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The Governance of State-Owned Enterprises in Africa: An Analysis of Selected Cases

Misheck Mutize, Ejigayhu Tefera
University of Cape Town, South Africa
mmutize@gmail.com, Mtzmis001@gsb.uct.ac.za

Abstract: Whilst some literature is of the view that; it is nearly impossible to cultivate good corporate governance culture in state-owned enterprises (SOEs), others believe that new strategies of implementing corporate governance systems together with political will can deliver SOEs out of their efficiency doldrums. This paper presents a scientific analysis of the contentious view on the possibility of creating efficient governance mechanisms in SOEs, explores the effective cost for governance failures in SOEs in Kenya, Zimbabwe, South Africa and Ethiopia. The paper makes conclusions and recommendation that the determinant factor to the success of SOEs in African countries is underpinned on the response of central government to the challenges of SOEs. Structural reforms, good governance, clear objectives and efficiency require governments to take a decisive position. As a lasting remedial action, knowing which entities and when to offload them through privatisation is an option in addressing the governance challenges in African SOEs. For strategic SOEs, the paper recommends that governments should consider listing them on public stock exchanges.

Keywords: *Governance; efficiency; State-owned Enterprises; privatisation; public listing.*

1. Introduction

After 1980, most African countries had attained independence from former colonisers and their new administration where under pressure to address inequalities, avert poverty and changing the fortunes of their population at the same time growing their economies. During the wave of privatisation, most governments retained companies in critical sectors in energy, rail transport, broadcasting services and telecommunication (Estrin & Pelletier, 2018). The economic strategy to retain some companies as State-Owned Enterprises (SOEs) was to provide services to the vulnerable members of the society. However the majority of SOEs have not been successful in playing their economic role due to low performance compared to private enterprises (Organisation for Economic Co-operation and Development (OECD), 2018). Further to their failing role, SOEs in Africa are accused of many ills such as monopolising certain sectors, sabotaging of structural reform programmes, gross inefficiencies, poor corporate governance, battleground of political games and being conduits for corruption. According to the World Bank Systematic Country Diagnostic (2019) poor governance and resistance to structurally reform has eroded pockets of viability leaving the majority of them in loss-making position. As strategic economic institutions, governments are forced to offer financial support, which has weighed the fiscal down at the same time driving government debt up (Balbuena, 2014).

This paper makes three key contributions to the literature on governance of in African economies debate whether SOEs are a catalyst for public value creation or a mere consumer of wasteful financing with inefficient operations. First, the paper explores and presents a scientific analysis of the research contentions on possibility of creating efficient governance mechanisms in SOEs. Some analysts argue that SOEs may not manage to create efficiency now when they have failed to do so in more than three decades (Gumede, 2019). On the other hand, other literature argue that new strategies of implementing corporate governance systems together with political will can deliver SOEs out of their past failures (Estrin & Pelletier, 2018). Second, it evaluates the effective cost for governance failures in SOEs to establish a position on when the central government should offload certain unviable entities. Lastly, amongst the most debated remedial actions, privatisation and public listing, the paper makes conclusive evaluations and recommends strategies to address the governance challenges in African SOEs. The remainder of this paper is structured as follows. Section 2 reviews the role of SOEs in developing economies. Section 3 then analyses the key corporate governance issues facing SOEs in Africa, followed by Section 4 which analyse case studies of both succeeding and failing SOEs. Then after, Section 5 present the scientific arguments on the state of SOE governance in Africa and the study then concludes with recommendations on the future of SOEs governance on the continent in Section 6.

The Role of SOEs in Developing Economies: SOEs are independent public entities established and partly or wholly owned by government to perform specific economic functions and operate in accordance with certain specific legislative Act. In line with international trends, African countries pursue the commercialisation strategy by transformation some of state the assets in key sectors into independent entities in some sectors to promote more effective and efficient service delivery (International Finance Corporation, 2018). The aim is to take advantage of private-sector efficiencies while maintaining service affordability for the vulnerable societies at the same time ensuring public accountability. The Integrated Urban Development Framework (IUDF) policy report (2013), a policy initiative of the Government of South Africa, coordinated by the Department Of Cooperative Governance and Traditional Affairs (COGTA) highlights the importance of SOEs as a stakeholder and contributor towards supporting and promoting urban growth and development.

