



A leap toward strategic SOE unbundling and reform

SOE Conference 2025

Setting the scene

► The point of SOE reform

- The point of state-owned enterprise (SOE) reform is simple: to remove barriers to growth, lower the cost of network services and raise productivity.
- That means disaggregation – breaking up vertically integrated monopolies so that the private sector can participate.
- Eskom should not be doing everything from generation to customer service. Transnet should not be the only player in logistics. Reform means each focuses on what it does best, and lets competition drive efficiency.

► We focus on Transnet and Eskom – but it applies across SOEs

- We focus on the big SOEs – Eskom and Transnet – but the same logic applies across sectors.
- There are ongoing reforms in trading services that will affect water and other network-type industries.
- The end goal is a more open, efficient system where users get reliable, affordable services and the economy grows faster.

► Some uncomfortable truths

- If you pull on the thread of reform, you hit issues South Africa usually avoids:
 - dealing with creditors and historic debt overhangs
 - Treasury's role in supporting entities during restructuring
 - how to manage the transition when assets and customers move to new market players



Setting the scene

► Why strong roadmaps and regulators matter

- Successful reform depends on credible roadmaps and independent regulators.
- Regulators must resist SOEs' instinct to cling to assets or block competition.
- We've seen progress in places – NECOM and NLCC – where political leadership has been strong.
- But centralised reform through the current SOE Bill doesn't answer the practical question: who has the transaction expertise to make this work?

► The missing expertise

- There is a major shortage of transaction advisors in the system – legal, financial, accounting and tax.
- The National Transmission Company of South Africa process showed this clearly: one advisor, Lazard, was stretched across everything.
- Every SOE needs its own team to manage unbundling and restructuring.
- OV is beginning to bring in expertise, but it's still early.



Setting the scene

► Separate market and regulatory roles

- Many SOEs combine operational and quasi-regulatory functions – that creates conflicts of interest.
- We need clear separation between the two.
- Examples:
 - The Transport Economic Regulator (TER) – once operational in 2026/27 should have primacy over Transnet's freight operations.
 - Transnet should not be releasing its own network statements for the Interim Rail Economic Regulatory Capacity (IRERC); that's the regulator's job. The same principle applies in electricity, where regulatory approval is essential for things like vesting contracts.

► Strengthen regulatory primacy

- Regulators must have clear authority and rules for fair competition.
- They should not be constrained by vague notions of "strategic national interest" that can be used to block reform.





krutham SOE reform is stalling at key stages

Eskom		Transnet
Electricity Regulation Amendment Act implemented, with reticulation omitted		
Market code (TBC), ITP regulations (TBC), Trading rules (TBC), Wheeling rules		
Sawem implementation roadmap (TBC), missing is the Eskom reform roadmap.		
Regulator needs capacity to align with reforms; Electricity Market Advisory Forum a positive step to guide Nersa.		Roadmap
Malicious compliance (& non-compliance) with lawfare slowing down and blocking reform path; with unbundling stalling with Dx and Gx.		Regulator
Has not provided clear roadmap and shareholder compact; does not intervene enough to solve blockages		SOE's approach
NECOM was a success; but now winding down – needs to integrated into DoEE		Minister's approach
		Crisis committee
		Economic Regulation of Transport Bill
		National Rail Policy, Private Sector Participation Framework, National Rail Master Plan, Network Statement
		Roadmap for the Freight Logistics System in South Africa (2024)
		Transport Economic Regulator still needed; TRIM (Transnet Rail Infrastructure Management) and TNPA (Transnet National Ports Authority) need to move to an independent Schedule 3 SOE.
		Still occupies a position of dominance; its policies aim to maintain its monopoly, albeit with assistance from the private sector on its operations.
		Very proactive with help of strong roadmap; challenging Transnet on its approach, chipping away at resistance
		NLCC has been successful in driving reforms at pace, but needs to graduate PSP Unit over Transnet

While helpful, the SOE Bill has some critical issues

► The proposed State-Owned Enterprises (SOE) Bill would create a holding company – State Asset Management SOC Ltd – to oversee South Africa’s SOEs. It aims to centralise oversight and strengthen governance, but Treasury warns of major fiscal, legal and regulatory flaws. While some issues have been resolved, we see the following risks.

