

SANRAL BAILOUT - DÉJÀ VU!

Author: Olga Constantatos, Head of Credit at Futuregrowth

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In March 2018, some 18 months after our very public (and controversial) announcement that we were pausing on lending to six State-Owned Entities (SOEs), we published a paper¹ entitled SOE Governance Unmasked – A Learning Journey.

In his preamble to the paper, our CIO Andrew Canter had this to say: *“The broad purpose of this paper is to share some of our learnings, so that others who are concerned about protecting South Africa’s young democracy, improving the standards and efficiency of South Africa’s capital market, and creating an environment of prosperity and opportunity, can build on our work.”*²

Then

SANRAL was one of the six SOEs that we paused lending to, pending our governance review which we subsequently completed in July 2017. At that time, we issued a public statement that included a summary of our findings following our governance review of SANRAL. A copy of this statement can be found here: [Governance review letter to the South African National Roads Agency](#).

Now

It has emerged that, as part of the conditions attached to the recent R23.7 billion bailout from National Treasury (in reality – from taxpayers) to SANRAL, the Minister of Finance will require SANRAL’s board to face “an independent review” of its performance - and that the funding is also subject to an “independent review of the SANRAL supply chain management policy and related procurement processes”³.

Needless to say, these statements bring a sense of “déjà vu” to us at Futuregrowth. We have already done much of the work on this topic, on which others can build. In this spirit, we take this opportunity to highlight the learnings documented in our 2017 SANRAL statement and the 2018 paper on two of these conditions – **board effectiveness** and **procurement** – which are seemingly among the conditions being considered by the Minister of Finance.

¹ [Futuregrowth’s SOE governance review – 18 months on](#)

² Futuregrowth, SOE Governance Unmasked – a Learning Journey, p8

³ NT presentation to Parliament’s Standing Committee on Appropriations, p8, found here: <https://pmg.org.za/committee-meeting/35905/>

1. Board effectiveness: our findings and recommendations

Board performance can be assessed in multiple ways. It can begin by assessing the processes by which Boards are appointed, the mandate, independence, and constitution of the Board (their skills, competencies) and whether appropriate background and fit-and-proper-checks have been done. An assessment of individual Board members' performance in the execution of their duties as well as the Board as a collective in the execution of its mandate is also recommended.

This was covered in detail in Chapter 3 of our 2018 paper, where we examined the process by which Boards and Committees are appointed and asked some questions that can assist in determining the effectiveness of a Board. Our 2017 statement on SANRAL mentioned: "As the SANRAL Act contains weak protections relating to the appointment of directors, Chairperson and CEO, we have urged SANRAL to seek the establishment of a Board Nominations Committee comprised of suitably qualified and independent individuals responsible for recommending Board appointments to the Minister. In our view, well-functioning Boards are able to self-assess, self-plan and manage their requisite skills set, as well as select the Chairperson and CEO – rather than have their shareholder be the arbiter for the selection and appointment of these key positions."

Another of the recommendations in our 2017 letter was for a more balanced mix of skills on the SANRAL Board. We noted at the time that the Board was stronger in engineering skills than in financial skills. This is echoed in the 2021 SANRAL Integrated Annual Report on page 15, where it says: "There is a vacancy for an independent, non-executive member of the Board. The Board has made a request to the Minister that a chartered accountant be appointed to this position as it perceives these skills to be lacking on the current Board."⁴

2. Procurement: our findings and recommendations

In Chapter 4.2 of our 2018 paper, we dealt extensively with procurement, having recognised that it is a gateway to malfeasance. We noted that: "It seems trite to state that all procurement decisions should be made in the best interests of the company, should represent value for money, and should be for the company's benefit. However, we have many examples where this is not the case at SOEs. Further, all actual and perceived conflicts that could impede independent decision making need to be appropriately disclosed and managed. As such, the composition of all procurement decision-making bodies deserves close scrutiny."⁵

⁴ [SANRAL Integrated Report](#)

⁵ Futuregrowth, SOE Governance Unmasked – A Learning Journey, p29

We made a number of recommendations on pages 28-31 of the paper, including getting clarity on these questions on procurement:

- How are exceptions to established procurement policies and governance dealt with?
- Are these publicly disclosed?
- How are conflicts managed, reported and disclosed?
- What is the quantum (Rand amount) of decisions that can be made by the various investment/credit and procurement committees? Is this level appropriate? Do large complex or unusual transactions require Board approval/ratification?

These and other questions need appropriate and effective internal controls, increased scrutiny and - we believe - appropriate public disclosure.

Wider engagement is required

SOEs, like SANRAL, are public entities, owned effectively by the South African public. We continue to believe, as we stated in 2018, that “it is evident that the task of reforming SOE and corporate governance is not something that should be done by one (or even a few) players, but by the concerted action of a wider group of engaged parties.”⁶

We support the conditions set for the current bailout, having raised the topics in both our letter of August 2017 and in our 2018 paper as being key to good governance. We maintain our view that they form part of an urgent need for more intentional and structured oversight and urgent action by the shareholder of our SOEs, i.e. the South African Government.

We look forward to witnessing the engagement (and action!) by a key player, the shareholder of SANRAL, in playing its part in reforming and improving governance at SANRAL and other SOEs.

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⁶ Futuregrowth, SOE Governance Unmasked – a Learning Journey, p8