projects prepared and committed was missed by about 52 percent. However, the disbursement of infrastructure financing saw a 77 percent increase from R8.7 billion in 2019 to R15.4 billion in 2020 overshooting the target by 14 percent.

Table 4: DBSA Financing

	2020 Actual	2019 Actual	% Variance to 2019	2020 Target	% Variance to target
Secondary and under-resourced municipalities					
Value of infrastructure unlocked	R1.4 billion	R0.9 billion	↑ 56	R0.8 billion	↑ 75
Project preparation					
Value of projects prepared and committed	R2.4 billion	R6.8 billion	↓ 65	R5 billion	↓ 52
Infrastructure financing					
Total disbursement	R15.4 billion	R8.7 billion	↑ 77	R13.5 billion	↑ 14
Third-party funds catalysed					
Value of funds catalysed	R43.1 billion	R16.8 billion	↑ 157	R46.7 million	↓ 8
Infrastructure delivery					
Value of infrastructure delivered	R4.1 billion	R3.5 billion	↑ 17	R4 billion	↑ 2

Source: DBSA, 2020

DBSA financial performance

The DBSA remained financially strong despite a decline in sustainable earnings of about 126% in 2020 from R2.3 billion in 2019 to -R0.6 billion in 2020, a decline of about 121 percent from target of R2.8 billion. Its cost-to-income ratio of 28% in 2020, which was an increase of about 22% from the previous year is among the lowest in the financial sector, despite the fact that the DBSA is a non-deposit taking institution. In comparison to Standard Bank whose cost-to-income ratio was 56.4% in 2019, despite its deposit-taking license, this signifies trading difficulties in the African banking sector.

Table 5: Financial performance

Financial					
Sustainable earnings	(R0.6 billion)	R2.3 billion	↓ 126	R2.8 billion	↓ 121
Net profit	R0.5 billion	R3.1 billion	↓ 84	R2.5 billion	↓ 80
Cost-to-income ratio (financing business)	28%	23%	↑ 22	33%	↓ 15
Net income margin	5.1%	5.5%	↓ 7	5%	↑ 2
Debt/equity ratio (including callable capital)	165%	138%	↑ 20	138%	↑ 20
Non-performing loans ratio	7.2%	4.9%	↑ 47	6%	↑ 20
Cash generated from operations	R3.6 billion	R3.8 billion	↓ 5	R4.1 billion	↓ 12

Source: DBSA, 2020

Transformation

The DBSA role in economic transformation is reflected in the implementation of its mandate and value chain of activities to effect change in society, in line with national policy frameworks. It does this through several levers to advance economic transformation within infrastructure development, including the following:

- the B-BBEE rating, including preferential procurement, skills development, employment equity and supplier/enterprise development;
- direct lending to black owned businesses;
- direct impact through third-party funds managed by the DBSA;
- indirect economic impact through guidelines and conditions set for clients;
- gender mainstreaming;
- identifying a number of transactions to support black-owned entities in student housing, human settlements, health and captive energy sectors;
- initiating a BBEE Equity Financing instrument to facilitate meaningful participation by black-owned enterprises in infrastructure projects.

Of the R15.4 billion (R8.7 billion) disbursed in the 2020 financial year, only about R548 million (R981 million) was disbursed to B-BBEE entities. The value of infrastructure delivered by BBEE entities in the 2020 financial year was R3.38 billion (R2.5 billion), the largest since 2016 which was about R1.65 billion. Of the value of infrastructure delivered by BBEE entities of R3.38 billion, about R948 million (R536 million) was delivered by SMMEs and subcontractors. The DBSA procured about R117 million (R83 million) from BBEE entities. The number of SMMEs and subcontractors benefiting from infrastructure delivered, procurement and subcontracting was estimated at 1219 (1097) in the 2020 financial year.