Issue	Critique
Fiscal risk not resolved	R615m in startup funding over three years with no phased or performance-based conditions. Creates a new fiscal burden without a path to self-sustainability.
Guarantee exposure	Restructuring may trigger existing government guarantees if lenders see it as a material change. No mechanism exists to manage lender dissent or defaults.
Legal and funding uncertainty	The Bill omits clear funding provisions under the guise of “innovation”, undermining fiscal oversight and legal certainty for state financing.
Weak regulatory foundation	Fails to address economic regulation – a root cause of SOE underperformance – and defers the issue to the Presidential SOE Council instead of resolving it in legislation.
Gaps in risk management	Governance structures are clarified, but risk protocols remain undefined, leaving major financial and operational risks unmanaged.
Structural issues deferred	Focuses on governance form rather than fixing systemic problems of accountability and regulation, risking another layer of bureaucracy without fiscal discipline.

The original SOE Bill was unrealistic – it even proposed transferring SOEs into the new holding company without addressing tax or accounting consequences.

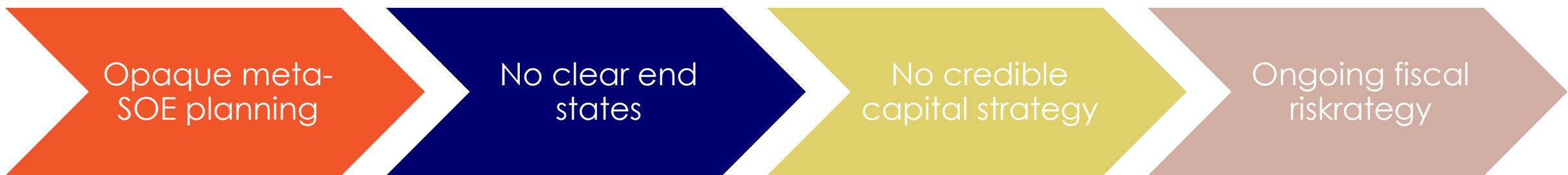
It glosses over the complexity of reform and the need for transaction capacity.

The Bill is stuck in Parliament, mainly because Treasury’s objections were not resolved.

The real issue is not ownership under a holding company but market structure and competition.



Overall, SOE reform lacks a clear destination



- There is no transparent “meta-SOE roadmap” defining end states – what the restructured landscape should look like, who owns what, and why.
- Without clarity on rationale and benefits – such as creating level playing fields between monopoly and competitive functions – reform appears ad hoc.
- The financial implications of restructuring are poorly understood:
 - Fiscal: What liabilities and bailouts remain?
 - Tax/accounting: How will asset transfers and write-downs be treated?
 - Capital markets: What exposure remains with creditors?
- The result is uncertainty for lenders, investors and the public – and continued dependence on guarantees and bailouts.

There is a lack of capacity and execution

Stakeholder	Key issues and blockages
Presidency	Lacks a coherent coordination mechanism (Meta Reform Roadmap) for state-owned enterprise (SOE) reform. Oversight fragmented across departments.
Necom and NLCC	Needs to lodge SOE reform firmly within crisis response structures. Current separation between operational recovery and structural reform limits impact. Coordination across energy, transport and fiscal recovery is weak.
National Treasury	Risk-averse approach to guarantees, debt restructuring and recapitalisation. Limited engagement with lenders on end-state scenarios. Needs to take a stronger policy and shareholder role.
Department of Public Enterprises	Transitional uncertainty on mandates and powers. Minister in Presidency is not addressing the legacy DPE.
Dept of Electricity and Energy	Operationally focused on generation recovery but lacks capacity for sector-wide reform. Struggles to separate policy, regulation and shareholder roles.
Dept of Transport	Persistent operational failures at Transnet and Prasa. Capacity gaps at technical and managerial levels. Governance instability and slow project execution.
SOE Boards and Executives	Board capacity and governance uneven. Risk aversion prevents decisive creditor and restructuring decisions. “Monopoly mindset” resists competition or asset unbundling and reduction. Confusion over whether entities are assets to protect or operating companies to reform.
Cross-cutting	Policy-shareholder-regulator conflicts remain unresolved. Execution paralysis driven by fear of fiscal risk and political blame. No shared accountability for outcomes or timelines.

