Journal of Economic and Financial Sciences
ISSN: (Online) 2312-2803, (Print) 1995-7076

Enhancing the criteria for financial assistance to state-owned companies

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Dates:
Received: 04 Apr. 2023
Accepted: 23 Oct. 2023
Published: 22 Dec. 2023

How to cite this article:
Ngobeni, P.T., Barnard, L. & Molate, M.C.C., 2023, 'Enhancing the criteria for financial assistance to state-owned companies', *Journal of Economic and Financial Sciences* 16(1), a881. https://doi.org/10.4102/jef.v16i1.881

Orientation: South African state-owned companies (SOCs) have incurred debt with financial guarantees leading to financial bailouts because of failure to repay lenders.

Research purpose: The negative financial impact on South Africa's fiscus resulted to rising public debt mostly attributed to SOCs that remain unsustainable invigorated the exploration of such financial assistance.

Motivation for the study: The government might have to continue guaranteeing SOC debt and give financial bailouts given their solvency and liquidity positions because a considerable amount of the public budget is directed towards the financial rescue of SOCs and not the country's economic development which is a concern for taxpayers.

Research approach/design and method: A qualitative research methodology was implemented using interviews for primary data collection and document analysis for secondary data collection.

Main findings: The greed-driven decisions that have been implemented led to the loss of billions of rands because of corruption. This makes funding to SOCs inadequate because the allocated budget is not used for its relevant intent and is thus misappropriated.

Practical/managerial implications: Financial guarantees and bailouts to SOCs need enhancing because SOCs have distressed debt which has a significant possibility of falling over to the government to intervene with a financial bailout. An enhanced criteria must be implemented to ensure that funding allocated to SOCs will be appropriated for reform.

Contribution/value-add: The provision of an enhanced criteria that disburses funding through three phases will allow public finances and resources to be executed in a way that SOCs can benefit the economy.

Keywords: SOCs; financial guarantees; bailouts; South Africa; fiscal; reform.

Introduction

Is it time to say no to financial bailouts by the government to state-owned companies (SOCs)? Magwedere and Chisasa (2023) argued that financial bailouts reduce the financial contribution to developing South Africa's economy given the slow economic growth. Jima and Makoni (2023) also insisted that financial bailouts pose a threat to developing economies because they hurt economic growth, fiscal stability, and financial inclusion. Thus, a financial bailout could be described as a condition when a government or institution offers financial assistance such as recapitalising an SOC so it can avoid becoming insolvent (Magwedere & Chisasa 2023).

A financial guarantee allows SOCs mainly located in industries such as electricity, infrastructure, banking, and water supply to borrow money for enhanced resource allocation so that they can carry out their developmental, commercial, and political objectives on behalf of the government (Adebayo & Ackers 2023; Magwedere & Chisasa 2023; National Treasury [NT] 2022:92). A government guarantee that is provided is a loan that the NT agrees to repay if SOCs default (Jiang, Liu & Lu 2020). However, Wood et al. (2023) assert that financial guarantees are awarded to SOCs that show minimal probability of repaying the loans and are likely to default. Moreover, Magwedere & Chisasa (2023) and Marimuthu (2020) stated that South Africa's fiscal position portrays the likelihood of SOCs defaulting on their debt obligations because government-approved guarantees were expected to increase by R96.2 billion between March 2020 and March 2021, from R484.8 billion to R581 billion (NT 2021a:88). Between March 2020 and March 2021, the government's probable liabilities went up by R37.9 billion, from R472.4 billion to R510.3 billion (NT 2021a:90).

The NT (2021b:6) highlighted that a significant portion of the state debt is generated by SOCs, particularly Eskom and South African Airways (SAA) because they have major outstanding debt (Winning 2021). As of the end of March 2021, Eskom had R350 billion in guarantees with an exposure amount of R316.8 billion (NT 2021a:89). These figures portray the financial inefficiencies of SOCs because an intervention is imminently required – on one hand, to protect the fiscal from disbursing funding without addressing the issue, and on the other hand to ensure that the services that SOCs provide can continue to ensure the developmental needs of South Africa (Adebayo & Ackers 2023).

Government guarantees and bailouts are pivotal as they strengthen the SOC's balance sheet to raise funding through borrowings (Drago et al. 2023; NT 2019:86). However, the funds that are raised with a financial guarantee are misappropriated, hence SOCs are unable to service their debt obligations (Wood et al. 2023). State-owned companies are mandated to develop the social, economic, and infrastructural needs of South Africa (Adebayo & Ackers 2023) although that cannot be achieved if funding that was raised from financial guarantees is utilised to repay debt (Drago et al. 2023; Mabena 2021). This questions why the NT as the custodian of public finances in South Africa continues to provide financial guarantees and bailouts for failing SOCs because this form of financial assistance is not viable (Serongoane & Ukwandu 2021). Their weak financial position arguably limits their access to foreign and local capital markets.

