public enterprises

Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

HONORABLE CHAIRPERSON

HONORABLE MINISTERS AND DEPUTY MINISTERS

CHAIRPERSON OF THE PORTFOLIO COMMITTEE

HONORABLE MEMBERS

THE ACTING DIRECTOR-GENERAL AND OFFICIALS OF THE DEPARTMENT

LADIES AND GENTLEMEN

Chairperson,

I extend my greetings to all honorable members in this august house in the month of May, the Africa month.

I am grateful for the opportunity to share with you the highlights of some of the State-Owned Enterprises (SOEs), as part of the Budget Vote for the Department of Public Enterprises (DPE) for the 2023/24 financial year.

Let me further indicate, that the challenges faced by our SOEs are structural, operational and strategic in nature. I am encouraged by the fact that we are beginning to see significant progress in our efforts to deliver on the vision by President Ramaphosa when he charged us to undertake far-reaching reforms that will make our SOEs more efficient, competitive, accountable and sustainable and developmental.

It is permissible and granted, that the running of our SOEs involves factors both external and internal. Take for example, the COVID-19 pandemic, climate change, the war in Europe, and the disruption of trade and supply chain due to high levels of corruption and State Capture which is documented in the Zondo Report.

I therefore, present the following key highlights on the state-owned entities; as economic enablers and job creators for economic growth for the success of our country and its people. The Minister has already presented on TRANSNET, SAA and ESKOM; I will therefore focus specifically on Denel, Alexkor and SAFCOL.

SAFCOL

The commitments with regard to SAFCOL relate to its strategy to realise a 50:50 revenue split between log sales and processed products and the diversification of its product portfolio by entering strategic partnerships with the private sector and **this is not privatisation**. We all agree that SAFCOL's present model is proof of how SOEs ought to function.

On Climate Change – It should be noted that SAFCOL's major challenge include the effects of climate change to its operations, such as cyclones that continually affect its IFLOMA operations in Mozambique and the acquisition of more plantations.

SAFCOL has therefore implemented a strategy to expand its plantation assets, both locally and in Africa.

On Finances - Despite a rapid increase in the cost of doing business in South Africa and a gloomy global economic outlook, SAFCOL maintained a stable growth in the past three years, where the company is the only SOC to declare a dividend of R1 million during the 2021/22 financial year.

This performance continued in the 2022/23 financial year, as reflected in log sales of R970.8 million, which represent an achievement of 10% above target. Furthermore, the average selling price (ASP) for logs for the year reached the 12% mark, allowing SAFCOL to generate a total revenue of over R1 billion.

On Developmental Objectives - SAFCOL's business is key to building relationships with communities and continues to invest in projects that will benefit all members of these communities.

For example, projects such as Sukumani Youth Advisory Centre, which is 100% complete, provides the community of Diepdale in Mpumalanga with youth development skills. Moreover, SAFCOL has proactively succeeded in addressing classroom shortage for the eDwaleni primary school, where children were learning under a garage covered with plastic material and others in the library.

Go there now you will see happiness in their faces as I had handed over the classrooms together with the Board and management of SAFCOL on the 4th of May 2023 just a few weeks ago.

SAFCOL PRIORITIES

- To make a long-term investment of approximately R450 million in processing facilities, at Timbadola in Limpopo sawmill to increase its revenue stream.
- Grow the IFLOMA operations through a partnership in the fibre project.
- Plant 700 hectares in Galinha Province in Mozambique.
- Grow South Africa's plantation assets, invest in the other state managed forestry plantations by sharing best forestry business management to mention a few.

Thanking the Board for ensuring Good Governance and management in operational efficiency of SAFCOL and the workers who are sustaining the company and communities for collaboration.

ALEXKOR

Our commitments on Alexkor related to strengthening the executive management team - capacitating both entities with an appropriately skilled and a competent executive management team to effectively lead the operations and to revitalise the joint venture diamond operations.

