



public enterprises

Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

BUDGET VOTE SPEECH 2021

Speech by Minister Pravin Gordhan, MP

25 May 2021

CHAIRPERSON,
HONOURABLE MEMBERS,
CHAIRPERSONS and CEOs OF SOE BOARDS,
LADIES AND GENTLEMEN

I have the honour to present the Budget Vote for the Department of Public Enterprises for the 2021/22 financial year.

At the outset, I wish to pay tribute to our health care workers: the sacrifices; their bravery in putting peoples' lives first during the COVID pandemic.

They symbolize the caring society we want to be; the resilient people we are; turning adversity into hope and action to save lives.

This is a singularly important lesson for all of us in the public sector - political and non-political employees of the democratic SA state.

I also acknowledge the excellent work of

- Solidarity Fund and the solidarity of corporates with all our people.
- Workers in Transnet, Eskom, Prasa, and elsewhere – workers in the frontline of keeping economic activity going.

This is the true meaning of any compact between different sectors of our nation.

A day after the 80th birthday of Bob Dylan I quote a commentator who said:

“ we’re listening to a very political artist. An artist who comes again and again – speaking truth. But an artist who fears that “power and greed and corruptible seed seem to be all that there is”. And thus an artist trying to fight his way through his disgust and the despair that this vision engenders. An artist who, in so doing, returns us the slim hope provided by artistic communion; that by naming it, and seeing it, and singing it, we might yet overcome our own darker nature or at least keep it at bay”

Chair, the mission assigned to us by the President is: uncover and deal with the past full of corruption and greed; stabilize governance, operations and finances of these SOEs so that they return to their basic mandate; and, importantly repurpose, redirect, restructure them with the board to meet the demands of SA’s economy and its people and the opportunities in their sectors. This they must do to be innovative, to be market shapers in these sectors and combine their efforts with those of the private sector and civil society.

Ultimately, these entities must be capacitated and led with total integrity to the new horizons we set for them. Nothing less will do.

At the same time, we are realistic. We fully appreciate that these demand radical changes, which will be arduous and will take time. There are indeed no quick fixes. Nor can we deny the massive and orchestrated resistance by the engineers and beneficiaries of corruption. That will only stop when all of them are in jail.

This mission is being pursued vigorously by 10s of 1000s of people in government and in the SOEs themselves. Our determination remains strong. We are making steady progress and more can and will be done.

Our approach is a holistic, systemic one. For the challenges are indeed systemic and not superficial. We have zero tolerance towards mismanagement, malfeasance and the culture of greed and disregard for the wellbeing of the economy and citizens of SA. In this context, the members of the Boards and top management are bravely pursuing their mandate. We salute their efforts.

Our capacity, we admit, is limited and strained. More will be done to continuously to develop the capabilities of the people working within SOEs and Government generally.

Our actions, nonetheless, reflect the struggles against the worst in human nature. We confront the institutional deficits created by those who today profess before the Zondo Commission that they were the architects of good governance. Instead, they were the arch destroyers of the assets belonging to all South Africans.

Shortcomings, we humbly admit, we've had. But hindsight is the only perfect science! Of course, the armchair is a close second!

HISTORIC DISRUPTIONS

We live in a period where the COVID-19 pandemic has ravaged the global economy, changed the political landscape, heightened social disparities, and starved us of human interaction. Climate change, the consequent energy transition, the disruption of trade and supply chains, the changes in the production geography of the globe, these are part of the new reality. In addition,

- Vaccine nationalism is seeing rich countries open up their economies faster than developing countries. The fact is however that the virus does not respect borders!
- Increased adoption of technologies has seen greater displacement of vulnerable people from the economy - working class, young people, and people living with disabilities.
- The curtailment of travel and social interaction of people has disrupted that which makes us human – the stimulation of our senses through shared experiences.
- The old business models have been disrupted and are changing.

Above all, a post-COVID world needs to develop new measures to mitigate the impact of the pandemic on working class families and communities in South Africa.