Treasury and the OV's role

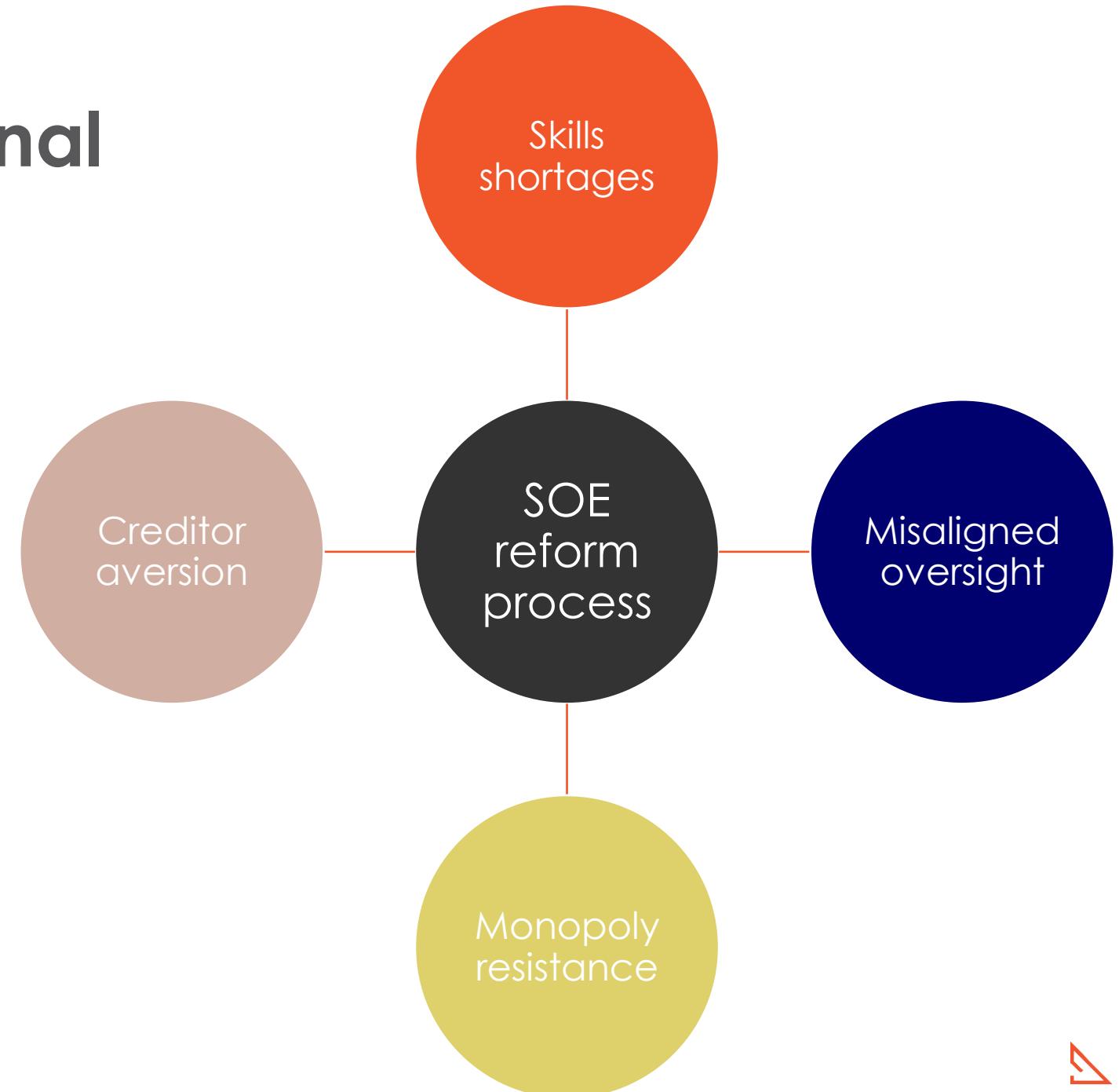
Treasury and the OV are moving in the right direction but this work is complex and expensive. We need a strong central driver – most likely Treasury – and clear codification in shareholder compacts and performance frameworks.

