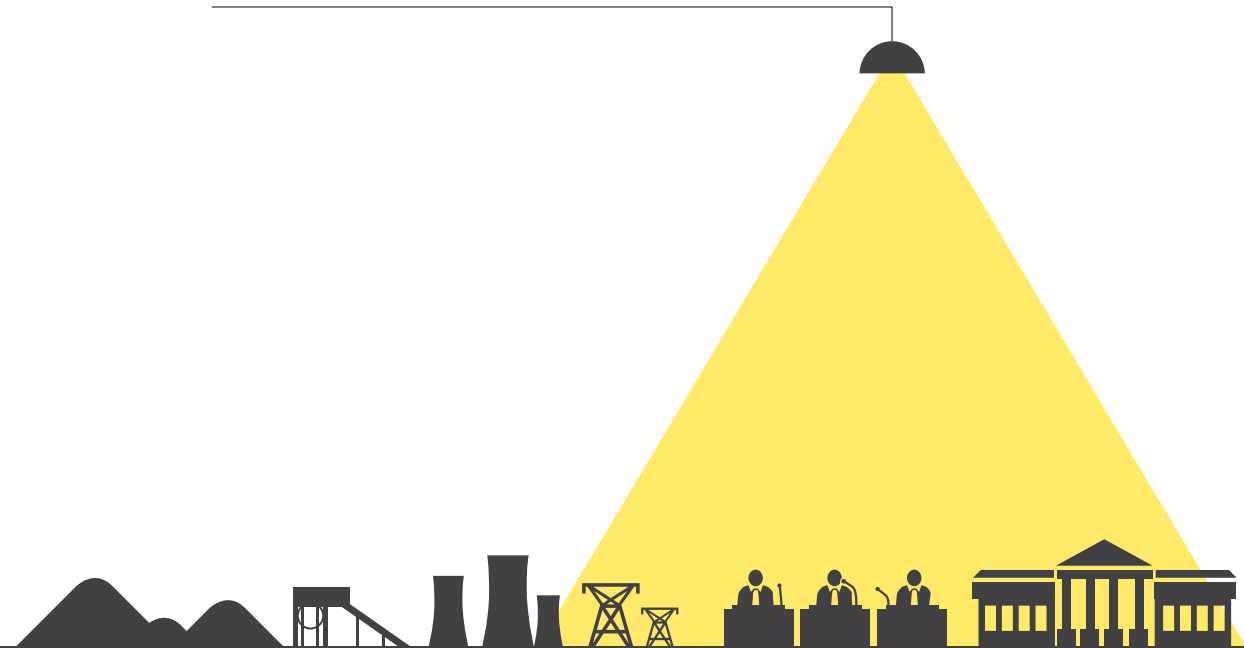


ESKOM INQUIRY REFERENCE BOOK



A Resource for Parliament's Public Enterprises Inquiry

Civil Society, Journalists & Engaged Citizens



August 2017

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Research support was provided by Lauren Hermanus and Jesse Burton.

It is part of the State Capacity Research Project - a group of academics from research institutions at the Universities of Stellenbosch, Witwatersrand, Cape Town and Johannesburg.

As academics, our job is to make sense of complex situations and explain these. We are acutely aware that ongoing revelations of corruption can lead to general public fatigue but we hope that by joining the dots this booklet will contribute to the empowerment of civil society, journalists, and concerned members of the general public, so that they can follow and support the inquiry.



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PREFACE

In September 2017, Parliament’s Public Enterprises Committee will begin its inquiry into alleged manifestations of state capture in three of South Africa’s state owned companies (SOCs): Eskom, Transnet, and Denel. The Committee will be under considerable pressure to drive a targeted investigation that ultimately brings to light the information necessary to more fully understand the manner in which the governance of key institutions may have been repurposed to facilitate large-scale corruption by a politically connected elite.

The authors of this reference book have set out to provide an independent, accessible, concise, and fact-based account of some, but not all, of the alleged instances of governance failure and corruption at the largest SOC - Eskom. The authors hope that a streamlined and objective account of the deeply complex challenges facing the power utility will be of assistance to the Committee, as well as members of the general public.

Beyond shedding light on specific instances of wrongdoing – whether through dereliction of duty or overt corruption, it is hoped that the Committee will also probe higher level structural and governance questions in order to make recommendations around strengthening and reforming institutions in the future.

CONTENTS

State of State Capture.....	2
Setting Sights on Eskom.....	3
Generating Controversy	4
Repurposing Eskom Governance.....	6
Koeberg Generators Tender.....	10
New Age Breakfast Deal.....	11
T-Systems.....	12
Duvha Boiler.....	13
Gupta coal.....	14
Squeezing Out the Coal Majors.....	18
Trillian.....	20
Impulse.....	21
Still in the Shadows.....	22
Recommendations.....	24

STATE OF STATE CAPTURE

At the start of November 2016, former Public Protector Thuli Madonsela's State of Capture report was made public after President Zuma's legal team withdrew its bid to interdict its release. A turning point, Madonsela's report provided the first comprehensive legal analysis of the alleged systemic corruption being perpetrated through state owned companies (SOCs).

Since then, South Africans have witnessed the rallying of civil society, investigative journalists, academia, public leaders and concerned citizens, who have come together to further this civic work – including through groups such as the South African Council of Churches (SACC), the State Capacity Research Project (SCRIP), and the Organisation Against Tax Abuse (OUTA).

From these efforts, an overwhelming and growing body of evidence – including that contained in the #guptaleaks – has been built, which indicates that the political power vested in the President, certain Ministries, and the boards and executives of SOCs has been misused to benefit the interests of connected individuals and entities – most prominently the Gupta family. This has been to the detriment of the functioning of Government and those entities within the ambit of state governance.

