



MINISTRY
PUBLIC ENTERPRISES
REPUBLIC OF SOUTH AFRICA

DECISIVE AND RADICAL ACTION TO TURNAROUND TRANSNET PERFORMANCE

Minister Gordhan addresses Transnet 2022/23 performance.

PRETORIA, 1 September 2023 – Transnet is a key player in the South African economy. The 2022/23 performance, together with the Auditor General's critical findings, calls for urgent and corrective action, particularly within the Transnet Freight Rail (TFR) division.

Minister Gordhan and the newly appointed Transnet Board are fully aligned on the urgent need to turnaround the operational performance and financial position of Transnet. Transnet is at an inflection point. The deterioration in its operational and financial performance will be stopped. Nothing will be allowed to get in the way of the effective implementation of a radical plan – with some changes being evident in the short term and others taking longer given the complexity of the entity. To this extent, the establishment of the new Board under the leadership of Mr Andile Sangqu is emblematic of our clear intent to fix Transnet. Government's establishment of the National Logistics Crisis Committee (NLCC) is a further demonstration of our resolve to put the logistics crisis behind us.

The new Board is commended on very quickly understanding the seriousness and the gravity of the challenges facing Transnet and the SA economy. The commitment and extraordinary efforts of the Board is highly appreciated.

The NLCC will bolster the Board's efforts in implementing Transnet's transformation roadmap. The NLCC will support these efforts and provide skills and resources to strengthen Transnet's own capacity. The labour unions will also be invited to make their contribution to these efforts to address operational challenges in the freight logistics system and restore the efficiency and competitiveness of South Africa's port and rail network.

Of particular concern are the following findings of the Office of the Auditor General:

Key Findings from the Auditor General's Report on Transnet FY22/23:

- **Operational Inefficiencies:** this is at the centre of the Transnet challenges: impacting on revenue; the service to different sectors of the economy; and economic growth.
- **Significant Decline in Performance Targets:** Only 26.3% of annual targets achieved, this poses a detrimental impact on our economic growth and global market competitiveness. This is unacceptable.
- **Security and criminality:** admittedly, this is a problem which requires the whole of state and society to be mobilised. Transnet cannot be expected to confront this problem with its limited resources.
- **Financial Reporting Concerns:** Material misstatements, revenue collection inefficiencies, and an alarming irregular expenditure of R556 million.

- **Procurement and Contract Management Issues:** Breakdowns in the standard tendering process, repeated lack of evidence regarding adherence to policy, and concerns over the awarding of contracts.
- **Internal Control Gaps:** Evident deficiencies in financial reporting, compliance, record management, and a lack of disciplinary actions against officials responsible for irregularities.
- **IT Infrastructure Vulnerabilities:** Concerning lapses jeopardizing the security of sensitive information, coupled with inadequate IT control measures.
- **Corruption:** the collaboration of certain sections of the private sector and Transnet staff as reflected in “ghost trains”; preferential allocation of wagons / trains.

As the shareholder representative, I am directing the Board to urgently address and report to the shareholder on its recommendations and decisions within the next three weeks:

1. **Operational Transformation:** To develop or enhance the plan to radically transform the operational performance of each of the business areas, including the restructuring of the entity to more effectively and efficiently deliver on its mandate.
2. **Root causes:** To identify the root causes of the inability of management and staff to meet the performance targets and a plan to deal with the deficiencies.
3. **Stringent / rigorous accountability Oversight:** To develop, with the DPE and NLCC a new framework for transparency and accountability through detailed reporting on the successful execution of the turnaround strategy.
4. We acknowledge that while some changes will manifest in short term while others will require more time.
5. **Management review:** Conduct a thorough review of the executive management, with a view to establishing whether persons with the right skills are optimally utilised to deliver on the mandate.
6. **Information and operational data Transparency:** A culture of accountability, discipline and transparent access to relevant information must be engendered in the organisation.
7. **Digitisation of systems:** Mechanisms to speed up the automation and digitisation of performance reporting systems to prevent deliberate and wrongful manipulation of data.
8. **Rigorous system of controls:** Implement urgently the controls identified by the Auditor General reports.
9. **Excessive cost structure:** Launch an initiative aimed at curbing superfluous expenses to boost financial sustainability.
10. **Employee Engagement:** An internal campaign must be put in place to instil a “Higher Purpose” among all employees. The commitment of each person to this “higher purpose” will make a significant positive impact on the economy and the global reputation of Transnet and South Africa.
11. **“Hands off” Transnet!** : There are many outside of Transnet and a few within Transnet who want to continue to engage in corrupt activity to benefit themselves and satisfy their greed – we call on all of society to help us to fight this cancer which is eroding our national integrity. Transnet belongs to the people of South Africa. The future of South Africans depends on this national asset.

We are fully aware of the implications of Transnet's performance on the socio-economic well-being of our nation. The challenges we've noted, especially those related to ghost trains, infrastructure theft, and derailments, are not just operational setbacks. They threaten the trust our citizens place in our institutions and the stability of our economic environment. Addressing these issues goes beyond mere operational efficiency. It's about ensuring prosperity, safety, and confidence for all South Africans.

In closing, Minister Gordhan reiterates, "The strength of leadership is tested in its response to challenges. The current challenges, though concerning, provide us with a clear opportunity to demonstrate humility, collective action by all stakeholders and turn around the fortunes of Transnet.

Transnet's leadership must internalize the gravity of the situation and the extensive repercussions of persistent underperformance. Inaction is no longer an option given the inflection point Transnet finds itself in. The time for transformation of Transnet has arrived. I stand committed, alongside the dedicated new board and our partners in the NLCC and labour unions, to ensure that Transnet makes its rightful contribution to our economy. To the people of South Africa, your faith in our institutions and in our vision for a brighter future is both our motivation and our commitment."

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