



public enterprises

Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

Suite 301, Infotech Building 1090 Acadia Street Hatfield, 0083 Private Bag X15 Hatfield 0028
Tel: (012) 431 1000 Fax: 086 501 2624 / 086 501 0629

ATTENTION: ALL MEDIA

EMBARGO: NONE

CHECK AGAINST DELIVERY

SPEECH BY MINISTER PRAVIN GORDHAN, MP

2019/20 BUDGET VOTE: PUBLIC ENTERPRISES

11 JULY 2019

Honourable House Chair

Cabinet Colleagues and Deputy Ministers

Honourable Members

Boards of State Owned Enterprises

Executives of State Owned Enterprises

Fellow South Africans

Sanibonani

Avhuxeni

Molweni

Thobela

Goeie Middag

In a few days' time we will be celebrating Mandela Day. It is also appropriate to acknowledge the 55years anniversary of the Rivonia Trial. This trial and those that faced the might of the apartheid state, reflected the political moral and social courage of our leaders. The Rivonia trial is emblematic of the resistance to an evil system and demonstrated unrelenting courage to oppose injustice, racial oppression and economic exploitation. This should remind all South Africans and Honorable Members of what it means to be bold in the face of adversity and uncompromising in fighting any form of malfeasance and corruption.

I have the honour to present the Budget Vote for the Department of Public Enterprises for the 2019/20 financial year.

State Owned Enterprises constitute a key part of our national life and our national assets. They are central to our developmental and economic agenda. The reform of State-Owned Enterprises is part of a broader agenda of structural reforms in our country.

The Department provides strategic direction to the SOEs so that their businesses are aligned with the national growth strategies arising out of the National Development Plan and other guiding policies of Government.

Chairperson,

1. Over the last eighteen months:
 - We have attended to many crises at our SOEs;
 - We have also increasingly understood the deep damage that has been visited upon these institutions; and

- The far reaching consequences of state capture for the economy at large.
2. The consequences of the damage to SOEs is felt in particular by the millions of the poor people of our country in the form of unemployment, poverty and inequality. This has had a negative impact on Government's ability to deploy SOEs in addressing our developmental objectives.

The Quantitative Damage

3. The Department collected about 3000 forensic reports relating to SOEs. So far, an estimated R600 million has been identified as collectable. The Department is collaborating with the law enforcement authorities to ensure that criminal actions are reported and that civil recoveries are undertaken.
4. The Investigating Directorate in the NPA will fast-track investigations including from the evidence presented to the Zondo Commission. The SIU Special Tribunal will adjudicate upon any civil dispute brought before it by a Special Investigating Unit or any interested party.
5. In June this year, a full bench of the Gauteng High Court, set aside a multi-million Rand contract unlawfully entered into between Eskom and Trillian, a Gupta linked entity. The court was scathing about collusion between former Eskom officials and the directors of Trillian and has ordered the company to repay almost R600 million of fees it illegally received from Eskom.
6. Previously, McKinsey, another consultancy, repaid close to R1billion to Eskom from the same contract.

7. Similarly, Transnet has instituted legal claims to recover large amounts from the beneficiaries of the 1 064 locomotives acquisition tender, and related transactions. The Special Investigations Unit (SIU) is investigating another 30 Transnet contracts, including property and IT contracts, the largest of which was worth more than R7 billion.
8. Recently, the Deputy Director of Public Prosecutions, Hermione Cronje said that *“The cost of state capture hovers around R1.5 trillion over the second term of the Jacob Zuma administration”*.

The Qualitative Damage

9. We must be frank: after a decade of mismanagement, negligible board and executive fiduciary accountability for poor performance, malfeasance that enabled state capture, and rampant corruption at our biggest SOEs, many are in deep financial difficulties and will be unable to trade their way out of their difficulties.
10. The flight of management and technical skills has negatively impacted our SOEs, it has also impacted staff morale and work culture, especially from those who did not want to partake in corrupt activities.

Recovery and Recapture

11. In the last eighteen months, we have begun the process of restoring good governance, skills management and effective operations at the SOEs. Financial sustainability of the SOEs requires a lot more work. Several state-owned companies face

negative cash flows and are financing operations from debt, which has become increasingly difficult to raise.

12. On 23 May 2018, Cabinet approved a new permanent board for Transnet. Of the 12 new directors ten are black, six are female.
13. A new and capable Board for Denel, with diverse skills - ranging from engineering, finance, legal, business and stakeholder management - was appointed in April 2018.
14. The Denel Group CEO resigned in May 2018 after an investigation by the new Board and before disciplinary proceedings could be instituted. A new CEO for Denel was appointed in December 2018
15. In November 2018 the Denel Group CFO was dismissed with immediate effect after being found guilty of all disciplinary charges relating to irregular expenditure and failing to act in the best interests of the company.
16. For SA Express, a new Board of Directors was appointed in May 2018 and a new Acting CEO was appointed on 1 August 2018.
17. Over the past eighteen months, our work, with respect to restoring good governance, stabilizing operations, appointing new boards and directly confronting corruption, proceeded with efficiency, speed and purpose.
18. Still, progress in other respects has been slower, as the structural, financial and operational problems we have encountered run deep and require decisive action.