DBSA and transformation

Table 6: Transformation

		2020	2019	2018	2017	2016
Transformation analysis						
Value of funds disbursed to B-BBEE entities	R million	548	981	62	341	220
Value of infrastructure delivered by B-BBEE entities	R million	3 377	2 500	1 800	1 781	1 650
- B-BBEE entities	R million	2 429	1 964	1 436	1 332	940
- SMMEs and subcontractors	R million	948	536	364	449	710
Value of procurement spend by DBSA to B-BBEE entities	R million	117	83	66	47	41
Number of SMMEs and subcontractors benefitted	Number	1 219	1 097	717	500	665

Source: DBSA, 2020

Synthesis

The need for the transformation of the South African economy cannot be more urgent. We have presented three case studies of three state owned companies in the South African economy, each with different approaches to the transformation and deracialisation of the economy. For Eskom, procurement is at the centre of transformation. The IDC uses its balance sheet through its funding activities to BBEE entities, women-owned businesses and youth. The DBSA as an infrastructure developer also uses its funding instruments, pressurising its clients to procure

services to BBBEE companies and subcontracting some activities in the deployment of new infrastructure across the six sectors where it operates. Below we discuss each entity, starting with Eskom and followed by the IDC and the DBSA.

Eskom's remarkable achievement was the sourcing of coal supplies from Eyesizwe, a black-owned coal mining company led by Sipho Nkosi. However, Anglo American did better than Eskom when Kumba Resources Limited unbundled in 2006. Kumba's coal assets merged with Eyesizwe to form Exxaro Resources Limited. The creation of a significant black-owned and controlled resource company, valued at approximately R24 billion, which had the assets and balance sheet, made it attractive to list on the JSE. Splitting the iron-ore business off, allowed Anglo to retain a significant stake, approximately 66%, in the part of the Kumba business in which it was most interested. By giving the newly created Exxaro a 20% stake in the iron-ore asset company SIOC, it bulked up the BEE profile of SIOC, making it compliant with the goals of the mining charter. Arguably, Eskom, faced with the combination of procurement from black suppliers, the deployment of new electricity capacity and a politician, Valli Moosa, as chairman, became a volatile Molotov cocktail (Mondi, 2019). The increase in procurement from black businesses was becoming a source of competition among black entrepreneurs that opened up opportunities for rent-seeking and malfeasance as discussed above.

The IDC was also a significant player in the above empowerment transaction, switching its equity in Exxaro for debt in support of BEE players. This led to the formation of a black coal champion in Exxaro. The transaction remains one of the IDC's biggest BEE transactions, providing IDC with interest income and dividends through its participation in the Exxaro BEE Holding Company. The IDC has evolved and, in 2013, embarked on a programme of black industrialism to encourage transformation in the manufacturing sector in order to maintain capacity, capability and expand production to create employment. The shift in the IDC's approach to transformation also included women-owned businesses and youth.

The DBSA is an infrastructure developer relying on BBBEE capabilities in deployment or otherwise subcontracting to BBBEE players should they not meet the criteria. In the DBSA, there is reliance on clients to act in good faith for unempowered companies. The DBSA offsets any limitation to transformation because of the skill intensity of its key sectors where it invests through procurement for its consumables and other services.

The three state-owned companies all play a key role in the transformation of the South African economy. Eskom's contribution is to procurement, particularly coal resources. As discussed earlier, in the presence of weak controls and poor governance, procurement is susceptible to rent-seeking. The procurement bill for Eskom, whether building a new power station, diesel for gas procurement or coal, runs into billions of rands annually and, if unchecked due to poor governance, can undermine its sustainability. With a debt of about R464 billion, Eskom has now become a sovereign risk and its restructuring cannot be emphasised. The DBSA also holds about R15 billion of Eskom paper and remains vulnerable to a potential collapse or default by Eskom, a double blow for the South African government who own both entities entirely.

The IDC has also been affected by the decline in its equities as a result of Sasol's overruns in its build programme in Texas, leading to its share underperformance. However, the commodity price recovery appears to have improved Sasol's position and any possibilities of right offer which would have diluted shareholders, particularly black shareholders, has been averted. The IDC deployment of capital to black industrialists, women and youth in recent years has been value destructive, leading to write downs due to the worsening economic conditions in South Africa and the economic lockdown in response to the COVID-19 pandemic. The IDC has thus partnered with the Department of Trade, Industry and Competition (DTIC) to transform the manufacturing sector. In the next session we discuss the IDC and the DTIC black industrialist programme.