The criteria of the NT in providing financial guarantees and bailouts to SOCs continue to be a matter of concern because of their financial inadequacy (Tleane 2020). The NT cannot assure that funding is utilised for the appropriated intent because services, goods, and infrastructure that should develop the economy are utilised for financial rescue (NT 2023:89). To make matters worse, economic and fiscal conditions continue to deteriorate because of this unsustainable financial structure (Serongoane & Ukwandu 2021). Although NT has specific criteria that are used to monitor the financial sustainability of SOCs such as the *Public Finance Management Act* (PFMA), treasury regulations, and practice notes, minimal studies could be identified that verify whether these criteria are used appropriately and whether they are effective in curbing unsustainable SOCs (Kgosana 2022). Hence, using the NT criteria through the requisite legislation as a base, this study aims to identify enhancements to these criteria to avoid repeating financial guarantees and bailouts to the same SOCs that remain unsustainable.

Financial guarantees and bailouts have been the focus of recent publications in the literature (Adebayo & Ackers 2023; Drago et al. 2023; Jima et al. 2023; Larsen, Klemmensen & Klitgaard 2019; Magwedere & Chisasa 2023; Vukovic, Lapshina & Maiti 2021; Nguyen, Vu Van & Bartolacci 2017; Wood et al. 2023). These studies' analyses have shown that government guarantees hamper the financial performance of SOCs. Moreover, studies by Assagaf, Yusoff and Hassan (2017), Tleane (2020), Salifu et al. (2018), Nasir (2017), and Schich and Kim (2011) also concluded that government assistance can be viewed as an encumbrance on government disbursements. Furthermore, Tleane (2020) evaluated the consequences of bailouts on impeding the South African economy. Whilst Wang et al. (2021) suggested that the decision to recapitalise should be implemented according to the requisite legislative guidelines and policy that is in line with the developmental needs of the country.

As financial guarantees and bailouts to SOCs are provided by the NT, prior literature has not emphasised the pivotal role of the NT and the influence that they possess when it comes to financial guarantees and bailouts. As the custodians of the fiscus, they can make decisions that can enforce enhanced financial performance. This can be done through appropriated projects that would allow SOCs to reform. Moreover, there has been minimal literature that discusses processes and procedures that SOCs could successfully implement to reduce their consecutive dependence on the state which leads to misappropriated funding. Furthermore, literature that addresses SOCs that have failed to reform despite receiving financial assistance was also found to be inadequate (Chivizhe 2022; Hlobo, Moloi & Marx 2022; Naqvi 2023; Omedo et al. 2022; Salamntu & Makoza 2023; Sithomola 2019).

Therefore, the objective of this study was to enhance the criteria used by South Africa's NT in providing financial assistance to SOCs. In pursuit of achieving the objectives of the study, document analysis was utilised to review relevant legislation and the current standards used regarding financial guarantees and bailouts. Thereafter, interviews with key informants from the NT, Denel, Development Bank of South Africa (DBSA), Eskom, and SAA were conducted to investigate compliance with the standards related to the funding of SOCs.

The rest of this study presents the literature review, research methodology, results, how NT's criteria for financial assistance to SOCs could be enhanced and then the study is concluded.

Literature review

State-owned companies are a pivotal part of many countries' economies, established by the government to achieve the commercial and political objectives of the state (Adebayo & Ackers 2023; Hlobo et al. 2022; Peng et al. 2016). State-owned companies in South Africa fall under Schedule 2 of the *PFMA* and are referred to as crucial public entities, which are commercial and thus intended to generate earnings and proclaim dividends (Nasir 2017; NT 2022:92; Sithomola 2019). They are autonomous because they operate in a competitive market and are run by general business principles and range from communication, electricity provision, and banks, to air traffic weaponry and railways, to name a few industries (Qhobosheane 2018:3; Salamntu et al. 2023).

State-owned companies are governed by various legislations that include the National Constitution of South Africa, The *PFMA* of 1999, and *Companies Act 71 of 2008*. Apart from the identified legislation, there are NT regulatory provisions. The Constitution of South Africa provides the legislative foundation for the existence of the Republic and legally defines the structure of the government, including those of the SOCs. Moreover, SOCs are expected to align their developmental mandate, business models, and financial processes with the *PFMA*. The *PFMA* addresses the constitutional requirements as stated in Chapter 13 section 216 (1) and these relate to the formation of an SOC and outlines that a NT should be initiated to determine and ensure both transparency and expenditure control in the national, provincial, and local spheres of government, by instigating generally recognised accounting practices and consistent treasury norms and standards (Constitution of Republic of South Africa 1996).

The *Companies Act* applies to SOCs; however, section 3(3) of the *PFMA* permits triumph when a dispute arises between the *PFMA* and an additional Act. Moreover, section 5(4) of the *Companies Act* also ascertains that if there is a dispute between any section of the Act and a section of any other national legislation then the sections of both Acts apply alongside. This is applicable provided that the implementation of both Acts is not contradictory.

Consequently, a financial guarantee is a legal obligation from the state by promising to repay creditors (NT 2023:89). A guarantee is typically in the form of an agreement that confirms the conditions of the contractual obligations of SOCs and is ultimately signed by the Minister of Finance (World Bank 2020:8). A lender will typically be a domestic (local) or international (foreign) bank (World Bank 2020:15). Moreover, Berman (2012) also defined a guarantee as a legal commitment to ensure that debt obligations will be met when both qualitative and quantitative factors show that the probability of payment will not be fulfilled (Berman 2012). The guarantee then becomes a contingent liability of the NT.

