**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER: 302 [NW1268E]**

**DATE OF PUBLICATION: 19 JULY 2019**

**302. Mr. A N Sarupen (DA) to ask the Minister of Finance:**

(1) What (a) total amount was (i) appropriated and (ii) disbursed from the National Revenue Fund to each state-owned entity (aa) in each of the past 10 financial years and (bb) since 1 April 2019 and (b) are the details of the conditionalities attached to each disbursement in each case in each specified financial year;

(2) Whether all conditionalities were met; if not, what are the relevant details in each case;

(3) Whether any mechanisms were put in place by the National Treasury to monitor the conditions applied to the disbursements; if not, why not; if so, what are the relevant details;

(4) Whether any accountability measures were taken by the National Treasury when conditions were breached; if not, why not; if so, what are the relevant details?

NW1268E

**REPLY**:

1. (a) Below are tables summarizing the monies allocated and disbursed to state owned enterprises over the last years. There are two types of payments, the first is the recapitalization funding and the other transfers to public corporations. Transfers are regular payments made to entities by parent departments.





1) (b) With regard to transfers to public corporations- Regular transfers for operations paid by the parent department have no conditions. The recapitalization conditions detail is listed below for each SOE.

Broadband Infraco:

1) (b) No Conditions - Funds were allocated for establishment costs as this was a newly created entity.

1. No conditions
2. No conditions
3. No conditions breached

Denel

1. (b) Allocated subject to Cabinet approval of Denel's strategy, business plan and funding plan
2. Corporate plan approved
3. Monthly meetings continue to be held with the SOC and the Department of Public Enterprises
4. NA

Development Bank of Southern Africa

1. (b) There were no specific conditions for the recapitalisation the Development Bank of Southern Africa. It was meant to stabilise their financial position after making loses in the previous years
2. No conditions
3. No conditions
4. No conditions breached

Eskom

**2008/09 -2010/11 Subordinated loan (R60 billion)**

1) (b) The conditions that were imposed on Eskom mainly related to Eskom achieving certain financial metrics in order to service the debt as well as interest.

2) Due to deterioration of its financial position, Eskom did not meet these conditions. Ultimately, the loan was converted into equity in 2015 as part of the Government support package that was provided to Eskom.

3) Quarterly progress reports and regular engagements between the National Treasury, DPE and Eskom.

4) No conditions were breached. The subordinated loan was later converted to equity in line with a cabinet decision as part of Government Support Package to Eskom.

**2015/16 R23 billion equity**

1. (b) The conditions as detailed below:

1. Developing a three-year generation strategy;

2. Developing a comprehensive maintenance strategy;

3. Delivering at least R60 billion through cost savings programme in line with the 2015 corporate plan;

4. Submit application to NERSA for tariff adjustments;

5. Raise the borrowing programme additional R52 billion of debt over the planned borrowings in the MYPD3;

6. No new investment to be undertaken in future coal mines;

7. Connect Renewable Energy programme to the National grid;

8. Implement the R250 billion capex together with additional R29 billion for critical transmission and distribution infrastructure;

9. Limit cost overruns in the new build programme;

10. Review of labour costs, employee benefits and salary adjustments;

11. Develop a detail proposal for the disposal of non-core assets;

12 Independent review of operating model and subsidiaries;

13. Ensure all the investigations initiated by the Board are concluded within the contracted timelines and submit findings to National Treasury and DPE;

14. Fill vacant position as a matter of priority; and

15. Provide quarterly reports to National Treasury and DPE

However, initially did not meet the below conditions such as:

1. Detailed study on labour costs;

2. Study on the operating model; and

3. Not providing sufficient information on the quarterly report according to National Treasury requirements.

2) Yes all the conditions were subsequently met

3) Quarterly progress reports and regular engagements between the National Treasury, DPE and Eskom.

4) Funds were withheld until ESKOM complied with conditions

**2019/20 R23 billion equity**

1) (b) No conditions were attached.

1. No conditions
2. No conditions
3. No conditions breached

Land and Agricultural Development Bank of South Africa

1. (b) There were no specific conditions for the recapitalisation the Land and Agricultural Development Bank of South Africa. It was meant to stabilise their financial position after making loses in the previous years
2. No conditions
3. No conditions
4. No conditions breached

National Housing Finance Cooperation

1. (b) No conditions were given
2. No conditions
3. No conditions
4. No conditions breached

National Urban Reconstruction and Housing Agency

1. (b) Use recapitalisation funds to repay loan commitments.
2. Yes - conditions were met
3. Quarterly reports - Proof of loan repayment contained in 2016 Annual Report notes to the financial statements
4. NA

Rural Housing Loan Fund

1. (b) No conditions were given
2. No conditions
3. No conditions
4. No conditions breached

South African Airways (SAA)

1) (b) Money should be used only for government guaranteed debt, SAA should submit maturity profile of government guaranteed debt together with negotiation plan to manage short-term debt; provide progress reports on progress on initiatives that have been implemented to improve working capital management, provide quarterly financial performance reports