Five-year timelines, like the one for the National Transmission Company, need constant pressure to stay on track. In some cases, stronger legal or enforcement tools may be needed.



This points to institutional and capability gaps

- We lack the restructuring expertise at the scale required.
 - Turnaround, valuation and liability management skills must be brought in externally.
 - Each stakeholder is hiring its own advisers – driving up costs and fragmentation.
- Monopoly blob mindsets within SOEs resist unbundling and loss of control.
- Shareholder conflict – between policy and regulatory oversight – blurs accountability.
- The process is undermined by a deep aversion to open dialogue with creditors, which delays consensus and increases costs.



Who must talk to whom (and why)

- Discussions with creditors currently occur too low in institutions – at operational, not strategic levels.
- Real progress requires direct engagement between the Minister of Finance and senior bank leadership to align expectations and drive collective risk-taking.
- Without this, conversations remain technical, risk-averse and siloed – reinforcing paralysis.
- The Lazard advisory model showed the danger of uncoordinated advice and institutional capture – South Africa must avoid repeating this.

Reform needs senior-level engagement between Treasury and the top of the financial system

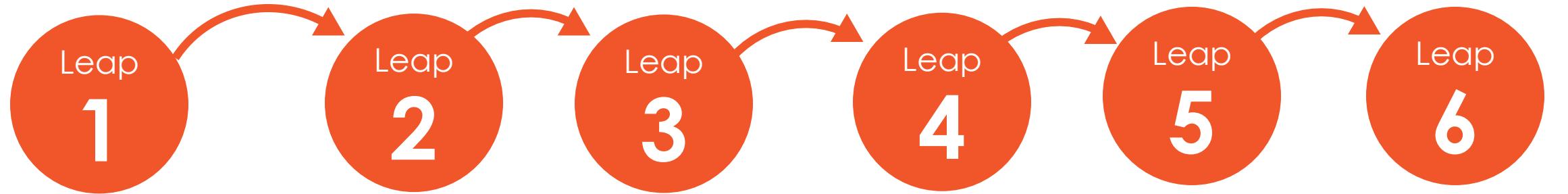
Minister of Finance ↔ Bank CEOs / Group Treasury Heads → Sets direction, builds confidence, drives reform narrative

National Treasury officials ↔ Bank sector leads → Develop deal frameworks and risk mitigation

SOE finance teams ↔ Bank credit committees → Execute transactions within clear parameters



A leap of faith is needed to drive SOE reform



Leap 1	Leap 2	Leap 3	Leap 4	Leap 5	Leap 6
Meta-SOE roadmap required	Bold decision-making	Role clarity and leadership	Integration with crisis response	Reform is not binary	Partnership and collaboration
<p>Unified roadmap needed for:</p> <ul style="list-style-type: none"> ▪ End-states for each SOE (capital structure, role, ownership) ▪ Clear reform and privatisation pathways ▪ Defined timelines and performance targets ▪ Incremental reform will not deliver turnaround ▪ a strategic “jump” is required. 	<p>Government and creditors must move beyond risk aversion.</p> <p>Delay increases fiscal and operational risk.</p> <p>Bold decisions on restructuring, write-downs and new ownership models are essential.</p>	<p>National Treasury must take stronger stance on SOE reform. The DPE caretaker in the Presidency has not produced meaningful intervention or coordination.</p> <p>Stronger fiscal and political leadership needed.</p>	<p>SOE reform should be embedded in crisis structures.</p> <p>Necom (and set up in DoEE) and the NLCC can coordinate reforms.</p> <p>Leveraging crisis urgency can accelerate implementation.</p>	<p>Reform and privatisation are not opposites – strategic unbundling and role clarity can improve efficiency while retaining public purpose.</p> <p>A meta-roadmap and governance realignment are critical.</p>	<p>Success depends on sustained collaboration between public and private sectors.</p> <p>Requires bold leadership, shared accountability and innovative financing models.</p>

