2023 ESKOM DEBT RELIEF BILL

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national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

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Resolving Eskom's unsustainable debt burden unlocks investment and restores fiscal credibility

- There are several reasons why government has proposed a different solution to Eskom's debt:
    1. Current solution for Eskom's stranded debt (R230bn over 10 years) does not sufficiently address Eskom's underlying solvency or liquidity challenges.
    2. R350bn of guaranteed debt, which is at risk of default (a contingent liability and added to the sovereign debt by Moody's and the IMF), raises the SA risk premium and therefore cost of borrowing.
    3. Dealing with Eskom's debt enables much-needed investment in critical transmission and other infrastructure and allows Eskom to prioritise critical maintenance on the existing fleet.
- An optimally designed debt solution, with conditions, can be leveraged to support the structural reform of the electricity sector that will enhance SA's long-term growth prospects.

What are the key features of the proposed approach?

- Government has been considering various measures to address Eskom's unsustainable R423 billion debt burden.
- The goal is to strengthen the utility's balance sheet, enabling it to restructure and undertake the investment and maintenance needed to support the security of electricity supply.
- In the Budget Review 2023, the Minister of Finance announced a debt relief arrangement of R254 billion (about R168 billion in capital and R86 billion in interest) over the next three years.
- This is a balance sheet transaction and not a spending appropriation.
- The Eskom Debt Relief Bill, a money Bill, was tabled to give effect to the debt relief arrangement.

Key elements of the Eskom Debt Relief Bill

- The Bill proposes that National Treasury advance the amounts envisaged as a loan to Eskom on the dates determined by the Minister of Finance.
- The Bill enables the Minister to impose conditions for the conversion of a portion or portions of the amount of the loan for each financial year into ordinary shares issued by Eskom to the State.
- The Bill proposes advances to Eskom of R78 billion in 2023/24, R66 billion in 2024/25 and R40 billion in 2025/26. These advances will cover capital and interest payments as they fall due and may only be used for that purpose.
- These amounts will be financed through the R66 billion MTEF baseline provision that was in the 2022 MTBPS, and R118 billion in additional borrowing over the MTEF period ahead.
- Over-and-above this, for 2025/26, the Bill proposes a debt take-over by government of R70 billion of Eskom’s loan portfolio.
- The Bill requires that National Treasury, in its quarterly report to the relevant Parliamentary Committees, report on Eskom’s compliance with the conditions and disclose the amounts of the conversion.

Governing features of Eskom Debt Relief Bill

- Funds are proposed to be advanced when Eskom's debt settlements (interest and redemptions) fall due.
- The proposed advance of funds will take the form of an interest-free subordinated loan, to be settled in Eskom shares rather than cash, allowing Eskom to better manage its liquidity position. Loan advances from government to Eskom will be conditional on the repayment of pre-identified Eskom debt instruments.
- Strict conditions have been developed to safeguard public money. The Minister of Finance will, upon compliance, approve that Eskom to convert the loan to government-owned equity.
- The debt-to-equity conversion will result in an immediate improvement in Eskom's balance sheet.
- Compliance by Eskom with the conditions will be over a period of three years, commencing from the date of the first advance.
- Quarterly meetings between the National Treasury, the Department of Public Enterprises and Eskom will take place to discuss progress made in achieving conditions.
- A failure by Eskom to achieve and/or adhere to specific conditions will cause the loan amount from that quarter to be repaid to the National Revenue Fund at market rates at the end of the period. Prior to such repayment, government will offer Eskom one quarter to rectify non-compliance.
- Government guarantees for Eskom debt will reduce as guaranteed debt is settled. Further proposed terms and conditions of the loan will be published by National Treasury.

Proposed conditions for debt relief…1

- **Eskom's capital expenditure is restricted to transmission and distribution**. The only capital expenditure that may be undertaken for generation relates to minimum emissions standards, flue-gas desulfurisation and required maintenance. No other greenfield generation projects will be allowed during the debt-relief period.

- **Eskom may not use proceeds from the sale of non-core assets for capital and operating needs**. All proceeds from the sale of non-core assets, including the Eskom Finance Corporation and any property sales, will be used for the debt-relief arrangement.

- **No new borrowing will be allowed** until the end of the debt-relief period, unless written permission is granted by the Minister of Finance.

- **Eskom's guarantee framework agreement** for the R350 billion facility (which expires at the end of March 2023) **will reduce** in line with National Treasury recommendations.

Proposed conditions for debt relief ….2

- **Positive equity balances in Eskom's derivative contracts** (swaps/hedges) **cannot be used to structure new debt or loan agreements** without the approval of the National Treasury. Nor can any such balance be used as "margin financing" for another derivative contract or derivative overlays
- **The debt relief can only be used to settle debt and interest payments**
- **Eskom may not implement remuneration adjustments that negatively affect** its overall **financial position** and sustainability

Thank You