2) Yes

3) Weekly and monthly meetings are being held to monitor financial performance and implementation of measures to improve cash flow

4) Na

South African Express SOC Limited (SAX)

1 (b)

1. Funds will not be utilised to repay any portion of debt owed by South African Express Airways SOC Limited to Transnet;

2. The funds should be utilised only to repay South African Express Airways SOC Limited government guaranteed debt;

3. Upon recapitalisation, South African Express Airways SOC Limited’s government guarantees will be reduced in line with the quantum of recapitalisation;

4. South African Express Airways SOC Limited submits monthly progress reports on the utilization of funds to the Department of Public Enterprises and the National Treasury;

5. By 31 December 2018, Department of Public Enterprises should present a plan for approval by Cabinet of the optimal corporate structure for state owned airlines which should include options that will be pursued for strategic equity partnerships and the disposal of non-core assets; and

6. By 31 December 2018, South African Express Airways SOC Limited and Department of Public Enterprises should submit a comprehensive plan that outlines the airlines strategy to reduce its reliance on Government financial support in the form of guarantees or recapitalisation.

2) The airline used some of the money to pay for leases instead of guaranteed debt as was required

3) Monthly meetings are held

4) A Letter was written to the Department of Public Enterprises and the entity was notified about the irregular expenditure. The Auditor General South Africa was also notified.

South African Post Office

1) (b)

**R650m** Amount was allocated as recapitalisation of SAPO to implement a strategic turnaround plan. The conditions set were as follows: 1. SAPO must not utilize this allocation to fund any past or future salary increases and bonuses. The DTPS must ensure compliance with this condition.

2. The Department must further ensure SAPO continues to submit progress reports on the implementation of its Strategic Turnaround Plan by 20th of every month, clearly providing a breakdown of how the funds have been used. National Treasury should be notified prior to the due date should there be any delays in the submission of the report.  **R3.7bn**

1. SAPO effect payment to the Facility Agent (Nedbank) to defray the R3.7bn loan.

2. SAPO providing a letter to National Treasury from Facility Agent confirming that the R3.7bn facility has been defrayed in full.

3. The guarantee agreement entered into between the lenders and the National Treasury will be terminated upon the receipt of the confirmation letter as set out above.

4. SAPO will be liable to pay any outstanding interest of fees that may arise, after the R3.7bn allocation is affected, ensuring that the R3.7bn facility is fully defrayed.

5. SAPO's R4.17bn guarantee and R4.42bn borrowing limit will be reduced by R3.7bn. The National Treasury will issue a letter to this effect upon the settlement of the R3.7bn facility. All guarantee conditions will remain in full force and effect.

6. SAPO will continue to report to the Monthly Monitoring Task Team on the development and implementation of a revised corporate strategy on a monthly and quarterly basis.  **R2.9bn**

1. SAPO's R470 million guarantee will be folded into this guarantee. 2. The guarantee will lapse after three years or as soon as the loan to be raised is defrayed, whichever comes sooner. 3. The monthly monitoring task team will continue for the duration of the guarantee period. 4. SAPO to provide monthly reports on the company's financial position and progress in developing and implementing a longer term turnaround strategy.

5. SAPO will provide monthly cash flows and projections as well as a breakdown of all outstanding creditor balances and projected creditor balances.

6. Should labour increase (including back pay) exceed the assumption included in the cash requirement calculation submitted for this application, measures will be taken by SAPO to ensure that the overall salary bill remains within the budget identified. 7. The guarantee will be reduced by allocations or recapitalisation that may be made to SAPO. 8. SAPO will be responsible for the drafting of a feasible and implementable corporate strategy framed within the legislative prescripts of its relevant policies. The corporate strategy will be accompanied by operational plans that will assist in monitoring the implementation and progress made by SAPO.

9. SAPO with the assistance of DTPS to implement its 4 phased cost reduction strategy including its revised business model as part of the 2019 corporate strategy. 10. All critical vacancies are to be filled within 5 months of the issuance of this guarantee. 11. SAPO will rebalance its post office network in an effort to eliminate operational and cost inefficiencies. 12. SAPO will not utilise the excess capital within Postbank to fund operations.

2) Yes

3) Monthly meetings, Monthly and quarterly reports

4) None. All conditions relating to the R650m and the R3.7b allocations have been fully met. With regard to the R2.9b allocation, conditions have been met, and the 2019 Corporate Plan submitted by the Post Office addresses the conditions that are related to the revised business model.

South African Postbank

1) (b)

- The Postbank is to provide a comprehensive project plan that sets out specific project implementation, timelines and responsibilities along with associated budgets;

-The Postbank will provide quarterly progress reports on projects and expenditure against the budget.

1. Conditions are partially met in a sense that the corporatisation is still ongoing process due to the long nature of the process that had to be undertaken
2. Monitoring meetings between DoC and Treasury were held on a regular basis where progress was discussed and noted.
3. NA