By shedding light on the modus operandi of a network of implicated individuals and joining the dots between examples of known impropriety, the plausibility of

any claim that reported irregularities are random or unconnected – as would be the case with generalised corruption or maladministration – has been diminished. Instead, more and more information is coming to light that seems to corroborate claims that a coordinated political project of state capture has been underway, whereby governance structures are systematically repurposed to serve corrupt interests. This is evinced in the centralisation of decision-making power, the hollowing out of executive and oversight competencies by granting top positions in SOCs and Ministries to inept or corrupt individuals, and the cultivation of fear and mistrust through the establishment of 'shadow' institutions and lines of accountability. Such a 'project' would allow for the possibility of grand corruption at the highest level, the full ramifications of which have yet to be felt.

Allegations that such practices have been intentionally waged across a range of government institutions and within SOCs have been levelled, leading the Portfolio Committee on Public Enterprises to initiate an inquiry into governance failure and the abuse of public resources at Eskom, Transnet, and Denel.

SETTING SIGHTS ON ESKOM

Eskom is dominant in the power sector. It generates more than 90 per cent of South Africa's electricity, controls the entire national high voltage transmission grid, and distributes around half of electricity directly to consumers, with the remainder going to municipalities. Eskom's assets are valued at R710 billion and its capital expenditure programme amounts to around R350 billion over the next five years.

With annual revenues nearly three times that of Transnet and six times SAA's, Eskom is by far the largest state owned company (SOC) in South Africa. This has made the utility vulnerable to corrupt interests.

Currently, Eskom is building amongst the largest coal power stations in the world – Medupi and Kusile – each 4800 MW in capacity, and has recently completed the 1332 MW Ingula pumped storage facility. The late commissioning of these power stations contributed to severe load-shedding in recent years, which has been detrimental to economic growth. In addition, these power stations have cost more than double their original budgets. There were more than 40 construction contracts for each power station, none of them in the public domain, with allegations of inflated prices and corruption. However, any information that could validate or disprove these claims has been kept in the dark.

What has come to light, however, is evidence that would suggest corruption in Eskom's operating expenditure -

which totals around R140 billion per annum (excluding finance costs, depreciation and taxes). The operating budget includes maintenance, refurbishment, staffing costs, consulting and service contracts, but the largest component is for primary energy purchases - specifically coal, which is used to generate the bulk of Eskom's power. It is here that the most blatant acts of corruption appear to have been perpetrated - through the awarding of over-priced coal contracts, the squeezing out of incumbent coal majors, and the questionable acquisition of coal mines by the Gupta family, financed by Eskom.

Average coal costs are now close to R400 per ton, up from R190 per ton in 2011. During load-shedding years, diesel fuel costs for Eskom's peaker plants were as high as R10 billion per annum, also allegedly inflated by corruption.

Burgeoning costs, arguably propelled by rent-seeking and corruption, have resulted in electricity tariffs increasing by more than 400% over the past decade while electricity services have deteriorated. The effects of this on the South African economy and prospects for economic development and transformation hardly need to be stated and reinforce the urgent need for governance and structural reforms at the utility.








Eskom's assets, revenue and expenditure 2016/7 (Rands)

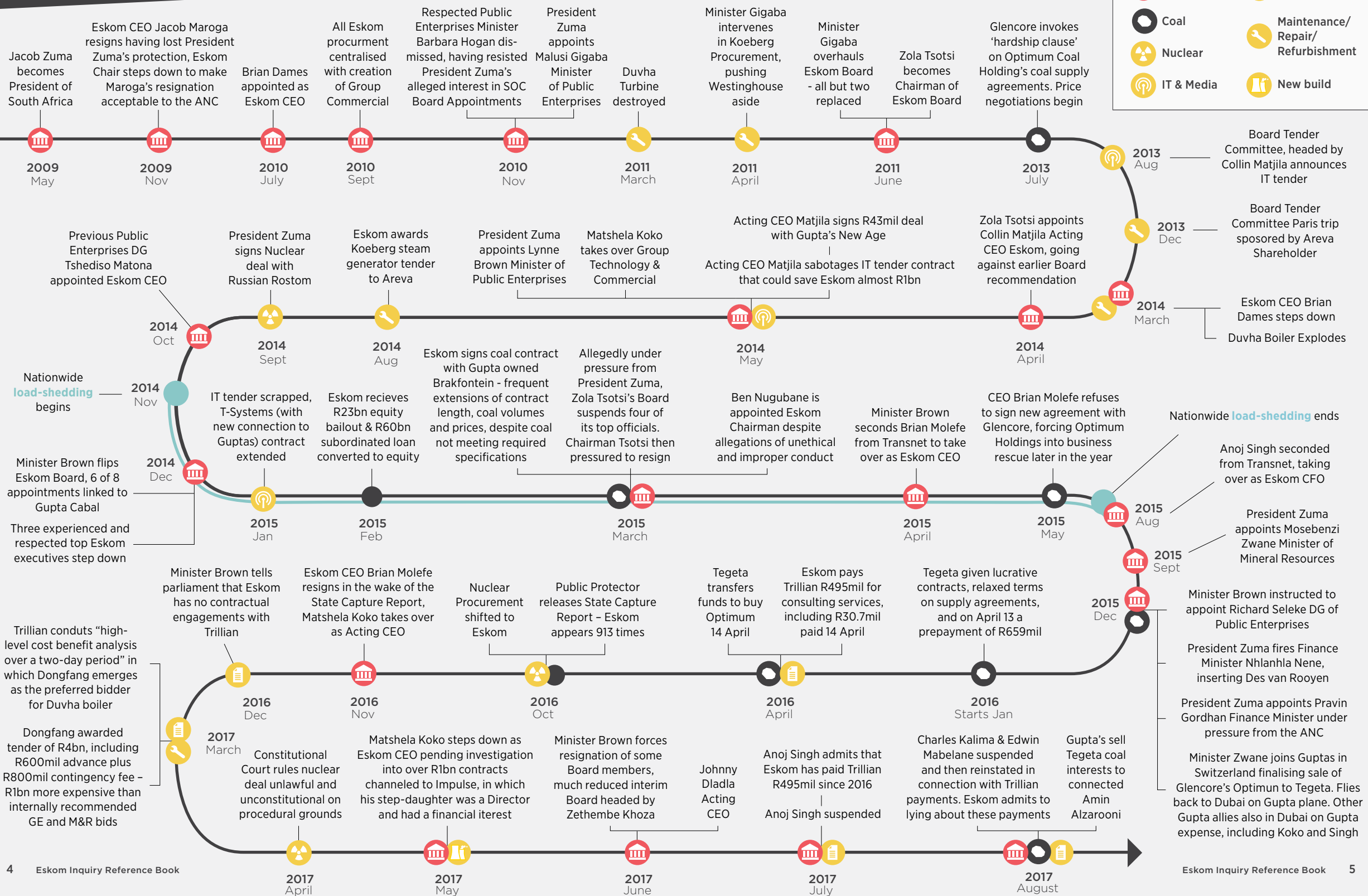
Assets	710 billion
Capital expenditure	55.8 billion
Revenue	177 billion
Net operating expenses	139.6 billion
Coal purchases	50.1 billion
Staffing costs	33 billion