The pandemic evokes, paradoxically, tragedy and human solidarity; selfishness and generosity; economic stress and innovation; and exposes old social and economic divides and directs global focus on the workers,

unemployed, precarious jobs and the wealth and income divide. This moment begs for strategic leadership towards a different, more inclusive and fairer future.

So what is to be done?

A recent paper argues that "...Crises and pandemics can bring society together around a common purpose, but we know from history that such critical junctures can also divide societies and propel them into chaos. Learning the right lessons and being able to galvanise society for positive change is thus one of the key tasks for governments during the ongoing pandemic." Mazzucato, Qobo and Kattel

Economic Reconstruction and Recovery Plan (ERRP)

This "can-do spirit", is captured by President Cyril Ramaphosa in responding to the COVID-19 crisis, when he said:

"We are determined not merely to return our economy to where it was before the coronavirus, but to forge a new economy in a new global reality."

The ERRP is our initiative as a nation to chart a new way forward.

The implementation of the ERRP, which has placed the economy on a new trajectory, is focused on addressing priority interventions, such as accelerating structural reforms by modernising and reforming network industries and associated SOEs and lowering barriers to entry to make it easier for business to start growing their capacity.

DRIVING SOEs TO A DIFFERENT FUTURE

Driving SOEs to a different future is predicated on acknowledging the damage caused by state capture, corruption and ineptitude, which is now legend. The actual impact on governance, operations, finances, institutional culture, however, is barely appreciated by many. In addition, the reputational damage of our SOEs and inadvertently the country is significant.

The inability to invest in new infrastructure, replace old equipment, pay salaries to workers, and other obligations is a consequence of the corruption and malfeasance

WE HAVE MADE PROGRESS TOWARDS OUR MISSION

So, what have we achieved in 2020?

- Good governance codes are being embedded in SOEs.
 - An integrity and consequence management framework has been developed to establish clear guidelines and expectations of the Shareholder;
 - The pursuit of stolen money has yielded progress;
 - prosecution of those responsible; and
 - guidelines to manage conflicts of interest in the SOCs are becoming stricter
- Operational efficiencies are being addressed, although not completely yet.
- The financial stability of SOEs is a mixed picture, particularly in the context of a constrained fiscus.

- The goal of relieving the pressure on the fiscus remains an important focus and innovative funding solutions are being developed.
- There is greater appreciation of the dynamic changes in the energy, logistics and aviation sectors which demands change in business models.
- Organizational transformation initiatives to increase capability and reduce the cost structure.
- Regular engagement with various industry associations to address matters in the sectors our SOE.
- The Aerospace and Defence Masterplan was published in December 2020 and will be tabled in Cabinet in shortly.

There is, of course, a lot more!

Energy Sector

The IRP19 has projected that renewable energy, as part of an energy mix, will contribute a total of 18.2 GW to the South Africa grid by 2030.

If the International Energy Agency's (IEA) bold "Net Zero by 2050" Report are to be met, this will require South Africa to rapidly embrace renewable technologies.

South Africa can emerge as a leader in this sphere, providing opportunities to local industry and the development of appropriate solutions for the continent. However, the IEA Report is at pains to emphasize that "...clean energy transitions must be fair and inclusive, leaving nobody behind..." and that "the transition to net zero is for and about people..." It states that because "not every worker in the fossil fuel

industry can ease into a clean energy job... governments need to promote training and devote resources to facilitating new opportunities. Citizens must be active participants in the entire process, making them feel part of the transition and not simply subject to it.”

Moreover, the IEA points out that “each country will need to design its own strategy, taking into account its specific circumstances. There is no one-size-fits-all approach to clean energy transitions.”

Eskom is implementing its just energy transition strategy and Komati power station has been prioritized as the pilot project.