The following are some of the key economic and socio-political roles played by SOEs in Africa's developing economies. First, in viable public enterprises, where income is higher than cost, surpluses would directly accrue to government and become readily accessible for financing both physical and human capital projects. This means government would have savings at its disposal, supporting its national budget through budget funding and reducing reliance on taxes. For instance, the government of Kenya turned to its SOEs for help ease the burden by releasing their surpluses and other unutilised funds as special dividend (Wasuna, 2019). The Kenya Pipeline Company (KPC) handed over US$49 million (Sh5 billion Kenyan shilling) to the National Treasury to cover government financial deficits from less than expected tax collections and huge interest obligations fall due. Second, in certain sectors that is capital intensive, risky or crucial sectors strategic to the economy due to the linkages they create. By nationalizing and controlling entities in key strategic sectors, the government guarantees socially responsible performance. Third, SOEs support the government mandate of providing public goods for the benefit or well-being of the public.

By running commercial enterprises, the profits generated by government are enjoyed by all members of the society through the provision and maintenance of public goods and infrastructure, instead of a few private shareholders. Fourth, many African countries that were under colonisation are still struggling to addressing the twin problems of poverty and inequality (Lephakga, 2017). It is the goal of SOEs to assume responsibilities that promote societal equality through redistribution of incomes. Well-functioning SOEs are critical in the decolonisation of the presence of colonial industrial interests, a major impediment for socio-economic development. Fifth, the creating employment is usually one of the priorities of any government policy success (Gillis, 2011). SOEs are key institutions for government to create employment as retrenchment is the soft target for restructuring and reforms in private firms (Afegbua & Ejalonibu, 2015). Governments are also sometimes forced to take over failing private companies in order to avoid the unemployment consequences upon bankruptcy. Lastly, SOEs help in reducing concentration of private economic power and breaking monopolies of private sector, which can be abused against both the government and the welfare of the society.

2. Literature Analysis

Scientific Argument on SOEs Governance: The philosophy of the argument in this study has four dimensions. First, the number of failing SOEs in Africa far outweighs the ones that are successful. Second, the business model of the majority of SOEs is not viable, they operate at a loss with expenditure outweighing revenues, and hence they are constantly seeking government bailouts. Third, SOEs have failed to transform with the changing operating environment for years, the questions is how they will transform now as the same reasons that failed them over the years are still in existence. Lastly, the role of SOEs and their original objectives have evolved, studies have been critical on whether their mandates are still relevant. Corporate governance, defined by the King III report (2009) as "the process of supervision and control intended to ensure that the company's management acts in accordance with the interests of shareholders", has been at the centre of debates on the operations of SOEs across Africa. There has been corporate governance failures and non-compliance with legislation in the majority of SOEs cases (Malunga, 2007). A good corporate governance system would ensure accountability, transparency and effective controls (Frederick, 2011). The following are some of the key corporate governance challenges facing SOEs in Africa.

Lack of Internal Controls: Lack of internal control policy to safeguard assets, promote accountability, increase efficiency and stop fraudulent behaviour has been one of the major corporate governance challenges in SOEs (OECD, 2018). In cases where internal controls are in place, they are not properly implemented. The African Peer Review Mechanism (2007; 2008) Country Review Report (CRR) of Algeria and Benin find that 97 percent of SOEs in Algeria have no internal auditing and control systems committees. Over 50 percent SOEs in Zambia, Zimbabwe, Tanzania and Uganda went for three years without publishing audited financial statements (Balbuena, 2014), against the international standards reporting best practices which recommends that audited financial statements should be published within six months after the completion of a financial year (Price Water Cooper, 2015). As a result, the available financial reports are outdated and the true financial status is unknown to executives and accounting officers. The office of the Auditors General or its equivalent in other countries usually fails to audit public enterprises mainly due to a combination of; lack of capacity, incomplete accounts and substandard financial statements.