Source: Eskom Annual Financial Report 2017

GENERATING CONTROVERSY

2009–2017

 Governance	 Advisory
 Coal	 Maintenance/Repair/Refurbishment
 Nuclear	 New build
 IT & Media	



REPURPOSING ESKOM GOVERNANCE

Despite Apartheid's legacy of low transparency and accountability in the energy sector, Eskom was able to establish relatively high levels of technocratic expertise, capacity, and competence in the early years of the democratic transition. This was exemplified in the calibre of the boards (which included CEOs of international utilities) and executives they were able to attract. This endured at least into the mid-2000s, alongside relative stability in the Department of Public Enterprises and the Department of Minerals and Energy.

However, towards the end of the 2000s, political interest increased in the board and executive appointments at SOCs in general, and at Eskom and Transnet in particular. Minister of Public Enterprises, Barbara Hogan, resisted this emerging undue influence, which likely accounted for her dismissal only 18 months after her appointment.

Malusi Gigaba replaced Hogan as Minister of Public Enterprises in November 2010. In June 2011, Minister Gigaba instituted the most radical board change in Eskom's then recent history – all but two non-executive board members were replaced. Zola Tsotsi was appointed Eskom chairman and maintained a close relationship with Minister Gigaba in these years. Many of Eskom's most respected executives left during this period, apparently feeling disenchanted by the changing institutional culture and early onset of coordinated corruption and political interference.

This pattern was reiterated in the appointment of the next board in December 2014, under Lynne Brown as Minister of Public Enterprises. This time the hollowing out of Eskom's board and executive governance appears to have been more severe. Six out of eight appointees had unambiguous connections with the Gupta family and questions have been raised about a notable deterioration in the balance of skills, expertise, and experience on the board. During the course of the year, Eskom's two top executives – CEO Brian Dames and CFO Paul O-Flaherty – also resigned. Then, in the first quarter of 2015, the Eskom executive was stripped to the bones when Zola Tsotsi suspended four executives before stepping down himself – allegedly at the behest of President Zuma. Minister Brown then made secondments from Transnet, instating Brian

Molefe as CEO in May and Anoj Singh as CFO in August of the same year. Minister Brown also appointed Ben Ngubane as chairman, despite being publicly renowned for his poor performance and actions at the SABC and Land Bank. This was around the same time that the Dentons probe into possible governance failures and other issues at Eskom was prematurely terminated – with the interim report held back from parliament and the public, and then allegedly 'destroyed' by the Board in August 2015. Eskom's governance structures were thus impaired – demonstrated in high turnover, volatility, and disharmony in and across the board, executive, and senior management – during a high-risk period of debt financed capital expansion. It is during this period, that the most serious of the alleged instances of capture of Eskom leadership, procurement, and operations appear to have taken place.

In July 2017, in the wake of a dramatic wave of resignations and suspensions, the first qualified audit of Eskom was released. In addition to exposing R3 billion in irregular expenditure, the audit revealed the devastating impact that weak and arguably corrupt governance has had on the institutional integrity and financial sustainability of South Africa's most critical SOC. Given these findings, it is highly suspect that a qualified audit had not been triggered in earlier years.

Rebuilding and reinforcing good governance at Eskom, including through reviewing systems of appointment and the structure of the utility itself, will likely be a critical area where recommendations should be developed.

Questions on Eskom Governance

What were the processes for Ministers Gigaba and Brown's appointments of new Eskom boards in 2011 and 2014 respectively? What were the nature and content of the Ministers' interactions with the Eskom board? Did Ministers Brown and Gigaba ever give the board instructions to take any decisions incongruent with the rules of independence and good corporate governance? Were board members suitably qualified? How did the Ministers satisfy themselves that the board appointments they made fulfilled the requirements from a skills, integrity, experience and transformational

perspective? Were links of the relevant board members to the Gupta family known at the time of their appointment? If so, was this a cause for concern? If not, what might this imply about the use of due diligence checks? What role did the board chairs, Zola Tsotsi and Ben Ngubane, and individual board members play in procurement processes? Why did certain members of Eskom's board resign in 2016/7 and what processes governed the appointment of new board members by Minister Brown?

Did Minister Brown, the Eskom board and management undermine the Eskom War Room, instituted by Cabinet and the Deputy-President to reverse load-shedding and improve Eskom's technical and financial performance? To what extent and to what end were key reports, such as the Dentons investigation, withheld from the War Room, Cabinet, Parliament and the Public?

What is the role of the Board Tender Committee? What is and is not in their remit? Have these rules changed since 2009, including the changes in the rand amount that they have the discretion to make decisions on? Can the board override decisions/outcome of the Executive Procurement Committee? Interrogate instances where the Board Tender Committee unduly influenced processes.

What were the circumstances of the appointment & resignation of key Eskom executives between 2009 and the present?

What role did Eskom chief executives Maroga, Dames, Matona, and Molefe, acting chief executives Matjila

and Koko, and Chief Financial Officers T. Molefe and Singh, as well as key executives in power generation, primary energy and commercial (procurement), play in major procurement processes where there have been allegations of corruption?