The Changing Global Environment

19. The Department in turn, will have to be cognisant of the changing international trade space:
- The decline in trade intensity driven growth,
 - Impact on global value chains and the emergence of global protectionism; as this will have an impact on SOE business operating environment and models:

Role of DPE

20. We now have an opportunity to develop the Department into a modern ethical and effective representative of Government as a shareholder of SOEs. This will also entail a new sense of pride and promotion of our collective national interest among the staff. DPE must and will develop into a centre of Government excellence where the best experts and skills in the various sectors in which SOEs operate.

21. There is a need to re-look the role of the DPE as a Shareholder Ministry. In other words, how should the DPE do its oversight?

New Shareholder Approach

22. Governance and accountability :
- Boards must be increasingly accountable for the financial and operational performance and repositioning of SOEs.
 - This new approach will necessitate that we revisit all the instruments of SOE oversight:
 - o Strategic Intent Statement;
 - o Shareholder Compacts;

- Memorandum of Incorporation; and
- SOE Performance Appraisal System

22. Positive Impact on the economy:

- Increasing investment in the economy
- Crowding in private sector investment:
 - Reducing the cost in doing business and cost of living by reducing logistic costs and tariffs and promoting the growth of manufacturing linked to local procurement and localisation
 - Creating business, medium and small enterprises
 - Skills development

23. Looking into the future

- Boards will be asked to:
 - Reviewing current business model and developing models appropriate to the conditions
 - Develop financial sustainability plans to ensure that SOEs are financially self-reliant.

24. In giving effect to its renewed efforts to turn around the SOEs, DPE will over the next 6 to 8 months work with the Boards of the SOEs to develop new operating models for their businesses, and develop a financial sustainability plan.

25. This will focus on:

- a. Governance and accountability

- b. Conscious effort to serve the economy, e.g. assisting with skills development and investment.
 - c. Promoting overall government objective
 - d. Creating business; big and small enterprises
 - e. Reduce cost of doing business in the economy and cost of living
26. This new approach will necessitate that we revisit all the instruments of SOE oversight:
- a. Strategic Intent Statement;
 - b. Shareholder Compacts;
 - c. Memorandum of Incorporation; and
 - d. SOE Performance Appraisal System.

PRIORITIES FOR SOEs

ESKOM

27. Eskom faces operational, financial and structural challenges, which are driven by massive cost and time overruns on the new build program, collapse in governance, unsustainable debt levels, under-investment, and poor maintenance of plants, which has led to increased diesel usage eroding Eskom's cash position.
28. In seeking to stabilise the financial situation at Eskom in the short term, the Minister of Finance will introduce a Special Appropriations Bill in Parliament in the near future.

Operational Performance

29. This situation led to over 30 counts of load shedding in the 2018/19 FY which led to an independent Technical Review Team which conducted a rapid evaluation of the maintenance practises, operations and the technical environment of Eskom Generation.
30. Eskom, the Department with the assistance of the Department of Energy and Mineral Resources, and the National Treasury, will need to ensure that:
31. Implementation of the recommendations of the Ministerial Technical Review Team and the Presidential Review Team are implemented by all concerned including Eskom.
32. The President has directed that we formulate a special paper on the future of Eskom. The main focus of this paper will be:
- outlining future energy environment,
 - financial arrangements for Eskom,
 - address the indebtedness of Eskom and lastly the
 - restructuring of Eskom;
 - Identify cost saving including coal costs, staffing costs and the introduction of capital efficiency;
 - Operationally sustaining a high energy availability factor.
33. The Department will cooperate with the Department of Energy to finalise the NERSA Amendment Act to establish a proper recourse for regulatory decisions.

34. The Chief Restructuring Officer (CRO) will be announced shortly.

TRANSNET

35. Transnet's focus going forward is to improve the efficiency, reliability and cost-effectiveness of its freight transportation by reducing the cost of doing business and improving the competitiveness of the country's exports. This is in line with the commitment Government has made as part of the stimulus package that a review of port and rail prices will be undertaken, in addition boosting exports and making South African industry more competitive.
36. We have confidence in the Board led by Dr Popo Molefe to realise the objectives we have set for it. The process of recruiting the executive leadership of the SOE is in progress and we are expecting a competent and capable executive team that can drive the achievement of the tough task that lays before them.
37. Transnet's operational performance can be improved further. Rail volumes have remained stagnant over the last MTSF period, well below the target of 330 mega tons per annum (mtpa) set for the company.
38. There has to be an increased effort to understand and respond to the needs of business, thereby contributing to economic growth and efficiency.
39. The Board and management will be set targets in the Shareholder Compact to achieve these objectives.