ESKOM’S SUCCESSES

The progress that has been achieved at Eskom has been reassuring:

- A Just Energy Transition Office was established to manage the socio-economic impact of the transition from coal to renewable energy sources.
- Eskom’s social compact was signed in December 2020 to address its operational and financial challenges.
- The National Energy Regulator of South Africa (NERSA) has approved a 15% tariff increase that will assist with Eskom’s financial stability.
- The Medupi power station is almost complete, with the last unit ready for commissioning by July 2021.
- Kusile’s Units 2 and 3 have been brought into commercial operation in October 2020 and March 2021 respectively.

- Eskom has been recovering money that was stolen by companies doing business with it.
- The return of one of the Koeberg units to operation after many months of maintenance work.

Eskom's restructuring

Eskom has achieved substantial progress towards functional restructuring and it is envisioned that the process will be concluded by 30 June 2021.

The progress include:

- Finalized divisionalization and launching of three divisions with Boards and Managing Directors.
- Each division will have its separate Profit & Losses account.
- A total of 9,400 employees have been relinked with power stations with 6,773 employees moved from corporate functions to divisions in readiness for legal separation.

The legal separation of the Transmission Company will be completed by 31 December 2021, while also working towards legal separation of the Distribution and Generation Companies with Eskom Holdings by 31 December 2022.

Eskom's Financial Stabilization

In 2005, Eskom embarked on the construction of the major projects in the Build Programme with the three new power stations, namely, Medupi and Kusile Coal Stations and Ingula Pump Storage Plant. However poor

procurement strategy, insufficient planning, poor project management, lack of skills, and corruption led to cost overruns and schedule overruns at Medupi and Kusile. Eskom has been correcting the latent defects at Medupi and Kusile. Money that was stolen from the projects are being recovered from the people and the companies involved.

The management of Eskom's debt is one of the key priorities to return the entity onto a sustainable path. The entity is continuing to implement its cost reduction initiative, with a saving of R13,5 billion achieved in the 2021 financial year. Most notably was the R83 billion reduction in debt in the 2021 financial year, from R484 billion to R401 billion due to the repayment of the maturing debt and changes in the exchange rate.

Those are significant numbers chairperson.

Eskom's consumer debt continues to escalate which currently stands at R45.1 billion – of which 78% is owed by municipalities, 17% by Soweto. The Inter-ministerial Committee headed by the Deputy President is leading the effort in resolving the municipal debt challenges. One its projects is to pilot Eskom's Active Partnership Model at Maluti a Phofung municipality. The model entails Eskom taking over the electricity distribution function and so that proper management systems are put in place and that bulk electricity supplies are paid. The next step is to roll out the same model to the other Eskom highly-indebted municipalities.

TRANSNET

The Logistics sector

The pandemic has changed the dynamics of trade, ports, shipping and supply chains. The capacity and efficiency of the port system in SA is vital for trade for the SA economy and the region.

In order to maintain a competitive advantage, there must be new investment in infrastructure to increase port capacity, investment in adequate equipment, an increase in productivity at the ports, and appropriate tariffs. There is a need to align the TNPA pricing methodologies to those of port regulation for competitiveness and efficiencies of the terminal operators.

The institutional structure of Transnet, the establishment of TNPA as a subsidiary, and new creative partnerships with the private sector, particularly Black businesses, is imperative.

Transnet's successes

Transnet has supplied equipment to the port of Cape Town in order to increase the efficiencies at the port.

In addition greater efficiencies have been introduced at the Port of Durban and Durban Port Terminal has partnered with research institutions and innovation hubs to address the weather challenges, which also contribute to congestion in the ports.

Transforming Transnet

The transformation and reconfiguration of Transnet SOC Ltd ("Transnet"), to meet the mandate outlined in South Africa's Economic Reconstruction and Recovery Plan is underway.