Questions for Eskom executives and managers

Were you put under pressure to approve decisions that you did not feel comfortable with? Did you experience anything untoward taking place that would put procurement operations in jeopardy of interference? Did you at any time during your leadership at Eskom take instructions from third parties? Did you ever declare your close relationship with these parties? Were you involved in the award of any tenders to these parties? Did members of the executive/board ever exert, or threaten to exert, power beyond their mandate? Do you know of any cases where sensitive information was shared with the Guptas, associates or others who had not been cleared to receive such information?

Were you given any instructions by the Guptas? Did you feel under pressure at any stage to take or comply with demands from them, and if so, how did this play out? What was your understanding at the time of the Gupta's relationship with Eskom, and with other SOCs, and the executive? Describe your relationship with the Gupta family, Salim Essa and senior executives of the Gupta companies? Why was sensitive information shared with the Guptas and associates? Did you ever accept any gifts from the Guptas and associates?

Potential Interviewees: Eskom Executives and Managers

CHIEF EXECUTIVES	OTHER ESKOM EXECUTIVES	PRIMARY ENERGY
Brian Dames (2010-14)	Suzanne Margaret Daniels (2015-)	Johann Bester
Collin Matjila, acting (2011)	Dan Marokane (2010-14)	Kiren Maharaj
Tshediso Matona (2014-15)	Erica Johnson (2007-2014)	Ayanda Nteta
Brian Molefe (2015-16&17)	Steve Lennon (2007-2014)	
Matshela Koko, acting (2016-17)	Abram Masango (2014-)	PROCUREMENT
Johnny Dladla (2017-)	Mongezi Ntsokolo (2010-)	Charles Kalima
	Thava Govender (2010-)	Pieter le Roux
FINANCE DIRECTORS / CFOS	Ayanda Noah (2012-)	Mandla Gobingca
Paul O' Flaherty (2010-14)	Kannan Lakmeeharan (2012-2014)	Malesela Sekhasimbe
Tsholofelo Molefe (2014-15)	Edwin Mabelane (2015-)	
Anoj Singh (2015-17)	Prish Govender (2016-)	

REPURPOSING GOVERNANCE

ESKOM BOARD UNDER **MALUSI GIGABA**

Minister Public Enterprises

**November 2010
to May 2014**



**Director General
Public Enterprises**

Tshediso Matona
Dec 2010 – Sept 2014



**Advisors to
the Minister**

Siyabonga Mahlangu
Dec 2010 – May 2014

Eskom Board Chair



Mpho Makwana
Nov 2009 – June 2011



Zola Tsotsi
June 2011 – March 2015

Eskom Board Members

Bernie Fanaroff
Queendy Gungubele
Neo Lesela *
Bejabulile Luthuli *
Chwayita Mabude
Yasmin Masithela
Collin Matjila *
Boni Mehlomakulu *
Mafika Mkwanzazi *
Phenyane Sedibe
Lily Zondo
MJ Husain *
MM Matutu

Eskom CEO



Brian Dames
July 2010 – March 2014

Financial Director



Paul O'Flaherty *
Nov 2009 – July 2013



Caroline Henry (Acting)
July 2013 – Jan 2014



Tsholofelo Molefe
Jan 2014 – June 2015

ESKOM BOARD UNDER LYNNE BROWN

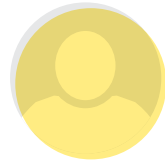
Minister Public Enterprises

**May 2014
to Present**



**Director General
Public Enterprises**

Richard Seleke
Nov 2015 to Present



PA to the Minister

Kim Davids
May 2014 - July 2017

Eskom Board Chair



Zola Tsotsi
to March 2015



Ben Ngubane^a
April 2015 -
June 2017



Zethembe
Khoza (Acting)^{*}
June 2017 -
present

Eskom Board Members

Chwayita Mabude^{* a}

Nazia Carrim^{* a}

Venete Jarlene Klein^a

Giovanni Michele Leonardi (Swiss)

Devapushpum Viroshini Naidoo^{* a}

Pathmanathan Naidoo

Mark Vivian Pamensky^a

Romeo Khumalo^b

Mariam Cassim^a

New members June 2016:

Pulane Molokwane

Simphiwe Dingaen

Banothile Makhubela

Sathiaseelan Gounden

Eskom CEO (including Acting CEOs)



Collin Matjila
(Acting)^{*}
April 2014 -
Oct 2014



Tshediso Matona
Oct 2014 -
March 2015



Brian Molefe^b
April 2015 -
Nov 2016



Matshela Koko
(Acting)^c
Nov 2016 -
May 2017



Johnny Dladla
(Acting)
June 2017 -
present

Financial Director



Tsholofelo Molefe
Jan 2014 - June 2015



Anoj Singh
Aug 2015 - July 2017

^{*} On tender committee

a. Dismissed/resigned 2017 b. Dismissed/resigned 2016

c. (Group Executive for Technology and Commercial/ Generation 2014 - 2016)

KOEBERG GENERATORS TENDER



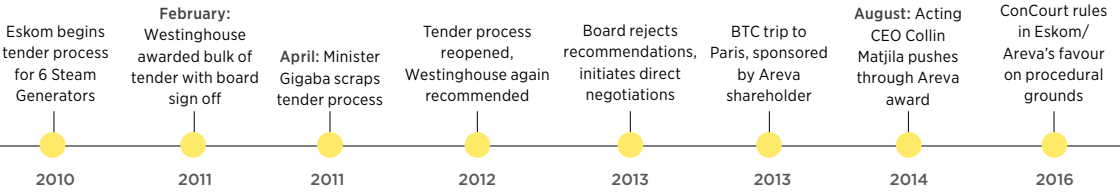
Minister Gigaba



Collin Matjila



Minister Brown



In 2010, the Eskom board approved the business case for extending Koeberg's lifespan. The plant life extension plan includes the once-off replacement of Koeberg's six steam generators. A tender, consisting of three parts, was issued the same year. At the start of 2011, the Eskom board signed off on the Eskom Executive Procurement Committee's (EXCOPS) recommendation that Westinghouse (US) should be awarded the bulk of the tender – with a smaller part apportioned to Areva (France).