Similarly, the NT (2018:87) describes guarantees as contingent liabilities, which will occur when the probability of a default by SOCs materialises; this indicates that the government will be called to meet the obligation. The South African government provides two types of guarantees, which include an implicit guarantee which is when the government is not legally obligated to meet the contingent liabilities of SOCs. As the shareholder, they can assist but they are not obligated (Sadiki 2015:72). An explicit guarantee means that the government is legally obligated to assist with contingent liabilities that have materialised because of an SOC's inability to meet debt obligations (Sadiki 2015:73).

Contradictorily, SOCs consecutively require financial intervention from the state because of contractual obligations that are rarely fulfilled (Naqvi 2023). Their financial performance is deteriorating despite the significant funding that is allocated for their reform (Salamntu et al. 2023). State-owned companies have proven their difficulty in being able to function without the government's financial assistance hence financial bailouts are constantly requested because that is when financial assistance is offered by the government or monetary institution in pursuit of assisting SOCs to reform (NT 2022:18, 2023:11). This form of financial assistance allows SOCs to continue with their operational requirements, although this provides short-term financial support and relief because of misappropriated funds (NT 2020:91).

Some of the conditions for receiving a financial bailout from the NT include the submission of a turnaround plan or proposal or strategy that details how SOCs are going to reform their negative financial situation (Joffe 2022). Arguably, SOCs will continue to request additional bailouts without implementing the previous turnaround plan or proposal or strategy (Sithomola 2019). To make matters worse, SOCs will draft a new turnaround plan or proposal or strategy whereas funding from the previous bailout has not achieved the promised reform. Funding from the fiscus is constantly requested; however, the promise to reform is rarely fulfilled and this anomaly has been accepted as the operating culture that exhausts the fiscus (NT 2023:120).

It is pivotal to determine the reasons that contribute to the increase in public debt through financial guarantees and bailouts and this might be achieved by identifying recurring patterns that influence this form of financial assistance (Wood et al. 2023). Similarly, Naqvi (2023) identified that a significant flaw is that the debt of SOCs forms part of the government's debt; this exposure necessitates the government to intervene. Moreover, Salamntu et al. (2023) indicated that SOCs continue to implement poor financial decisions which have accumulated debt that leads to continued reliance on government financial bailouts. Meanwhile, Sithomola (2019) also argued that the debt of SOCs is increasing and could balloon to a trillion rand because SOCs incur substantial financial losses that are circumvented through state funding to avoid liquidation. Furthermore, Hlobo et al. (2022) insist that financial bailouts to SOCs are dispersed at the expense of public service delivery because they are used for recapitalisation.

In addition, Salamntu et al. (2023) also identified that SOCs have millions of rands invested in the pursuit of improving their business process management for enhanced organisational performance; however, the benefits of this investment are not always realised. While Omedo et al. (2022) recognises that South Africa has rigid policies, however there were still challenges in managing financial provisions because there was weak enforcement and poor implementation. Adebayo & Ackers (2023) indicated that there were inconsistencies in implementing the requisite legislative requirements. Moreover, Drago et al. (2023) mentioned the importance of distinguishing SOCs that are undeserving of financial guarantees and bailouts from viable SOCs. This would ensure that requisite value is being contributed to developing the economy.

In pursuit of enhancing the funding processes of public entities, researchers have used theories such as stewardship, public interest, and public equity stability to explain government regulation and intervention in the economic activities of public entities (Schich & Kim 2011; Nasir 2017; Peng et al. 2016). However, prior studies rarely considered the prospect theory because it investigates government and political decision-making and what influences such decisions when risk is applied. This theory was developed by Tversky and Kahneman (1981) and it explains how risk influences decisions made by individuals and in this instance political decision making because such decisions might be taken without adequate reasoning.

The prospect theory is a suitable model to analyse individual decision-making. Similarly, Vis (2011) also found that consolidated decision-making at government entities could benefit from implementing the prospect theory where government guarantees and bailouts are concerned. This theory was initially used in political sciences, at an individual and organisational level, which justifies organisational decision-making (Cia et al. 2021; Houston et al. 2014). However, Vis (2011) identified that the application of this theory is ideal for the study of financial bailouts and guarantees to SOCs. Ultimately, the allocation of public finances and resources lies with the individual managers of the South African government that directly influence the implementation of such decisions (Abubakar et al. 2019).

As it can be assumed that risk is a fundamental feature of political decision-making, the prospect theory's principle justifies political leaders' attitude towards risk during decision-making. Where financial guarantees and bailouts to SOCs are concerned, it depends on whether losses or gains might be incurred and will determine adequate or inadequate decision biases (Vis 2011). When confronted with benefits that result in keeping policy-making autonomy, political leaders may be reluctant to surrender the autonomy and act in a way that might not necessarily benefit the developmental needs of the country (Hlobo et al. 2022). In other words, the government may continue to provide financial support to financially distressed SOCs, as losing the autonomy of providing a key public service such as electricity, hurts more than the gain of reduced state debt (Omedo et al. 2022). This assumption is supported by the millions of rands paid to SAA and Eskom as discussed earlier. Thus, to enhance the criteria for providing government financial assistance, it is necessary to assess the decision-making of government officials under risk and uncertainty.