Lack of Transparency and Oversight: Failure to produce financial statements, lack of proper accounting standards and weak auditing practices (OECD, 2018) has led to low levels of financial disclosure. There is therefore no transparency to both accounting officers and the public on how accountability and performance of most public enterprises. It is thus difficult to provide oversight, ensure accountability and responsibility on institutions whose major part of performance monitoring system is non-functional. This situation has been the underlying cause for concealment of SOEs spending, debt accumulation, creating conditions for corruption and failure of public enterprises that is weighing down the whole fiscal balances. According to the International Monetary Fund (IMF) Country Report (2018) on Mozambique, one of the key drivers of government debt is financial support to the country's biggest public enterprises which is spent through irregular expenditures. Mozambique's SOEs accumulated unsustainable and hid debt that they will not be able to repay; hence they either require debt forgiveness or restructuring. Limited control on SOEs (Proindicus, Ematum and MAM) borrowing resulted in large undisclosed external debt of US$1.4 billion, which was 11 percent of Mozambique's 2015 GDP, an extreme risk exposure in unviable SOEs.

The three companies established to operate in fishing tuna, providing maritime protection and building shipyards (respectively) were created shortly before the borrowing took place and were all headed by the same CEO, who at that time was a senior officer of the security services. Mozambique defaulted in 2016 on the $59.8 million coupon for its $727 million Tuna Eurobond, borrowed by its fishing SOE, Ematum and guaranteed by the government. This amount was borrowed on top of another $500 million from Credit Suisse and $350 million from Russian bank VTB to finance a new tuna fishing infrastructure. The APRM CRR for Uganda (2009) find that some SOEs have not properly qualified board of directors. In other cases where the directors are qualified, they will be weak and compromised to provide economic oversight. The CRR also reports that some directs are usually not willing to take risk by making critical management decisions due to fear of being victimised by their political principals or disappointing the government, even when they are subject to performance contracts. APRM CRR for Kenya (2006) find that the appointments of directors in SOEs are based on political considerations. The report highlighted that, within the SOEs themselves there is an endemic problem of 'secrecy and mistrust' as employees do have suspicions against each other's' political affiliation and allegiance, in the APRM CRR for Mauritius.

Undue Political Interference: The appointment of SOEs board of directors is the responsibility of the Minister in charge with public enterprises ministry. There is often a dilemma of maintaining a balance on the appointment of a board that promote political agendas or one that makes unpopular decisions to maintain viability of SOEs (Corrigan, 2014). Evidence from APRM CCRs suggests that the former is more common, hence boards are compromised and entangles in the liability of the appointing principals. They are therefore unable to operate without undue political interference once appointed. The CRR (2013) for Tanzania notes the problem of ubiquitous links between the ruling party, the bureaucracy and business entities. Senior government officials and Members of Parliament are on several cases part of the SOEs boards, which undermine board accountability to the wider society.

South Africa has been similarly criticised, most notably in relation to a number of its key SOEs; South African Broadcasting Corporation (SABC), Eskom, South African Airways (SAA), Denel and Transnet, where political appointments produced a deep patronage system in violation of corporate governance principles (Sunita, 2019). Deep rooted structural problems are also compounded by lack of clarity on the mandate, objectives and oversight of SOEs. In some instances, SOEs have been used by political figures to pronounce their establishments in fighting their factional battles, with some deliberately sabotaging their areas of core competences for them to fail on delivering their mandate (Friedman, 2017). Loyal ruling party 'cadres' that cannot be deployed to government are usually deployed into SOEs either as a way to get rid of them from mainstream politics or for them to hang around awaiting government appointments. For instance, in Zimbabwe, Retired Army Service Chiefs and former war liberators with strong links.