Areva then signed letters of intent with Eskom during President Zuma's visit to France in March 2011. The next month, newly appointed Minister Malusi Gigaba vetoed the board's earlier decision to award Westinghouse the bulk of the tender. This was one of Minister Gigaba's first interventions into Eskom procurement. It was followed by – and has been linked to – Minister Gigaba's purge of the Eskom board just three months later.

In 2012, the tender bidding process was reopened. The EXCOPS again undertook a technical evaluation of bids, reaching a similar conclusion to that of the 2011 tender process. However, Board Tender Committee (BTC) chairman, Collin Matjila, curiously blocked EXCOPS from presenting their recommendations to the board – effectively stalling the official process.

Meanwhile, Matjila initiated a parallel process – contracting Swiss firm AF Consult to undertake a bid evaluation review. Following the recommendations of the AF Consult report, Westinghouse and Areva were asked to resubmit bids in July 2013. The board rejected the EXCOPS recommendations on this bid too and instead invited the two companies into parallel negotiations.

In December 2013, once negotiations were already underway, members of the BTC were flown to France for

a 'nuclear training' trip funded by Électricité de France (EDF) – which had a stake in Areva at the time and the same majority shareholder.

In April 2014, Collin Matjila became Acting CEO of Eskom. Though the EXCOPS, BTC, and board had not yet reached agreement on the matter, Matjila and new BTC chair, Neo Lasela, took a decision in favour of Areva, signed by Matshela Koko, to Minister Lynne Brown. Areva was awarded the tender on 12 August, 2014.

Westinghouse challenged the decision through the courts. Initially it succeeded, but ultimately, the Constitutional Court ruled in Eskom/Areva's favour on (incidental) procedural grounds.

The cost of this protracted process goes beyond the higher price tag of the Areva bid. Given lead times for the manufacture of the generators, the replacement will no longer be possible in the scheduled window, raising concerns around reliability and safety.

1. Why did Minister Gigaba prioritise this procurement with Eskom's board and executive management?
2. Did Collin Matjila and others subvert regular procurement process in order that Areva be awarded the tender, against the advice of Eskom staff?
3. Which provisions of the PFMA or other relevant legislation or regulations were breached?
4. Have any Eskom board members or staff received material benefits as a result of this tender award?



NEW AGE BREAKFAST DEAL



Collin Matjila



Salim Essa



Zola Tsotsi

December: New Age Newspaper first publication

2010

Eskom spends R12-million on 10 New Age business breakfasts

2011-2014

May: Acting CEO Matjila exceeds his mandate - signs 3-year R43-million deal with New Age

2014

November: Auditors state New Age deal is irregular expenditure

2014

December: Matjila leaves Eskom board, no known remedial action taken

2014

The first edition of the New Age (TNA Media) newspaper was published in December 2010. Since then, the newspaper has garnered a reputation for pushing a specific political agenda. Though the New Age neither publishes nor audits its circulation figures, it has been able to attract millions of rands from government departments and state owned companies (SOCs) through bulk subscriptions, business breakfast sponsorships, and advertising budgets.

During Collin Matjila's tenure as Board Tender Committee chairman (2011-2014), Eskom spent R12 million on 10 TNA business breakfasts – more than the going rate for more established media groups and not including the profit that was made off ticket sales. According to publicly available information, then Minister Malusi Gigaba's advisor Siyabonga Mahlangu pushed New Age and TNA deals at SOCs over this period.

Following Brian Dames' exit as Eskom CEO, Matjila was appointed Acting CEO on 28 March, 2014. It has since come to light, via the #guptaleaks, that this might have been the result of mutual business associate, Salim Essa, circulating his CV to Tony 'Rajesh' Gupta and Duduzane Zuma just six days before the appointment was made. A month later, the Gupta's New Age secured a three-year, R43 million business breakfast deal and a R4 million newspaper subscription package with Eskom. Matjila had initially only broached the idea of a one-year, R14 million deal with the Eskom executive. When the contract ballooned, members of the board

and executive tried to stop or at the very least improve Eskom's terms in the deal. Matjila then allegedly acted outside of the scope of his authority and against the council of the executive management and legal department, by signing an arguably improvident contract with New Age in May.

In November that year, Eskom auditors stated that the New Age deal was a reportable irregularity that should be disclosed in the interim results. A number of board members, including chair Zola Tsotsi, motivated against disclosing the irregularity. The audit and risk committee reported directly to Minister Lynne Brown on this issue.

Collin Matjila did not survive Minister Brown's replacement of the board in December that year – but the New Age deal did remain intact and no remedial action against Matjila has been pursued.

1. How and why were the recommendations of Eskom staff regarding this media contract over-turned?
2. Which provisions of the PFMA or other relevant legislation or regulations were breached? Has any remedial action been taken?
3. Did Collin Matjila act beyond his mandate in signing the New Age contract? If so, what made this possible?



T-SYSTEMS



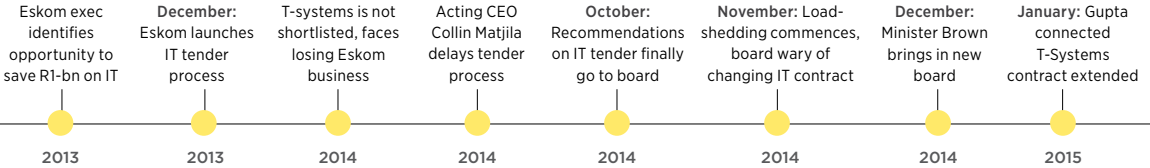
Collin Matjila



Salim Essa



Minister Brown



In 2013, Eskom's Chief Information Officer (CIO) Sal Laher identified and reported on an opportunity for the utility to save almost R1 billion by internalizing core IT functions. T-systems - the serving IT support provider - became aware of the risk of losing Eskom's business which, together with Transnet contracts, accounts for the majority of the firm's income. Nonetheless, they were provided with the opportunity to bid for the smaller, non-core IT tender that the Eskom Board Tender Committee (BTC) launched in December 2013. However, T-Systems was not shortlisted when the bids were evaluated by the Eskom executive.