The black industrialist programme (Department of Trade and Industry, 2015)

A core responsibility of the Department of Trade, Industry and Competition (DTIC) is that of deploying regulatory systems and support for technical infrastructure that allows for a culture of safe, efficient, high-quality manufacturing processes and competition. The DTIC development support instruments also drive economic transformation (shifting the skewed demographics of apartheid) through the black industrialist programme, support modernisation of the economy through the Manufacturing Competitive Enhancement Programme (MCEP), address capacity challenges through the triple helix Technology for Human Resources in Industry Programme (THRIP) and support innovation in existing industries through the Support Programme for Industrial Innovation (SPII) as well as for small business growth through the Small Enterprises Development Agency (SEDA).

A DTIC 2018/19 report on industrial incentives profiles transformative grant financing in terms of growing new 'black industrialists'. A strong transformative dynamic is built into the incentive that goes beyond racial empowerment. It sets up these emerging industrialists for global competitiveness through steering their investments towards green technologies with a focus on promoting high-value-add in manufacturing. The industrial support instrument negotiates an investment multiplier of at least 3 in reviewing grant leverage conditions so that the current R 1.5 billion reflected in Table 7 below as grant funding leveraged investment of R5 billion.

Table 7: Black Industrialists Scheme

Sub-sector	Grant Approvals	Approval Amounts
Aerospace, rail and automotive components	4	R 88 416 478
Agro-processing	7	R 240 609 095
Chemicals, pharmaceuticals and plastics	18	R 454 321 916
Clean technology and energy	1	R 26 205 000
Clothing, textiles/leather and footwear	2	R 63 066 000
Designated sectors for localisation	1	R 50 000 000
Industrial Infrastructure	7	R 224 325 783
Manufacturing-related logistics	9	R 289 452 687
Mineral beneficiation	1	R 19 600 000
Oil and gas	2	R 88 583 250
Pulp, paper and furniture	1	R 20 200 000
TOTAL	50	R 1 564 770 210

Source: DTIC, 2019

Conclusion

This paper has examined the development finance institutions impact on black economic empowerment and state-owned enterprises through three case studies consisting of two development finance institutions (DFIs), the Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA) and one state-owned vertically integrated power utility, Eskom. Their impact is examined from three perspectives:

- A qualitative and quantitative assessment of the impact of DFIs and SOCs',
- BEE funding/procurement from BEE (preferential procurement),
- Contribution to re-industrialisation.

This paper has shown how the mechanism of black economic empowerment as a social process of the post-apartheid South Africa has been instrumental in the formation of a new black elite. Second, it has shown that the



development finance institutions and state-owned companies employ company instruments for formation of the elite. These instruments include procurement in both the DBSA and Eskom and targeted funding to black entrepreneurs, women and youth in the case of the IDC. Third, through the case study of Eskom we have shown how the funding structures such as Tegeta at Eskom, have undermined the social process, resulting in new methods of accumulation outside the formal processes of the DFIs and SOCs leading to capture and corruption of these institutions and dissatisfactions by black South Africans that BEE is only for the politically connected and corrupt. The dissatisfaction with the implementation of the BEE by DFIs and state-owned enterprises has led to a call that the instrument does not sting like a BEE and therefore should be scrapped. The paper, however, disagrees with the calls to scrap BEE and suggests that the DFIs, through the black industrialist programme supported by the Department of Trade and Industry and Competition, has facilitated the emergence of a new way of elite formation of skilled and capable black South Africans. The black industrialist programme can be enhanced. It can become a catalyst for the transformation of South Africa's minerals and energy complex into a black industrialist complex with South Africa's National Systems of Innovation in manufacturing, agriculture, technology and electricity, thus impacting positively on South Africa's carbon footprint.

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