Nepotism and Corruption: Several reports (Balbuena, 2014; Frederick, 2011; OECD, 2018a; OECD, 2018b) have revealed that SOEs have been used as conduits for perpetuating acts of corruption and nepotism. The OECD report (`2018a) reveals that nepotism and cronyism has become apparent in African SOEs as appointments are not subject to any standard selection process, assessments and interviews. A report by the Public Protector of South Africa (2015) reveals that the Passenger Rail Agency of South Africa (PRASA) – one of the largest SOEs – was riddled with nepotism and conflict of interest where senior management employed their relatives and give their spouses business. In the majority of the country's SOEs departments, salutations in the corridors were "*good morning uncle, good afternoon sister*". This challenge costed SOEs billions of dollars through incompetence and inefficiency. In the South Africa's Commission of Inquiry into State Capture (2019), it was revealed that, one of the SOEs senior managers had 12 blood relatives working in the same department, promoted twice and got an average salary increase of 350 percent in one year without reasonable justification or merits.

In Nigeria, a case study by Amakiri (2015), absenteeism in SOEs was over 80 percent and no disciplinary actions was being taken against them. PRASA's chief engineering executive, who was at the centre of the acquisition of unsuitable locomotives, had fake doctoral qualification and was employed without verification of qualifications, a corporate governance failure which costed the SOEs more than US$338 million (R5 billion). Generally, the salaries and packs in many SOEs are beyond the standard cost to company expected for such posts levels (OECD, 2018). Executives over the retirement age limit are still working, others have been retired and rehired as specialised consultants, some of them over 60 years still claiming for their children school fees allowances (Gomba, 2019). The anti-corruption units in most countries face challenges in prosecuting these cases due to lack of evidence (Times of Swaziland, 2019). In South Africa, during the investigations into the "State Capture" cases revealed several incidences of threats and intimidation against witnesses of corruption and nepotism cases, which indicate deep-rotted patronage networks (Mutize & Gossel, 2017).

Inefficient Monopolies: Many SOEs in Africa enjoy monopoly or monopsony powers by virtue of government ownership, lack of competition and policy which is favourable for them, which often provide cover for inefficiencies and abuse of resources. These entities are largely known for their bureaucratic constraints, lack of investment incentives, pricing controls, centralized decision making, and restriction on hiring and firing workers. Due to control of the businesses by government bureaucracies or by legislation, decisions are slow and unresponsive to the immediate needs of the company. The fact that any surpluses revert back to the government; it is a disincentive for management and labour to work more profitably. Due to their monopolistic position, SOEs create make distortions as there is no free and open competition in the sectors they operate.

Weak Capitalisation: Over 90 percent of SOEs that are fully controlled by government are currently facing this challenge of inadequate capitalisation (Balbuena, 2014). The main drivers of low capitalisation and balance sheet shrinkage is the unsustainable business models of SOEs, in which they are not able to generate sufficient revenue to cover the business running costs. As such, without balance sheet support, SOEs capitalisation position fast shrink and their liquidity positions deteriorate. Most of the services they provide such as electricity, transport, communication and broadcasting benefit the poor bracket of the society. To the ruling party are either CEOs, board of directors and senior managers in key public enterprises such as the Grain Marketing Board (GMB), National Railways of Zimbabwe (NRZ), Zimbabwe United Passenger Company (ZUPCO) and Air Zimbabwe. These individuals often have no skills or experience in managing such enterprises, leading to disastrous performance. These success case studies are a result of a clear, considered and profit-orientated strategic business model underpinned on professionalism, industry experience and commercial astuteness.

