



**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

**BUDGET VOTE SPEECH BY  
MINISTER OF PUBLIC ENTERPRISES  
PRAVIN GORDHAN  
16 MAY 2018  
to the National Council of Provinces (NCOP)**

***Check against delivery***

Chairperson  
Members  
Fellow South Africans

**INTRODUCTION**

- Government will be investing R368 billion over the next three years, of which Transnet and Eskom account for a significant share.
- The infrastructure investments being undertaken by the SOCs will contribute towards the improvement of the quality of life for our people. For instance, in the electricity sector, Eskom continues to connect new households to electricity, with the aim of achieving universal access by 2025. Over two hundred thousands new connections were achieved in 2017/18 financial year.
- In particular, these enterprises have a central role to play in the progressive reform and strategic transformation of our economy. For instance:
  - ✓ Eskom's mission is the provision of electricity, as well as related services, to enable development and economic growth. It achieves this by powering the economy and enabling businesses, particularly mining and manufacturing, to thrive and create employment.
  - ✓ Transnet's port, rail and pipeline infrastructure facilitates the movement of goods from where they are produced to where they are consumed within the country. This promotes trade with our neighbours and provides a connection to export markets. It is critical as an enabler of cost-effective, efficient, and seamless movement of goods through our economic system.
  - ✓ Denel supports a supply chain of both small and large companies operating in the defence sector. In addition to ensuring the country's security, through

its research and development, the company contributes to the development of the advanced skills necessary for the company to compete in a world that is becoming increasingly sophisticated. Denel has leading-edge technology and manufacturing capability as well as strategic defence capability that advances our national competitiveness.

- ✓ South African Express operates routes connecting secondary cities with the major metros as well as connecting South African with some of its neighbours such as Botswana, the Democratic Republic of Congo and Namibia. This contributes to promoting economic activity particularly tourism in the region as well as in secondary centres.
- In our case, an effectively managed, efficiently performing and well-governed public enterprise sector should play a dynamic role in:
  - ✓ Delivering important public services and public goods that enable economic activity and improve the quality of the lives of our people;
  - ✓ Investing in infrastructure to reduce the cost-structure in the economy so that other economic players become more efficient and competitive;
  - ✓ Supporting and growing small- and medium-size businesses;
  - ✓ Undertaking research to develop new technologies to equip the country to compete effectively in a world post the fourth industrial revolution;
  - ✓ Transforming the patterns of ownership in the economy by directing their procurement spend to black-owned businesses; and
  - ✓ Providing jobs, training and skills development.

## **SOC ISSUES**

### **ESKOM**

Eskom, is responsible for the generation, transmission and distribution of electricity. The company has installed capacity in excess of 45 Gigawatts and generated 225.92 Terawatt hours of electricity in 2017/18. The key generation expansion projects are Medupi and Kusile coal-fired stations.

This critical institution was on the brink of collapse through state capture. In addressing this, Government intervened in removing this compromised board and executives that enabled the Tegeta purchase of Optimum Coal Mine. In addition, there was a collapse in governance, an audit qualification and irregular expenditure.

A new Eskom board was appointed in January this year as well as an Acting GCE. Since then, the Board and GCE have achieved the following:

- It is instituting a culture of effective and transparent governance, including ensuring that those who were engaged in fraudulent activities are brought to account. This has resulted in the departure of 6 senior managers on the basis of serious allegations of misconduct. A further 3 senior employees remain on suspension of which 2 will be facing independent disciplinary hearings this Month.
- Employees as well as outsiders have been encouraged to use the whistleblowing facility to share information about corruption at Eskom. The response has been very positive. I am advised that almost 250 matters are being investigated, of which there

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have already been 42 cases where actual corruption, fraud or irregularity has been confirmed.

- Lifestyle audits have commenced and the process is projected to be finalised by the end of July 2018.
- No load shedding over the winter period is anticipated.

## **MANAGING AND MITIGATING THE TRANSITION**

The introduction of renewable energy to diversify the energy mix remains the Government policy and Eskom is playing a critical role by enabling their connection to the grid and as an off taker of the energy produced.

The development need to be carefully managed due to the impact of the new capacity displacing Eskom’s coal fired power stations. The threat posed by the closure of coal fired power stations will have adverse socio-economic impacts resulting from the closure of more than half of collieries supplying Eskom.

Eskom estimates that the closure will directly impact more than 100 000 people that currently service the power stations and the livelihood of the various communities in the areas surrounding the affected power stations which will have a significant negative impact to the already distressed economy that is struggling to create jobs. Lessons should be learnt from towns like Ermelo following the closure of Eskom’s power stations.