Research methodology

The study implemented the qualitative research approach to explore the institutional determinants of good practices of providing government financial assistance through financial guarantees and bailouts.

Population and sample

The population of the study comprised SOCs, the Auditor General of South Africa (AGSA), and NT. The purposive sampling procedure was used to obtain the participants from five SOCs, AGSA, and NT. The SOCs were Denel, DBSA, Eskom, Land Bank, and SAA as they are regarded by the South African government as the most critical entities in contributing to the country's development. These SOCs were purposefully sampled because Denel, Eskom, Land Bank, and SAA consistently relied on financial guarantees and bailouts to operate with limited reform opportunities; their financial woes were repeatedly publicised, and they have been financially deteriorating, putting a significant strain on the fiscal. Meanwhile, DBSA was selected because, at the time the study was conducted, they were willing to take part in the study. Moreover, these SOCs are economically beneficial to the country (e.g., Eskom provides electricity, DBSA provides infrastructure financing, Land Bank provides capital to emerging farmers, Denel provides military weaponry, and SAA is the national carrier) (Leventon et al. 2016). Furthermore, AGSA were selected as the constitutionally mandated appointed auditors that ensure compliance with the *PFMA* and NT were also chosen as they are involved with the processes regarding the provision of the granting of financial bailouts and guarantees.

Participants

The study targeted a total of 23 participants to be interviewed. Four from NT, four from the AGSA, and three participants from each of the five SOCs (i.e., Denel, DBSA, Eskom, Land Bank, and SAA). The reason for this was how these organisations are structured because the division that deals with financial guarantees and bailouts to SOCs is the Asset and Liability Management (ALM) division within the National Treasury. As the study targeted participants who are in managerial positions, the justification is that there would have been one interviewee from the development finance institutions (DFI) sector, including DBSA and Land Bank; one interviewee from the energy industry, including Eskom; one interviewee from the transportation sector, including SAA; and one interviewee from the defence industry, including Denel. In SOCs, there would have been one interviewee from the treasury unit, which deals with guarantees and bailouts issued in the SOC's favour; one interviewee from the reporting and compliance unit or the legal and compliance unit, depending on how the SOC is structured, to ensure compliance with legislation such as the *PFMA*; and one interviewee from finance because this unit generates all relevant financial reports that are submitted to the National Treasury. In AGSA, there would have been two interviewees who are directly involved in auditing SOCs; and two external auditors who audit SOCs on the AGSA's behalf.

However, consent was obtained from the NT ALM division, Denel, DBSA, Eskom, and SAA. Unfortunately, AGSA did not participate because of constitutional restraints.

Land Bank also declined participation, because of reputational risk. Thus, a total of 16 participants were interviewed, including six from the NT, three each from Denel and DBSA, and two each from Eskom and SAA. Interviews at Denel, DBSA, Eskom, and SAA were conducted with participants from different departments, including finance, reporting, legal, compliance, and treasury. In particular, the responsibilities and duties of the interviewees include formulating and presenting requisite financial statements and reports, management of finances which include financial guarantees and bailouts, and compliance with all legislation including the *PFMA*.

Participants at NT were from the ALM Division and are responsible for the management of financial guarantees and bailouts to the SOC, approval of annual budgets and borrowing requirements of SOCs, providing recommendations on whether financial guarantees and bailouts should be granted to SOCs and the risk management associated with government guarantees and bailouts of SOCs. In total, the study accomplished a 69.57% response rate. The interview questions and processes were not strictly scripted meaning that semi-structured interviews were conducted allowing some degree of flexibility. Participants were given a detailed explanation of the research objectives and comprehensive processes and procedures verbally before and during the interview process. Their verbal agreement to participate in the study before instigating the interview acted as informed consent and voluntary participation; thus, the participants engaged in face-to-face interviews conducted at their place of employment for convenience.

Data collection

The study collected primary and secondary data which included an interviewing process and analysis of the requisite documents that were in line with the study objectives. Interviews were conducted to obtain deeper insight into the processes for providing government financial assistance. Document analysis of available data was also used.

Interviews

The study attentively engaged with requisite interviewees and concentrated on absorbing the quality of data rather than on the number of interviewees. This strengthened the reliability of the data. Interviewees were mostly participants who occupied managerial positions. The identified respondents were invited through email to partake in the study following a detailed explanation of the research objectives. Then the interviewees were provided with the time required for the interview together with the processes to ensure their confidentiality and anonymity. These procedures strengthened creditability and motivated respondents to participate in the study.

Following approval from the head of the department of the ALM division at NT and the Heads of Finance, Legal, Reporting, and Treasury departments at the sampled SOCs, a signed consent form was taken from the respondent before the interviews proceeded. The interviews were conducted face-to-face to ensure consistency among participants. The study used a combination of closed and open-ended questions for the interview. However, diverse explorations were used to elicit in-depth information from each interviewee. The interviews were recorded, and notes were taken as backup. The duration of interviews lasted from 60 to 80 min with different participants.