DENEL

40. Denel is a case study on damage visited upon the SOE by State Capture driven corruption and thievery. The business has

seen its revenues reduced from a peak on R8.2 billion four years ago to a projected R3.2 billion in 2018/19 – a 60% decline.

41. The impact of Denel's decline on the local industry has been immense as Denel procures more than 50% of its inputs from suppliers, of which 75% are located in South Africa.
42. The Denel Board will concentrate on the following:
 - Implementing a restructuring plan it developed during the 2018/19 financial year to position the business for recovery and growth.
 - Introduce Strategic Equity Partners (SEPs) to maximise business potential of core businesses and exit non-core businesses, to enhance financial sustainability and business focus. This is not a process foreign to Denel. The following SEPs: Rheinmettal, Turbomeca, SAAB, and Hensoldt have been introduced into Denel subsidiaries with commendable commercial results. These introduced indigenous products onto SEPs international value chains and introduced world class management and manufacturing capabilities into the business:
 - Radically improve production and sales of its various defence products

ALEXKOR

43. Alexkor is one of the entities that are plagued by serious financial challenges emanating from poor management of the mine and unsustainable corporate structure and cost base. There has also been allegations of maladministration and corruption levelled at the SOE and Joint Venture leadership.
44. In order to address these challenges we will be appointing an administrator to oversee the business and ensure that it is restructured for sustainability. We remain confident that the mine

has adequate diamond reserves to ensure its viability. The administrator will have to ensure that this is achieved.

Chairperson,

DPE PROGRAMME OVERVIEW

2018/19 Expenditure Overview

45. The Department was allocated R6.52 billion for 2018/19.
- a. Included in the Departmental allocation was an amount of R5 billion for SAA recapitalisation and R1.2 billion for SA Express.
 - b. The allocation for the Department itself was R273.9 million.
 - c. The under-spending of R48.1 million was the result of vacancies. Once a departmental restructuring has been completed in the current financial year, these posts will be filled.

2019/20 Allocations

46. The Department has been allocated a budget of R293.0 million in 2019/20, R312.8 in 2020/21 and R332.0 million in 2021/22. The allocation represents an average growth rate of 6.5%.
- a. The Department's focus over the medium term will be largely on enhancing the capabilities of the Department in performing its oversight role on the various SOE's by ensuring that the pool of highly skilled professionals is augmented.

Programme 1 – Administration and Corporate Management

47. The aim of the branch is to provide strategic management and support to the department.

Programme 2 - State-Owned Companies Governance Assurance

48. The priorities for the programme in the 2019/20:

- a. With the goal of the Government Shareholder Bill be adopted into law by 2021/22 the green Paper for the SOE Bill will be developed this financial year. This will amongst other things address governance, SOE mandates, funding models as well as guidelines for private sector participation.
- b. SOE Reform is an ongoing process to review the SOE landscape emanating from the report of the Presidential Review commission. The main principles have already been approved by Cabinet. These seek to assess the SOE landscape and ensure that the economic impact of the SOE is enhanced by eliminating duplications and reviewing the current SOE to ensure continued relevance. In addition, the SOE reform aim to guide the appointment of boards and prescribed officers including remuneration and their incentives.

Programme 3 - Business Enhancement, Transformation and Industrialisation

49. The priorities for the programme in the 2019/20:
 - a. Examining on an ongoing basis Eskom's maintenance plans, operational practices, electricity generation and distribution efficiency, as well as its reserve margin.
 - b. Ensure Alexkor maintains sustainable diamond production and that the joint venture mine with Richtersveld communities is restored to full operation.

- c. Optimise Government forestry assets holdings which are currently split between SAFCOL and the Department of Environmental Affairs, Forestry and Fisheries.
50. Monitoring progress and working with Transnet in improving the cost-effectiveness, efficiency and reliability of its freight transportation system and achieving a modal shift from road to rail as well as investigating the implications of giving effect to Section 3(2) of the National Ports Act, i.e. corporatisation of Transnet National Ports Authority;
51. Monitoring and supporting the turnaround of both SAA and SA Express, including achieving policy alignment through a holistic approach to policy affecting the aviation sector, giving consideration to the consolidation of the airlines, exploring the possibility of introducing a strategic equity partner, and assisting the airlines to secure sufficient funding to meet their liquidity requirements.
52. Supporting the Denel turnaround by engaging with key stakeholders within government to achieve alignment on the disposal of non-core businesses and introduction of private sector partners in Denel businesses as well as ensure that the sovereign and strategic capabilities are sustainable.

CONCLUSION

We would like to thank, the outgoing Chairperson of the SAA Board, Mr JB Magwaza. Your contribution is appreciated.

Let me also take this opportunity to thank the outgoing GCEO of Eskom, Mr Phakamani Hadebe for being a guiding hand at the power utility.

Lastly, I would like to thank the Acting DG, Mr Thuto Shomang for answering the clarion call of Thuma Mina, for steering and leading the Department in difficult and turbulent times. I would also like to thank the leadership of the Department.

I THANK YOU.