### **Electrification**

To better the lives of more South Africans, Eskom continues to execute the Government’s mandate by ensuring that more households are connected to the grid. A total number of **215 519** new connections were achieved in the 2017/18 financial year.

Table 1: Provincial Electrification breakdown

Number of connections	2017/18	Eastern Cape	Free State	Gauteng	Kwazulu - Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
	215 519	56 092	1 394	3 525	59 892	46 503	25 304	2 377	13 746	6 686

### **Municipal Debt**

- It is important that delivery of services to communities happens without any interruptions. Our SOCs are key to ensuring that some of the critical services like electricity supply is accessible to all South Africans.
- Therefore the culture of payment for service rendered is inculcated in our society to ensure effective and efficient provision of goods and services.
- The growing Municipal debt is posing a financial risk to Eskom’s sustainability.

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- For the year ended March 2018 the debt increased to R13.6billion from R9.billion at the end of 2016/17 financial year. I must emphasise the importance of Eskom's ability to recover all the revenue for providing electricity to customers.
- The growing trend of non-payment is posing a risk to the entity cash flows and its financial sustainability. In terms of the PFMA "*Accounting authorities of the public entity must take effective and appropriate steps to collect all revenue due to the public revenue*".
- It is therefore critical that Eskom is able to collect the revenue for the electricity supplied to ensure that these important entity is both operationally and financially sustainable.
- The non-payment is no longer Eskom's own challenge but a national challenge due to the significant role the entity plays in the lives of South Africans.
- It is therefore imperative that a holistic solution must be sought to address these culture of non-payment.

## **TRANSNET**

Transnet is responsible for providing land freight transportation services through its port, rail and pipeline infrastructure. During (2017/18 financial year the company moved a total 226.3 metric tons by rail with general freight moving 90.6mt as well as 17 billion litres of fuel.

Transnet has 8 commercial ports, namely, Port of Richards Bay, Port of Durban, Port of Port Elizabeth, Port of Ngqura, Port of East London, Port of Cape Town, Saldanah Port and Port Nolloth.

Interventions at Transnet;

- ✓ The Board accepted the resignation of the CFO and I have approved the appointment of Mr Mohammed Mahomed CA (SA) to act in this capacity.
- ✓ I have accepted the resignation of the previous Chairperson of the Board of Transnet and several other non-executive directors.
- ✓ In line with the Companies Act, I met with the remaining Transnet Board members to allow them to make representations concerning their retention on the Board. After considering this, I decided to remove them as non-executive directors with immediate effect.

I have appointed an Interim Board for Transnet pending consultation with Cabinet. The new interim Board of directors will be directed to act on the findings of the Werksman's

investigation and other forensic reports. They will also review the large contract that have been entered into in order to verify their legality.

### **Transnet Opportunities**

There is strong focus on optimising movement of freight on the coal, manganese, iron ore and other major export corridors.

- ✓ **Cape Corridor investment is approximately R5bn** of which most significant work will be done around the Cape Town Container Terminal.
- ✓ **South Corridor investment is about R15bn**, will mostly be allocated to the Manganese programme. The scope includes moving manganese export from Port Elizabeth and other areas through **Port of Ngqura**. There will be both a port terminal including equipment, facilities and a rail infrastructure portion.
- ✓ The first phase of manganese rail line investment project runs from Kimberley to de Aar and second phase entails infrastructure upgrade to Ngqura.
- ✓ Saldanha third tippler installation investment over the next 2 years will be around R1, 6bn and will include the tippler and associated infrastructure. There are current contracts in place, and few more packages will go to market in next few months. Full focus on regional potential for each package identified includes roads and bridges, conveyer system, the tippler itself as well as ongoing power upgrade projects.

Branch lines play a pivotal role of connecting rural towns that used to be economic centres with the existing economic hubs in the economy. The Department working with Transnet and policy departments have developed the strategy that has resulted in the concession of four strategic branch lines in two provinces (in North West and Western Cape) and more are to be revitalised in 17/18 financial year, once viability has been undertaken on a case by case basis's.

### **DENEL**

Denel was one of the institutions where evidence of state capture began to emerge. Once again, it seems that a weak and captured board and executives were intent on facilitating the exploitation of the company's valuable intellectual property to enrich Gupta-associates and potentially launder money off-shore.

Denel could not meet its obligations and government increased its guarantees in order to improve its cash flow.

The new board, which was appointed in April, has been tasked with implementing the findings of all forensic reports and holding those implicated to account. The CEO has resigned and his resignation has been accepted by the board. I have approved the appointment of Mr Mike Kgobe, current head of Denel Aviation, as acting CEO.

### **SAX**

South African Express transports passengers and cargo as well as providing air charters and other related aviation services. The objective is to increase the frequency of services on lower density routes which are not viable for large aircraft and expand air services on regional and secondary routes. The airline transported close to 300 000 passengers during 2016/17.