All 16 semi-structured interviews, with six officials from the NT (ALM Division), three officials from Denel, three officials from the DBSA, two officials from Eskom, and two officials from SAA were transcribed for analytical purposes and each interviewee was assigned a pseudonym to conceal their identity.

The participants from the NT were named: NT1D, NT2DB, NT3E, NT4S, NT5G and NT6G.

The participants from SOCs were named D1, D2 and D3 from Denel. DB1, DB2 and DB3 from DBSA. E1 and E2 from Eskom. S1 and S2 from SAA.

Document analysis

The study also used document analysis as a data-collection method. The data were collected in the form of government policies, legislation, annual reports, audit reports, and treasury regulations. The annual reports analysed ranged from 2017 to 2022.

Data analysis

The study used inductive reasoning to analyse the qualitative data that had been collected and, according to Sauce and Matzel (2017:1), this process consists of analytical processes and procedures where the primary and secondary data collected are analysed to get in-depth explanations, a better understanding and interpretation of the reasons behind financial guarantee and bailout funding. Similarly, the study utilised qualitative content analysis that could be described as a process consisting of identifying, examining, and presenting patterns and themes within data (Friese, Soratto & Pires 2018:7; Sauce & Matzel 2017:1; Scales 2013:135). The analytical process involved selecting requisite documents which was the transcribed interview data to be analysed in pursuit of recognising common patterns. Then the data needed to be understood through coding meaning that the common patterns identified formed requisite themes. Lastly, the coded patterns provided themes and interpretations in pursuit of presenting the findings and in the process help achieve the research objectives (Friese et al. 2018:10; Scales 2013:139). The qualitative analysis ensured that the information was effective, efficient, reliable, and produced valuable findings by generating patterns to build themes that were specifically labelled. The themes generated from the patterns included designated labels such as non-compliance, governance inefficiencies, strengthening the *PFMA*, among others.

The analytical process was technologically conducted using Atlas.ti version 9 software package because it permitted the use of quotations and segments that supported the themes and patterns identified in the findings and also provided the code and quotation report to show how many segments or quotations support a code (theme or pattern or idea). Moreover, it enabled the use of features such as the word cloud (which shows the most frequently occurring words), visualisation graphs (which show how segments and quotations are linked to a specific code), and the generation of relevant graphs. In the view of Friese et al. (2018), most computer-aided data analysis used in qualitative methodologies relies on Atlas.ti because it can order and structure qualitative data for research purposes.

Results

Based on the interviewees' responses and documents analysed in line with the study objectives, financial guarantees and bailouts are being used to fund financially deteriorated SOCs and, according to the findings, the outcomes for poor financial performance are summarised in the following text.

The interviewees from NT are NT1D, NT2DB, NT3E, NT4S, NT5G and NT6G.

The interviewees from SOCs are D1, D2 and D3 from Denel. DB1, DB2 and DB3 from DBSA. E1 and E2 from Eskom. S1 and S2 from SAA.

A detailed point-by-point discussion of the findings is presented further in the text as per the pie charts presented in Figure 1 and Figure 2.

Non-compliance

Non-compliance negatively affects the criteria used by the NT in providing financial guarantees and bailouts to SOCs because one interviewee indicated that:

> '... non-compliance with the *PFMA* is a challenge for the NT.' (NT1D)

While another cited that:

> '... SOCs are not complying with practise notes which are additional to the *PFMA*.' (NT2DB)

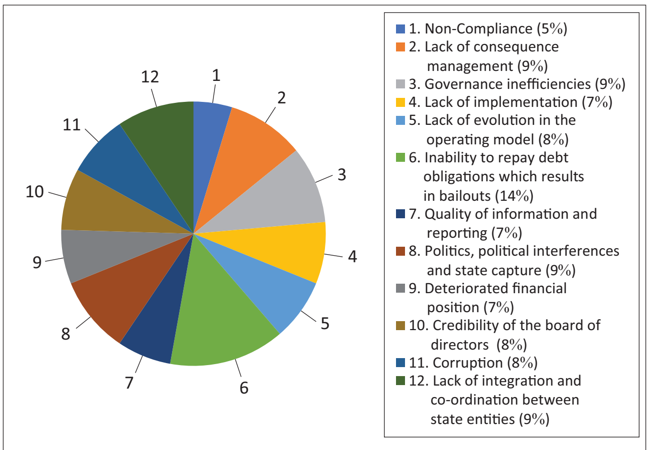
The Auditor General of South Africa's report (AGSA 2021) report on national and provincial outcomes also highlighted that non-compliance with the *PFMA* by SOCs is an issue because government guarantees and bailouts are used to sustain most major SOCs. This justifies the increased funding, without the requisite progress because pivotal guarantee and bailout conditions are not met.

Lack of consequence management

There is significant deterrence to financial misconduct in contradiction with the financial guarantee and bailout conditions and the main reason why individuals who are appointed are comfortable with acting outside of legislative requirements is that no punitive measures are going to be implemented. NT3E and NT6G highlighted that the *PFMA* lacks in governing human behaviour because individuals that deviate from implementing the provisions of the Act should be charged for financial misconduct and it rarely happens. Moreover, the Auditor General of South Africa's media release (AGSA 2019) media release also pointed out that legislative requirements in the *PFMA* are ignored and minimal punitive measures are implemented. This deterrence is costing the state because consequence management is avoided and SOCs are awarded for deterring implementation of the relevant legislative requirements.