Stabilise Governance – It should be noted that while the company is stable at board level with the appointment of a six-member interim board in January 2022, to ensure stability at executive level is beginning to come together.

The board has accordingly embarked on a recruitment process of a CEO and a CFO, with the conclusion of this process expected by the end of the second quarter of the current financial year.

Revitalisation of the joint venture diamond operations - In the past financial year, the joint venture diamond output improved by over 30% compared to the two prior years due to the Covid 19 pandemic and other operational challenges.

Stabilise Finances - Alongside improved carat production, the diamond operations realised favourable revenues, mainly driven by the strong global rough diamond prices. **Improving operational efficiency**, however, remains key to ensuring a strong financial position at the joint venture.

Once the new CEO and CFO we will begin to see more strides in the business.

Both ALEXKOR and SAFCOL have both made significant strides that are now starting to show in their financials and governance.

Denel

Denel is considered a strategic national security and industrial asset, which has prompted the Department to commit in assisting the SOC in firming up its business.

Denel's Business Case – I am pleased to report that in 2022/23 Denel submitted to the Executive Authority a turnaround plan with a realistic business case and strategic objectives.

In October 2022, the Minister of Finance announced a recapitalisation of R3.4bn for Denel in the Medium-Term Budget Policy Statement to support the restoration of Denel's Strategic and Sovereign capabilities.

This recapitalisation allows Denel to fully implement its turn-around plan to ensure support to the Department of Defence (DOD) and specifically the SANDF in order to secure our country's strategic defence and security of supply of defence capabilities.

Stabilise Governance – As part of further efforts to assist Denel with is turnaround plans. The Board has also initiated the process to appoint the Group CEO and CFO which have been vacant for over two years.

Stabilise Operations – Denel has made further progress in improving its relationship with the Department of Defence and Armscor and is also engaging other SOCs and state security agencies to provide advanced security solutions. In addition, Government is taking proactive steps to assist Denel to restore its reputation with partners and clients, including Hoefyster project with DOD. Denel is effectively refuting the assertions in the media as not true that the contract of Hoefyster is in jeopardy.

Denel's Priorities - Implementation of Denel's turnaround plan will be effected through:

- Rationalising its operating divisions from 6 to 4 to manage costs and improve efficiencies. Consultation with organised labour is currently underway in this regard.
- Increasing revenue and order book by attracting new revenue streams and increase export market. Also to declare that Denel only sells to countries that it has permit from the National Convention on Arms Control Committee. We currently have 13 countries and Russia is not one of them. This regulation states not to sell to rogue states or countries with conflicts or war.

DENEL'S OVERALL ORDER BOOK: I must also highlight the fact that Denel's order book is looking very robust, at R18.37 billion for 2023/24, while planned total sales are projected to be R2.08 billion, compared with R1.08 billion in the 2022/23 financial year. Denel is indeed on the rise and production in all divisions and subsidiaries is happening.

Chairperson

Skills development for the economy remains one of the fundamental deliverables for all SOEs. In this regard, by 31 March 2023, the SOEs collectively had a total learner pipeline of 3,455 trainees in the system, registered in various programmes.

Of these, 1,445 are artisan trainees; 455 are engineering trainees; with 315 technician trainees and 1,240 trainees in sector specific training programmes.

Currently, I assure you and reaffirm that we are firmly steering this ship to the right direction as we can see the light down the tunnel, as Maya Angelou said and I quote:

“People will forget what you said, people will forget what you did but people will NEVER forget how you made them feel” unquote. Here the ANC led government are making the people feel good, yes albeit there are challenges which we are doing everything in our power to resolve to the satisfaction of the people.

Although the optimisation of our SOEs remains a work in progress, the Department is confident that, with its strategic oversight and tactical guidance, the plans and initiatives currently underway will make our SOEs more agile, responsive, dynamic and financially viable.

I urge all of you to support the DPE Budget, to allow the Department to deliver on its oversight function and ensure our SOEs fulfil their constitutional mandate.

I thank you.

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