When it became clear that T-systems would likely lose out on any Eskom contract, Salim Essa is said to have approached the firm's leadership - offering to lobby Eskom on their behalf. T-systems leadership was already acquainted with Essa, as they had formed a consortium with Infraco - of which Essa was a director - the year before when bidding for a Transnet contract. Essa had been appointed Infraco director by Minister Malusi Gigaba in 2011. Around this time, Collin Matjila - an Essa associate in the dubious 2011 COSATU property deals - was appointed Acting CEO of Eskom. While the role that Essa may have eventually played is unknown, T-systems appeared to have gained the ear of the CEO.

Similarly to the Koeberg Steam Generators tender, Matjila appears to have used delaying tactics to impede the awarding of the IT tender to any of the short-listed companies. Over the six months that Matjila was in charge, CIO Laher was arguably sidelined, mainly through a number of audits conducted under Matjila's direction. Though each audit ultimately indicated that the proposed internalization of core IT functions, in conjunction with

the tendering of non-core functions, would save then financially stressed Eskom around R1 billion, none of these recommendations reached the board until Matjila was replaced by incoming CEO Tshediso Matona.

In late October 2014, the IT contract for non-core functions was tabled by the Board Tender Committee - just two months before the T-Systems contract was due to end. On October 31, CIO Laher formally informed T-Systems that Eskom would be dispensing with its services.

Then, in December, Minister Lynne Brown made sweeping changes to the board - bringing in at least six Gupta connected members. In January 2015, the new board decided to retain T-Systems. T-systems has since been connected with Gupta money laundering shell Homix.

Laher, winner of the 2013 Visionary CIO Award, and two respected group executives - Erica Johnson and Steve Lennon - left Eskom following the Koeberg, New Age, and T-System scandals.

1. Why were the recommendations of Eskom staff on this IT tender not taken into account despite the large saving that it potentially presented?
2. What interactions did Matjila have with T-systems and/or Salim Essa?
3. What were the circumstances surrounding Eskom IT manager Sal Laher's suspension and resignation?
4. Did any Eskom board members or Eskom staff benefit materially from this tender award?

DUVHA BOILER



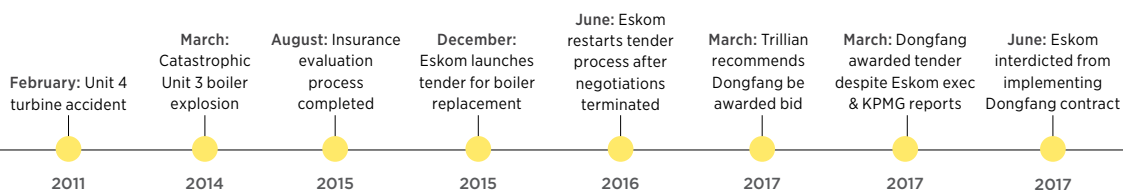
Charles Kalima



Abrams Masango



Edwin Mabelane



Duvha power station has witnessed two major accidents in recent years. In February 2011, the Unit 4 turbine spun out during a control test and, in March 2014, Unit 3's boiler exploded. Both events caused catastrophic damage. While the repair of Unit 4 has not received much public attention, multiple controversies around the Unit 3 boiler explosion, and the subsequent boiler tendering process, have been in the spotlight.

The 2014 boiler explosion has been linked to changes in the coal procured for the Duvha plant immediately preceding the incident. The conveyer belt delivering coal from a tied mine had been broken since December 2013 and coal was being trucked in as a contingency measure. Allegedly, this coal did not meet the required specifications of the plant. As is the case with most coal contracts, Eskom has not disclosed any information about this coal supply agreement. The explosion took 600MW offline.

Despite a clear imperative to replace the boiler as quickly as possible - South Africa entered a period of extended load shedding in the second half of 2014 - Eskom took an inordinate amount of time to conclude the insurance evaluation process (August 2015) and to then issue and award the tender (December 2015 and March 2017, respectively). At the end of this protracted process, the Eskom Board Tender Committee (BTC) inexplicably awarded the contract to Chinese company Dongfang - one of the more expensive bids - despite previously stating that price would be the determining factor. Over and above cost considerations, Dongfang scored far lower than the other bidders in the safety, health and environment category, because it failed to submit key documents.

The final tender decision also deviated from the stated position of the Eskom executive and an external procurement reviewer (KPMG). In December 2016, both had recommended negotiations should be conducted only with General Electric (GE) and Murray & Roberts (M&R). Dongfang's contract is worth R4.8 billion, almost R2 billion more than GE and M&R bids.

It has since emerged that the award was premised on a late-stage report conducted by Trillian - a firm then majority owned by Gupta associate Salim Essa - days before the contract was awarded. The report was premised on assumptions - that have since been challenged - around cost escalation, allegedly proposing that the fixed-cost Dongfang bid would ultimately be cheaper. Eskom also stated that the findings of the report were confirmed by SekelaXabiso - a company implicated in irregular spending at SABC.