### **Interventions at SAX**

1. As a temporary stabilization measure, senior officials from the Department were seconded to South African Express, whilst the process of appointing a permanent CEO and CFO is underway.
2. I am reviewing the Board, with a view to strengthening its capacity.
3. I am strengthening the Management and Technical Teams.
4. Government will consider to capitalise the airline in order to get more reliable and cost efficient aircrafts.
5. Reports of corruption at South African Express (which you all will have seen was covered by the media last week) are being reviewed.
6. Plans and actions in the period ahead includes the consolidation of aviation assets and scaling operations to available fleet.

### **ALEXKOR**

Alexkor currently participates in a joint diamond mining venture with the Richtersveld community which is governed by the settlement agreement reached in 2007 following from a land claim. Together with the community, Alexkor has been reviving the land diamond mining operations, which produced 162 000 carats of diamonds in 2016/17.

Forensic investigators have been appointed to investigate allegations of wrong-doing at the company including:

- Exclusion of certain contractors from marine mining procurement;
- Lack of transparency on the sales and marketing of diamonds; and
- Lack of information on the sales.

In terms of clause 7.7 of the Deed of Settlement, Government through Alexkor is obligated to pay an amount of R45m to the Richtersveld Property Holding Company as part of restitution. The Community under the leadership of its Communal Property Association (“CPA”) executive committee decided in 2016 that the said R45m should no longer be paid to the Property Holding Company but to members of the Richtersveld Communities. This will necessitate an amendment to the Deed of Settlement (DOS) which must be endorsed by the land claims court for payment to be made to direct to the Communities.

The Department of Rural Development and Land Reform (as custodian of restitution matters and CPA governances) appointed an attorney to help the Communities with their issues, in particular the amendment of the DOS. The amendment of the DOS will not cover the R45m issue only, but even things such as the collapse/amalgamation of various structures established under the DOS into one company.

It has been agreed that for the purpose of moving the court application, a better process will be to draft an agreement to be entered into and signed by all parties to the DOS. The

agreement will be submitted as part of the amendment to the DOS and will in a way minimise opposition to the amendment of the DOS.

## **SAFCOL**

Safcol manages 181 000 hectares of forest which equates to approximately 10% of the country's plantation forest land. In addition, Safcol owns 80% of a Mozambican State Owned Company, IFLOMA, with a total area of 16 200 hectares.

Much of the land managed by Safcol is under land claim. Whilst awaiting finalisation of the land claims, the company has entered into social compacts with the local communities to address public facilities requirements of these communities using timber framed structures. Some of the structures donated by Safcol are: desks, classrooms, early childhood centres, and frail care centres. This social investment has primarily been in Limpopo, Mpumalanga and Kwazulu-Natal due to their operations being in these provinces. The appeal from members that the project be extended to the other nine provinces has been heard, and Safcol will be directed to redesign the program accordingly.

The business is a position to invest more into its operations – its balance sheet carries no debt. The Department and Safcol will be working in this financial year to present me with the investment plan that the business revenues and profits are increased in line with its peers in the sector. Through such an investment we need to see further jobs and enterprise opportunities being opened for the peoples of the rural communities. This is in line with this government commitment to rural economic development.

## **KEY INTERVENTIONS**

The following are key interventions;

- Recapture the state;
- Hold to account those that have been involved in malfeasance;
- Strengthen governance;
- Stabilise the entities and return them to financial sustainability; and
- Use the companies to transform and boost the economy.

## **CONCLUSION**

In conclusion, we shall seek to ensure that the SOCs are positioned so that they can facilitate;

- Inclusive growth
- Massive investment, both foreign and local
- Job creation
- Skills development; and
- Assist with enterprise-wide and business creation.

The actions will involve the Re-Capture of SOCs through;

- Boards with capacity, capability and integrity
- Skilled Management with proven track record and integrity

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- Conduct forensics and ensure consequence management
  - Integrity and Good Governance, including
    - lifestyle audits and
    - stopping officials from doing business with SOCs
- Auditors and Legal firms - clean up their act
- Merger of the Airlines
- Procurement processes with transparency and oversight
- Review business models, both now and for the future where issues of sustainability will be integral to any proposed solution.
- Role of the SOC in the economy so that they are able to promote investment, job development, enable skills acquisition and enable growth of business
- The Department of Public Enterprises itself needs to be enhanced so that it is able to accommodate these changes
- We need to identify locate and trace stolen assets so that these can be restored to SOCs and the South African people to whom they belong

Chairperson, I thank President Ramaphosa for allowing me the privilege of serving South Africa again in this capacity.

**ENDS.**