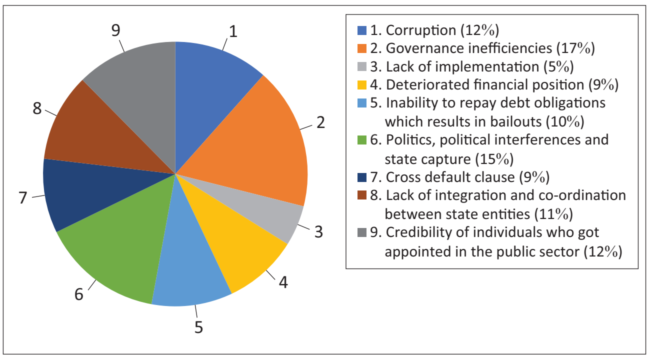
Credibility of individuals who have been appointed in the public sector

When certain duties are assumed, then the individual should possess the relevant skills and expertise because there are requirements that need to be met; however, there is minimal professionalism in some executive and managerial positions. One interviewee conveyed concerns because:



Source: Based on Ngobeni, P.T., 2022, 'Evaluating the criteria used by the National Treasury in providing financial guarantees and bailouts to state owned companies', Masters dissertation, Department of Finance and Investments, Tshwane University of Technology.

FIGURE 1: Pie chart of the themes generated from Atlas.ti 9 code and quotation report for the National Treasury.



Source: Based on Ngobeni, P.T., 2022, 'Evaluating the criteria used by the National Treasury in providing financial guarantees and bailouts to state owned companies', Masters dissertation, Department of Finance and Investments, Tshwane University of Technology.

FIGURE 2: Pie chart of the themes generated from Atlas.ti 9 code and quotation report for state-owned companies.

'... there was dishonesty from Denel's board of director's hence financial guarantees and bailouts did not provide long-term sustainability because there was a lack of communication when certain obligations have not been met.' (NT1D)

Moreover, another also expressed that there are some individuals that are considered:

'... political appointees that produce poor outcomes.' (NT1D)

Furthermore, it was expressed that:

'... individuals that manage Eskom and SAA need to have a comprehensive understanding of the energy, Transport, and aviation sectors.' (DB3)

The state:

'... employs incompetent individuals.' (NT6G)

Someone questioned whether:

'... individuals possess the relevant skills, knowledge, and expertise to govern and oversee SOCs.' (NT2DB)

Another revealed that the board of directors of some SOCs were:

'... not sufficiently capacitated to execute their fiduciary duties.' (NT3E)

In addition, a study conducted by Qhoboshenae (2018:49) also concluded that the consequences of politically motivated appointments found individuals with no expertise serving as board members of SOCs.

Lack of implementation

The prospective promise to reform SOCs to be viable is rarely fulfilled and it is pivotal in ensuring effective and efficient financial management but one identified that:

'... the *PFMA* is not properly implemented.' (DB3)

Moreover, another outlined that:

'... reforms have always been recommended however there are challenges with implementation.' (NT5G)

Another also cited implementation as an issue because of:

'... frequent changes to the board and lack of continuity'. (D3)

The requisite reforms exist; however, they are rarely implemented because of a lack of relevant support from political management because NT3E and NT4S pointed out that if the requisite reforms were implemented then some individuals would no longer benefit from the anomalies.

Politics, political interference, and state capture

Political interference justifies these financial inefficiencies because one cited that:

'... in some SOCs, there is excessive political interference because Denel and Eskom have lost billions of rands that cannot be accounted for and in addition to that their reputation is also compromised.' (DB2)

Another also expressed that state capture:

'... affected the successful execution of Eskom's developmental mandate and transformation objectives.' (E1)

Moreover, it was conveyed that as a result of state capture:

'... there is load shedding.' (E2)

State capture involved consecutive years of individuals undermining the public sector, finances, and resources.

Inability to repay debt obligations, which results in bailouts

NT5G and NT6G conveyed that the NT knowingly gives guarantees to SOCs that are not going to be able to repay funds in pursuit of avoiding the risk of 'SOCs going into business rescue because they have developmental mandates which benefit the country'. This is why financial guarantees always turn into financial bailouts because NT's 2021 budget review revealed that 'subsequent borrowings push the borrowing limit to a point that SOCs can no longer borrow any more funds which require recapitalisation'. D1 highlighted that these issues can be attributed to 'unrealistic financial expectations' because Denel, Eskom, Land Bank, and SAA could not repay debt obligations through the generation of their revenue. NT6G indicated that ideally, 'money cannot be borrowed to repay another bank, creditor, or lender', but unfortunately, such instances happen and are unsustainable. Moreover, when this occurs, NT1D expressed that 'the NT must make financial adjustments to accommodate SOCs'.