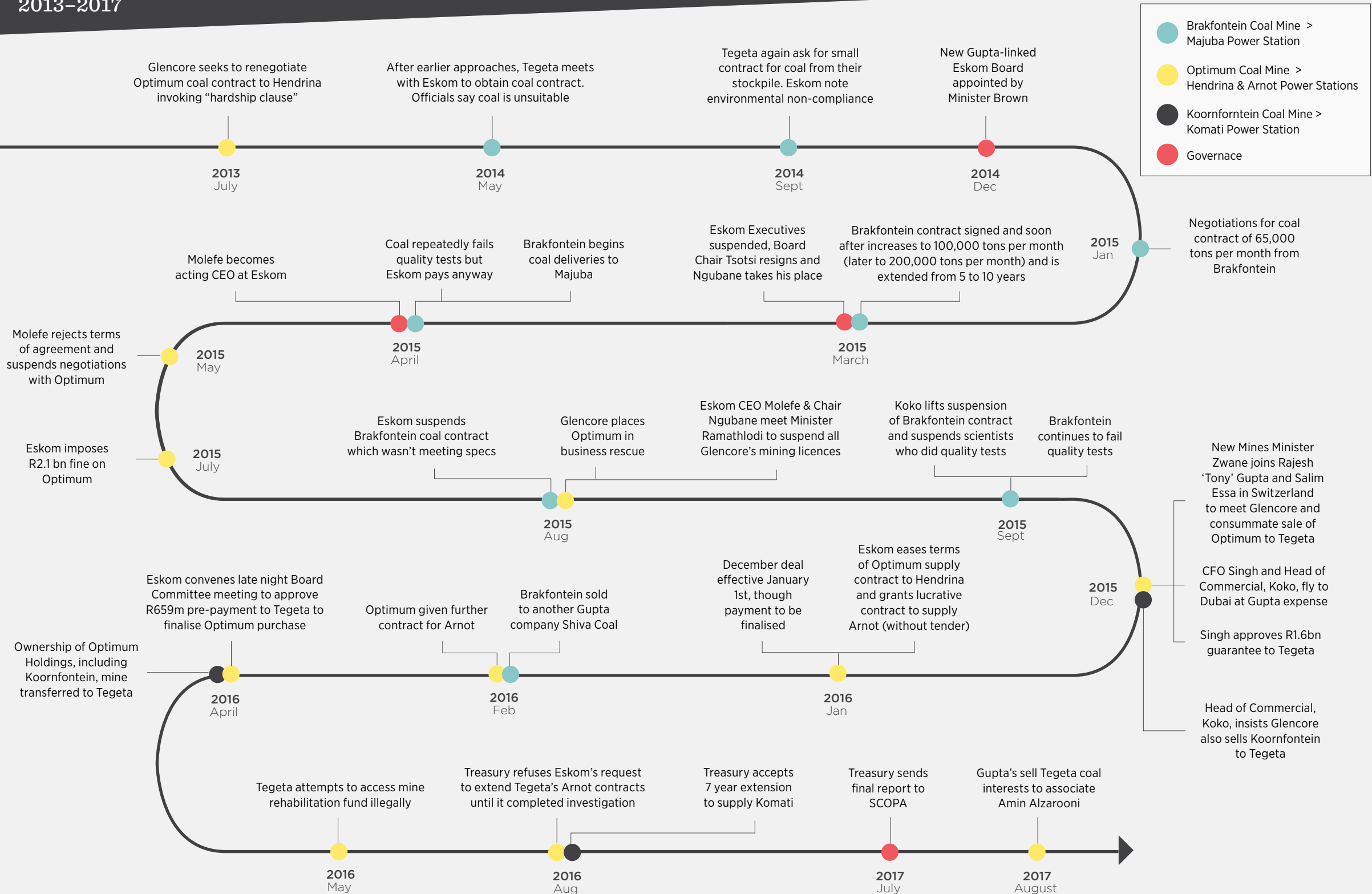
The matter has since gone to court. On 30 June 2017, the High Court granted GE and M&R an interdict to stop Eskom from implementing its contract with Dongfang, whilst they make their judgement on the matter.

1. **Given the court case that has overturned the validity of awarding the boiler refurbishment tender to Dongfang, what were the internal process that led to the irregular selection of this company as the winning bidder?**
2. **Did any Eskom board members or Eskom staff benefit materially from this tender award?**



GUPTA COAL

2013-2017



GUPTA COAL



Rajesh (Tony) Gupta



Duduzane Zuma



Salim Essa



Ben Ngubane



Brian Molefe



Matshela Koko

Black gold

Eskom's largest procurement line item is coal, purchasing around 120 million tons per annum, worth more than R50 billion. It is here that we have seen the most ambitious schemes by the Gupta family to land lucrative contracts - in part made possible by the lack of transparency in coal procurement.

When the Gupta family first met Eskom CEO Brian Dames in early 2010, they tried to obtain a coal supply contract to the Lethabo power station, but nothing was concluded as Lethabo was supplied through a secure, long-term contract at competitive prices by the New Vaal mine. Their attention soon shifted to other opportunities - including the acquisition of the Brakfontein coal mine, which was always unlikely to deliver the quality of coal required by Eskom, and then, moving up a gear, the acquisition of Glencore's Optimum Coal Holdings and coal contracts to supply Eskom's Hendrina, Arnot and Komati power stations.

Brakfontein: Coal Eskom did not need

The Guptas purchased the Brakfontein coal colliery in Delmas through their company Tegeta in 2011. Despite this acquisition, their initial offers to supply Eskom's Majuba power station from Brakfontein were rebuffed. However, wholesale governance and management changes in Eskom turned their fortunes.

Following Minister Brown's new board appointments in December 2014, four Eskom executives were suspended in early 2015. Though the remaining managers and technical staff raised serious concerns around the quality of Brakfontein coal, environmental contraventions, as well as the black economic empowerment credentials of Tegeta, these were not addressed. The first Brakfontein contract was signed in March, when Ben Ngubane was appointed board chair. Brian Molefe took over as CEO in April and Matshela

Koko - who was one of the four suspended executives - later returned to his position as MD of Technology and Commercial. The Guptas - seemingly fortified by the changes in the board and executive - became more insistent and enterprising. Meanwhile, the new board and executive appear to have been increasingly willing to respond to their demands. The initial Brakfontein contract was subsequently amended, with the coal supply agreement increasing from 65,000 to 100,000 and then 200,000 tons per month and the contract period extended from 5 to 10 years at a price higher than other coal suppliers to the Majuba power station. There were instances where more coal than specified in the contract was delivered, for which they were paid anyway.