Transnet's new strategy is to drive volume growth through private sector participation by developing key strategic partnerships in its core segments:

- The redesign of the Port of Durban and to reposition it as an African and Indian Ocean hub for containerised cargo.
- In addition to the container and automotive growth strategies, Transnet is enhancing its export growth capability in the bulk sector focussing on mega corridors through the road to rail initiatives.
- As I have earlier said, equipment is currently being transferred from the port of Durban to the port of Cape Town to support the export capacity of fruit and "cold goods". The agricultural sector market share has grown by 24% in 2021, with a turnover of R38bn for the industry.
- Engagements with property developers to acquire land parcels for truck staging for cargo to the Maydon Wharf terminals is being undertaken.

DENEL

As we, all know Denel is facing financial and operational difficulties.

The Economic Reconstruction and Recovery Plan identifies the Defense and Aerospace industry as key to economic growth, particularly in localisation and exports. The Defence and Aerospace Masterplan was finalised last year.

Denel has a confirmed order book of R11 billion but is unable to secure the necessary capital or the support of suppliers to execute the contracts.

It is highly regrettable, that Denel last paid full salaries in May 2020. The current amount owing to employees is approximately R500 million. The business has subsequently experienced a loss of critical skills to both domestic and foreign companies. The Board continues to make efforts to secure funding in order to pay salaries and implement its turnaround strategy to restructure Denel into a far more effective organisation.

Denel's core capabilities are consolidated and restructured from five divisions into Engineering and Manufacturing & Maintenance. Discussion with critical stakeholders (Department of Defence, National Treasury and the SANDF) on an optimal Denel are underway.

SAA

The aviation sector has been decimated by the pandemic with 2020 being the worst year in the history of air travel. According to IATA (the International Air Transport Association), the demand for air travel reduced by 65.9% in 2020 compared to 2019, with international air travel reducing by 75.6%.

SAA Business Rescue (BR)

The SAA business rescue process has ended on the 30th April 2021. I want to convey sincere regret and solidarity with the employees of SAA, their unions. This has been a difficult process. But we are not too far from achieving government's objectives: a viable airline, not dependent on the fiscus, with the agility to cope with uncertain times. Our success will be measured in how efficiently and how quickly we get the job done.

The acquisition of a Strategic Equity Partner is at an advanced stage and could be concluded in the next 4-6 weeks. At the same time decisions will be made on the future of the subsidiaries.

Presidential SOE Council (PSEC)

The DPE is the secretariat to the Presidential SOE Council. I am pleased there is excellent work happening at the council, which the President will announced in respect of its outcomes in a short while.

2021/ 22 – PROGRAMME OVERVIEW

The Department has been allocated a budget of R36.3 billion in 2021/22 financial year. Of these funds, R36 billion is allocated to the SOEs in respect of the government guaranteed debts (ESKOM – R31.7 billion, SAA – R4.3 billion).

After excluding transfers to SOEs, compensation of employees (COE) is the Department's largest cost-driver. However, this spending is expected to decrease at an average annual rate of 0.9 percent, from R185.2 million in the 2020/21 financial year to R180 million in the 2023/24 financial year.

The Department's baseline, which is R123.5 million over the medium term and will be effected on compensation of employees (R102.3 million), and goods and services R21.2 million

CONCLUSION

I extend my sincere appreciation to the Chair and whip of the Portfolio and Select Committees for their sterling work and support. My thanks also to the Deputy Minister, my chief of staff, and staff in the ministry.

A special word of gratitude to the Director General Mr Tlhakudi and the band of officials who have done an extraordinary service to this portfolio and our country.

We appreciate the Boards of the SOEs for their integrity and courage in executing a difficult mandate.

The CEOs of the SOEs have offered bold leadership in a challenging environment and introduced innovative thinking.

Finally, to the most important people, the workers at the dockside, on rail lines, at the power stations, along the transmission lines, in the forests, and many other places for their contribution!

It is in these difficult and trying times that we hear Abraham Lincoln's call to the "Better Angels of our Nature". This is a call for all of us to dig deep into ourselves and go beyond the call of duty. As with similar defining moments in our history, we have risen to the occasion. These times, have positively defined our national identity! This is who we are - Mandela's people!"

I submit this budget for your approval.

Ends