Governance inefficiencies

According to NT5G, the problem is that 'the *PFMA* does not sufficiently address governance when compared to the King Reports and it becomes an issue because you can only enforce the *PFMA* because it is legislative'. The 2020–2021 integrated annual reports of Denel (2020) and Eskom (2021) also cited governance as an issue that needs to be improved. National Treasury's 2022 budget review and 2021 medium-term budget policy statement also highlighted that there were governance inefficiencies in SOCs that should be addressed. Numerous elements contribute to properly governed SOCs, and functional governance has unfortunately been weakened. DB3 expressed that a prevalent example includes 'dismissing an entire board at the same time'; this means that all the institutional knowledge is lost and there would be a lack of continuity in the strategy.

Corruption

National Treasury's 2022 budget review acknowledged that corruption in the public sector leads to unprecedented financial shifts in the budget and swindles the inhabitants of the country of the vital goods and services that they should benefit from. Moreover, the NT's 2021 medium-term budget policy statement also recognised that corruption has left the devastating consequences of state capture. State capture included the implementation of consecutive greed-driven decisions because Qhobosheane (2018:66) also concluded that corruption played a significant role at the South African Broadcasting Commission (SABC) because of unethical behaviour and inadequate business practices that enabled inefficiencies such as fraud and theft.

Deteriorated financial position

State-owned companies have been weakened and their financial positions have been debilitating over the years. The AGSA's 2021 report on national and provincial outcomes, NT's 2022 budget review, and 2021 medium-term budget policy statement indicated that the financial positions of Denel, Eskom, Land Bank, and SAA are constrained because their balance sheets do not allow them to access the capital market. Additionally, they cannot repay lenders without government intervention because they face the potential risk of defaulting on their guaranteed debt obligations. They carry out their mandates with some financial constraints and there is a rare possibility to generate sufficient cash flow to sustain operational requirements.

Lack of integration and coordination between state entities

One interviewee expressed that there is poor:

> '... integration and coordination between organisations in the public sector' (NT3E)

A prevalent example is Eskom and SAA. After all, another mentioned that:

> '... there is the Mineral Resources and Energy Department as a policy department for Eskom the Transport Department for SAA, Public Enterprises as the executive authority, and the NT as the custodian of public finances.' (NT4S)

The problem is that the coordination, integration, and synergies with the departments are difficult because they are sitting in different parts of the state.

Strengthen the Public Finance Management Act

The *PFMA* is a legislative document that is disadvantaged because of shortcomings that need to be addressed. This is attributed to an ever-changing economy and market that is indirectly limited by the *PFMA* because of the lack of innovation. One indicated that Denel:

> '... comes across financial constraints that are attributed to the *PFMA*.' (D1)

It was also pointed out that the *PFMA* has:

> '... grey areas and some provisions which are not clear'. (DB2)

Moreover, another added that:

> '... there are subjective views concerning the *PFMA* and whether it is an effective tool for financial management.' (E1)

The *PFMA* needs to be innovated because Teka (2014:205) also concluded that the *PFMA* was an ineffective financial oversight tool because it was propagated in 1999 and came into effect in 2000, and since then there have been numerous changes that require enhancing the tools that will enable effective and efficient financial oversight of the Land Bank.

Lack of evolution in the operating model

An interviewee identified:

> 'Eskom's business model as outdated and needed a shift in their operational requirements because the electricity utility needed restructuring to ensure stability otherwise financial guarantees and bailouts were not going to make much of a difference.' (NT3E)

One also pointed out that:

> 'SAA was making operational losses hence financial guarantees and bailouts could not help the airline reform.' (NT4S)

Someone else conveyed that:

> '... most SOCs have been using the same operating model since they were established'. (NT5G)

Should they continue to provide the requisite products, services, and infrastructure that are in line with the evolving economy and developmental needs of the country as mandated, then they need to restructure how they conduct business.

Misappropriation of funds

One interviewee indicated that:

> '... financial bailouts to SOCs are not used for mandate-related funding but for liquidity and supporting the balance sheet.' (NT2DB)

Another expressed that:

> '... instead of spending funding on the maintenance of power stations it was redirected elsewhere.' (E1)

It was also indicated that such misappropriation thrives because there is:

> '... poor financial management.' (DB2)

This justifies why SOCs utilise funding from financial guarantees and bailouts to repay creditors and fund operational requirements, thus the money is not utilised for its relevant intent and is misappropriated.

The quality of information and reporting

NT1D pointed out that an SOC can submit a report that is required by legislation, but if the report is 'inadequate', then decisions will not be made based on a good analysis. It was also supported that there needs to be:

> '... improved quality reporting by SOCs.' (NT2DB)

One expressed that individuals who interpret and analyse information about Eskom are pivotal in contributing to a comprehensive analysis thus:

> '... an individual in the transport sector cannot interpret and comprehensively analyse information concerning the energy sector.' (E2)

Cross default clause

An imperative clause that is incorporated into a financial guarantee contract and according to D3 is incorporated as a control measure. Another also conceded that:

> '... it is incorporated into a financial contract as a risk mitigation factor.' (S2)

This clause deters SOCs from defaulting on their guaranteed debt obligations because if that possibility were to materialise, then it would have devastating economic consequences that would result in the economy of the country deteriorating. This means that if SOCs were to default and the NT fails to intervene it will cross over to all SOCs that have government guarantees and they will also default and if the situation is not contained then it will cross over to the government and the state will also default. In the view of one interviewee, this clause is incorporated because:

> '... of the level of risk that borrowers are taking and there need to be mitigation factors.' (DB2)

Another also expressed that this clause is essential for:

> '... effective credit functioning in an economy.' (DB3)

Enhancing National Treasury's criteria for financial assistance to state-owned companies

If an SOC requires a financial guarantee or bailout from the NT, then a business plan or proposal or strategy should be presented. A financial guarantee should detail how the SOC plans to repay the funds borrowed without government intervention. A financial bailout should justify how the funds will be used to help SOCs' reform to financial stability through economic activities that are mandate-related. These processes come across challenges that have been presented earlier. To enhance NT's criteria for financial assistance to SOCs the study suggests the following measures.

