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Necessity, it is said, is the mother of invention. However, in the case of South Africa's embattled State-owned companies (SOCs), necessity is undoubtedly also the mother of pragmatism.

In his response to the debate on his State of the Nation address, President **Cyril** Ramaphosa struck a pragmatic tone when announcing that, where circumstances are suitable (and where the developmental function of an SOC is not compromised), there may be opportunities to involve strategic equity partners as minority investors.

This does not sound all that radical, but it represents a significant shift in thinking – one that is underpinned by a growing acceptance that companies such as Eskom, South African Airways and Denel are not only a threat to themselves, but to the country as a whole.

Government guarantees to public entities currently stand at R466-billion, while government's exposure stands at R300-billion.

If the beneficiaries are unable to meet their debt obligations, it's up to government to step in. What's more, these are only the explicit guarantees. In the case of a strategic entity such as Eskom, there are arguably also implicit guarantees covering all debt, which stands at close to R340-billion and climbing.

That's why the Budget Review, released last week, listed SOC contingent liabilities as one of the two main risks to the 2018 Budget balance, the other being unresolved wage negotiations with government employees.

What the Budget also made clear is that South Africa has just about reached its fiscal limits in its ability to bail out SOCs directly. That's not to say there will be no further direct injections, with a R26-billion contingency reserve having been set aside for the coming three years to support SOCs, including R8-billion allocated for 2018/19. This is hardly sufficient in the case of Eskom, which in February alone needed to find R20-billion to avoid default.

In other words, either new revenue sources have to be found to enable government to make direct capital injections where required, or government will need to pursue a new financing model.

It is likely to be a combination of both. New revenue sources could be government's own sale of noncore assets.

For instance, government has expressed an eagerness to monetise 195 000 properties identified as noncore by the Department of Public Works and tentatively valued at R40-billion. It is also still contemplating the sale of part of its 39% stake in telecommunications group Telkom. Such actions could realise cash, which could be used to support core, but distressed, SOCs.

However, this is also not likely to be sufficient, particularly if government hopes to reduce the reliance of the SOCs on bail-outs and debt.

That being the case, a few other strategies are now far more likely to materialise than was the case previously. For one, SOCs are likely to be less constrained in looking to monetise their own noncore assets. Secondly, the prospect for public–private partnerships in delivering key network infrastructure has surely improved materially. Lastly, there is a good chance that strategic equity partners will be sought in some cases.

It's a response rooted in reality. However, without a dramatic overhaul in governance, there is also a real risk of this process being captured by a new predatory elite. Hopefully, Ramaphosa's State-owned Company Coordinating Council will safeguard against that.