The government is therefore normally reluctant to approve service costs increase in order to protect its poor population that may not afford and will be most affected by the rising cost. As a result, for SOEs to survive, they are in constant need of government bailout and subsidies, which has severely strained fiscal budgets and investments in crucial developmental projects (IMF, 2018). Weak capitalisations have left government with no option but to either bailout or issue guarantees for SOEs to borrow through financial markets. In Senegal, government-guaranteed liabilities and debt of SOEs constitute 11.4 percent of the country's GDP (IMF, 2019). The South African government have exposure to the tune of 4 percent of GDP in Eskom Power Company, in which it guaranteed a total of R462 billion rands. These amounts are quickly exhausted as the SOEs are not profitable and government takes times to respond to the balance sheet challenges.

Multiple and Conflicting Objectives: In most of the cases government owns 100 percent or significant portion of share and has sufficient power to determine objectives and other decisions. Governments spells the mandates of SOEs as providing goods and services affordable to the poor members of the society, which is certainly less than cost-covering prices, at the same time they are expected to operate viably, In many cases, SOEs have gone for years seeking approval without success from government and its regulatory arms for price increases that will help them to remain profitable. The much talked about 'reforms and restructuring' programmes are never implemented as they are met with strong resistance from employee unions and politicians who seek to avert possible retrenchments (Ritchken, 2014). The government and its SOEs are perceived to be generators of employment, restructuring decisions are often overridden by political objectives, at the detriment of commercial performance and economic efficiency.

3. Methodology

To examine the governance failures and success of SOEs in Africa, the study considers selected cases of SOEs; the Ethiopian Airlines, South Africa's Telkom Company, Democratic Republic of Congo (DRC)'s Gecamines, Air Zimbabwe, South Africa's Eskom Power Company and Ghana's Tema Oil Refinery. These large SOEs present a spectrum of government entities in which significant resources have been committed but with outcomes on the different sides of the continuum. These SOEs represent government entities that have done well and others that have not been successful to adequately analyse the argument in literature that the number of SOEs that have performed well financially and economically are outnumbered by those that failed to meet the expectations of their governments. The analysis further considers aggregate data from the World Bank Report (2018) Energy Sector Management Assistance Program on SOE performance which presents 12 West African countries, 62 percent of which are operating at a loss and 36 percent are in a state of technical insolvency with a negative net worth. The OECD report of 2018 was also qualitatively analysed, which presents a cumulative SOE losses in Mali amounting to 6 percent of the country's GDP over the past 10 years.

4. Findings

The Successful SOE Cases: According the CAPA Centre for Aviation Outlook for Africa (2019), the Ethiopian Airways is currently the fastest growing, most profitable and largest African airline, which has grown at an annual average of 25 percent since 2005. Its annual profit has been exceeding US$175 million since 2014, higher profit than the total of all the African airlines. The Ethiopian Airlines now has the highest international connectivity than any other airline in Africa. Its fleet is also the largest, youngest and most sophisticated passenger airplanes in Africa, with an average age of less than five years (Barlow, 2016). Another successful SOE, Telkom SA Ltd, a South African wire line and wireless telecommunications company, operating in more than 38 countries across the African continent is a semi-privatised SOE in which the government owns 39 percent shareholding. Telkom has consistently posted a profit after tax of more than R2.5 billion rands since 2016 from its 4 billion subscribers.

The company is currently the market leader in the broadband space and according to the World Factbook (2019), it is the best developed and most modern telecommunications company in Africa. In 2019, the government received a significant dividend of 249c per ordinary share despite the difficult operating environment in the country. The governments and board of directors have allowed the management space to exercise their capacity professionalism and operate the business on commercial considerations, only maintaining clear lines of accountability. With the support of the board, Telkom cut 2000 jobs during the year ending March 2019 to reduce operational costs and remain viable. Being managed like this, without full privatization, these enterprises are able to generate sufficient income to mid their expenditure needs, repay their own debts and on top of that pay dividends to the government.