When an SOC requests funding from the NT through financial guarantees, the funding secured through borrowings should be appropriated by the NT for capital projects that are related to the SOC's developmental mandate. There should be mandatory requirements that are outlined such as the anticipated cost of the capital project, how long is it going to take, if there are any anticipated deviations or delays and whether they are going to affect the budget, the possibilities of that capital project not yielding the expected results, and the revenue projections that capital asset is going to generate.

Then the capital project will be divided into three phases meaning that 33.33% of the total appropriated budget will be availed for each phase. The NT will release funding for the first phase of the capital project. This will be followed by meetings, on-site inspection, and reports that detail the mandatory requirements as identified earlier monthly. Once all the requirements of the first phase have been fulfilled, then 33.33% will be released for the second phase provided that the mandatory requirements for phase one have been comprehensively completed. The progress that has been made in the first phase should be satisfactory and align with the business plan or proposal or strategy submitted to the NT. If not, then funding for the second phase will be put on hold until all the requirements of the first phase are fulfilled.

Then 33.33% of the appropriated budget will be released for phase two meaning that processes similar to that of phase one should be fulfilled, then the remaining budget will be released provided that phases one and two are fully complete and have fulfilled all the mandatory requirements. Similarly, when a financial bailout is requested for reform, the funding should be appropriated by the NT and can only be used to reform by participating in economic activities that align with the developmental mandate while generating revenue and benefiting the economy. Moreover, funding will also be released in three phases provided that the mandatory requirements are fulfilled as identified.

Funding that is released in phases might improve the funding process because it would be easier to track the progress that has been made so far in a project. This would be beneficial because NT6G also expressed that the NT needs to be involved in how the allocated budget to SOCs is utilised through monthly and quarterly reports that detail specific expenditures incurred in that month or quarter. The expenditure needs to be in line with the developmental mandate and this could be achieved through on-site inspection and regular meetings to determine that SOCs have achieved what they have outlined in their key performance agreements with the NT; this will determine whether there is progress and improve accountability.

Moreover, this would enhance compliance because SOCs would be forced to fulfil mandatory requirements because this process would ensure that the requisite processes to ensure long-term financial stability are comprehensively implemented. Individuals contributing to financial inefficiencies would be forced to account for misappropriated funds. Furthermore, this stringent process would strengthen governance, improve the quality of information and reporting, and in the process improve the integration between state entities because the NT would be fully engaged in the processes to help innovate SOCs.

Conclusion

The study concluded that financial guarantees and bailouts to SOCs are not financially sustainable and viable because of: (1) inexperienced management; (2) corrupt officials; (3) inadequate board appointments; (4) limited success in terms of improved service delivery; (5) continued weak financial performance of SOCs; and (6) the deteriorating fiscal position of the government.

The NT should consider introducing enhanced criteria for providing funding to SOCs as well as monitoring the use of the funds more closely. This could be done by appropriating funds for capital projects that are mandate related meaning that those funds cannot be used for anything else besides what it is appropriated for. Moreover, funding could be provided to SOCs in three phases with each phase constituting 33.33% of the total appropriated budget. Furthermore, there should be an on-site inspection to verify the progression of reform through reports that detail the processes and procedures that have already been adhered to as per the turnaround plan or proposal or strategy before funding for the next phase can be released.

The limitations of the study included restricted benefits in obtaining primary data from both the AGSA and Land Bank, and thus only secondary data could be gathered. Moreover, areas for further research could look into whether any enhanced systems could be implemented to monitor funding to SOCs. The system could monitor how budgets, financial guarantees, and bailouts are used and issue warning systems when SOCs are deviating.

Acknowledgements

The author is grateful for the participants from the National Treasury, Denel, DBSA, Eskom and SAA for participating in the study and in the process providing primary data.

Competing interests

The author(s) declare that they have no financial or personal relationship(s) that may have inappropriately influenced them in writing this article.

Authors' contributions

P.T.N. is the main author of this article and the article has been adapted from the author's full master's dissertation under the supervision of L.B. and co-supervision of M.C.C.M.

Ethical considerations

Ethical clearance to conduct this study was obtained from the Tshwane University of Technology Faculty of Economics and Finance Research Ethics Committee (FREC-ECO). (No. FRED 2020/008-ECO).

Funding information

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

Data availability

The study worked with primary data obtained from interviews and secondary data obtained from documents analysed in line with the study's objectives.

Disclaimer

The views and opinions expressed in this article are those of the authors and do not necessarily reflect the official policy or position of any affiliated agency of the authors.

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