The Failing SOE Cases: Gecamines was the biggest mining company in DRC's, but failed in 2014 due to mismanagement and poor investment decisions. The company reportedly failed to account for US$750 million from DRC's copper mine privatisation program in 2017. Air Zimbabwe is amongst 92 other SOEs whose latest audit reports by the country's treasury show that they are technically insolvent. For the past 10 years, the airline has been operating at a loss and currently has only a single aircraft covering its routes. Moody's rating agency has downgraded the state power firm, Eskom's credit rating deeper into sub-investment territory (from B2 to B3, six notches below the investment grade level, with a negative outlook) citing that the government's plan to reorganise the cash-strapped South African firm would be hard to implement as it has no explicit support from the cabinet. Many years of mismanagement and corruption has resulted in a ballooning debt burden which currently stands at around R440 billion, 62 percent of which is guaranteed by government. The company has also been allocated R59 billion in operational support as it cannot operate optimally. Tema Oil Refinery, Ghana's state-owned oil refinery recently sought US$70 million credit guarantees from the government after lenders declined to issue it loans for crude purchases. The company had halted production on June 21 after running out of crude stock. Its weaknesses are well documented, ranging from distress financial position, and utilization capacity, weak governance structure, poor maintenance culture, to production and storage losses.

5. Conclusion & Recommendations

The Future of SOES Governance: There is no doubt that Africa needs SOEs to successful support its development goals and to realise its Agenda 2063, 'the Africa we want'. There is however an urgent need to rethink the ways of maintaining SOEs relevant to the current developmental needs. It is the governance of SOEs that has been letting most governments down. It is not by coincidence that there are very few examples of successful SOEs compared to the failing ones. The future of SOEs is underpinned in developing good governance throughout the ownership, management and employee structures as the tone for good work ethics begins with the shareholders, boards and senior executives before cascading down the structure of command. This paper makes the following recommendations.

Rationalisation: Rationalisation of state-owned enterprises has become inevitable as most SOEs dates back to the post-independence era and many are no longer relevant to SA's economic trajectory since market conditions have changed from the original "post-independence era reasons" for their existence, in many instances rendering their business models unsustainable. There is need urgent rationalisation, periodically and substantively identifying those that are strategic to the country's development. The motive for the mandate of the strategic SOE must be proven on a clear and acceptable basis, such as security of supply, correcting a development failure, state security or natural monopoly. An SOE remaining strategic is a function of factors that may be affected by changes in the operating environment, such as markets, technological advancements and political evolution. The evaluation of the strategic SOEs should be repeated periodically to ensure they remain so and nonstrategic SOEs should account for their continued existence through a rigorous parliamentary process.

Based on their relevance to the country's strategic plans. There should be a framework for rationalisation would need to be adopted and serve as a basis for the evaluation and final decision on each SOE. SOEs exist to address development failures and close gaps where markets or the private sector cannot. Doing away with some SOEs could create more efficiency and more jobs as well as a better environment for businesses. Opening spaces to the private sector reduced operation costs and improve the quality of services rendered due to increased competition. The government will need to make a budget available for the rationalisation of the SOEs. Technical teams responsible for rationalisation will have to account to the Treasury, and the proposed SOE committee or council should be chaired by the president of the republic. A planned, negotiated rationalisation process will help avoid a less considered fire-sale of state assets. Such a formal transparent process will also inspire confidence in all stakeholders.

Listing on Public Exchanges: SOEs may be listed on financial market exchanges without necessarily privatizing them. By selling their shares on public exchanges, public entities will have access to capital and also have the opportunity to measure their competences through daily share performance. On the other hand, governments will retain majority shareholding whilst SOE management is held accountable through strict compliance requirements. Private sector investments through exchanges will also improve business confidence and become part of the enforcement structure to keep SOEs competent.

Unbundling Monoliths and Disposing Non-Essential SOEs: Some institutions become less important with time. It becomes costly to keep them. Governments should know when to dispose some non essential SOEs through liquidation or privatisation. When government continue to bailout non-essential and incompetent SOEs with a goal to either preserve employment or maintain national brand image, the indirect cost is massively huge. Economic reforms should come up with structural changes that weed out government business that are consuming government resources at the expense of priotising resource allocations to critical development.

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