However, the Brakfontein coal was repeatedly failing quality assurance tests. Because of this, Brakfontein's contract was briefly suspended, only to be reinstated by Koko - who then suspended the scientists responsible for the negative quality tests. Emails from the #guptaleaks reveal how Tegeta staff effectively instructed Eskom staff to sign contracts without any competitive tenders, suggesting that the deals had been made at a higher level.

Ownership of Brakfontein has since been transferred to another Gupta company, Shiva Coal, which does not meet Eskom's empowerment criteria.

Optimum

The Guptas clearly had greater ambitions and their sights turned to Optimum Coal Holdings, a company owned by Glencore, which had three major assets: Optimum Coal Mine - which supplies Eskom's Hendrina power station, Koornfontein Mine - which supplies Eskom's Komati power station, and an export allocation at the Richards Bay Coal Terminal.

Under Glencore, the cost of production at Optimum Coal Mine had increased to more than R300 per ton.

However, the mine was locked into a fixed price contract with Eskom of around R150 per ton until 2018, meaning the mine was losing at least R120 million per month. In July 2013, due to these conditions, Glencore invoked a “hardship clause”. Following negotiations, Eskom’s Executive Procurement Committee (EXCOPS) approved a new contract in March 2015 - but final approval was deferred to the new acting CEO Brian Molefe, who rejected the terms of the agreement and suspended all negotiations. In July 2015, CEO Molefe then imposed a R2.1 billion backdated fine on Glencore for not meeting coal supply specifications. Around this time, the Guptas, through their company Oakbay, made Glencore an offer to purchase Optimum. The offer was initially rejected.

In August 2015, Glencore placed the mine in business rescue to stave off liquidation. In the same month, Eskom CEO Molefe and board chair Ngubane met with Mining Minister Ramatlhodi to persuade him to cancel Glencore’s mining rights, while Koko threatened to review all of Glencore’s coal contracts with Eskom. #guptaleaks show that Koko also leaked confidential Eskom information to the Guptas. Koko subsequently insisted that Glencore sell not only the Optimum Coal Mine, but all the assets in Optimum Coal Holdings, including Koornfontein and the export allocation.

Under this pressure, Optimum’s business rescue practitioners entered into negotiations to sell Optimum Coal Holdings. These negotiations were subsequently facilitated by President Zuma’s new Mining Minister, Mosebenzi Zwane, who joined Rejesh ‘Tony’ Gupta and Salim Essa in Switzerland in December 2015 to finalise the sale with Glencore’s leadership. On his return journey, Zwane allegedly joined the Guptas on their jet to Dubai.

However, the Guptas still needed to find the money to pay the banks which held Optimum’s debt. They wrote to Koko in December 2015 to confirm an in-principle agreement for a R1.68 billion pre-payment for coal to be supplied in the future. During December, both Koko and Eskom CFO Anoj Singh were flown to Dubai – allegedly at the Guptas expense. Singh arranged for a R1.6 billion Eskom guarantee to Tegeta.

The eventual cash assistance to Tegeta for the purchase of Optimum was finalised at a late night Eskom Board Committee meeting convened in April 2016. Just hours after a consortium of banks refused to advance a R600

million loan to Tegeta, it was agreed at this meeting that Eskom would make a pre-payment of this exact amount to the company. Phone records obtained by the former Public Protector show that there was continual communication during this time between CEO Brian Molefe, the Guptas, and one of their senior executives.

Three months later, Optimum’s business rescue practitioners filed a report with the Directorate of Priority Crime Investigation in terms of Section 34 of the Prevention and Combating of Corrupt Activities Act, alleging that the payment had been directed elsewhere and not into Optimum’s accounts to assist with its liquidity, as purported by Eskom. Koko, when questioned on Carte Blanche, denied any pre-payment, but when confronted with evidence had to backtrack.

The challenge for the Guptas since, has been to earn profits from Optimum where its previous owner, Glencore, was incurring losses. Three strategies were adopted. First, the Guptas have attempted to sell the valuable Richards Bay export allocation. Second, they tried to mitigate the heavy fine that Optimum had incurred in the dispute with Eskom around below specification coal supplied to Hendrina. Third, the Guptas identified opportunities to increase revenues through further coal contracts. Though the Guptas have not yet finalised the sale of the export allocation, they have been somewhat more successful in the second and third strategies. The dispute was referred to arbitration and Eskom agreed to reduce the fine from R2.1 billion to R577 million, while the loss-making contracted coal supplies to Hendrina were minimised by reduced electricity generation output at the power station and alternative, higher priced contracts were made with Eskom to supply Arnot power station, 60 km away.

The Guptas have acquired major coal mining assets with Eskom’s assistance and secured lucrative coal contracts to power stations, without competitive tendering and where there are better priced alternatives.

Komati, Hendrina and Arnot are old power stations that are due to be shuttered after 2020. Will the Gupta coal contracts mean that their operational lives will be extended, despite being amongst Eskom’s most inefficient and expensive power plants?

A National Treasury investigation has been submitted to SCOPA, which recommends sanctions, as well as further forensic investigations.



SQUEEZING OUT THE COAL MAJORS



Malusi Gigaba



Siphoniso Nkosi
(Ex-Exxaro head)



Mark Cutifani
(Anglo head)



Brian Molefe



Matshela Koko

Kusile: Minister Gigaba torpedoes New Largo mine with 50 + 1% req.

Matla: Eskom fails to provide capital as per cost plus agreement for Exxaro

Arnot: Eskom terminates Exxaro/Anglo Mafube contract

Arnot: Eskom terminates Exxaro Arnot tied mine

Majuba: Eskom refuses to extend Exxaro Leeuwpaan mine contract

Arnot, Tutuka, Komati: Exxaro NBC contracts end

2013

2014

2015

2015

2017

2017

In recent years Eskom has adopted an increasingly robust – or even outright uncooperative – attitude in its negotiations with coal majors, such as Anglo Coal, Glencore, South32 (ex BHP Billiton) and Exxaro (which, until recently, was majority black owned). Eskom’s coal power stations were built adjacent to these mines, which allowed for long-term, secure, low-priced contracts.

Exxaro has experienced the full force of Eskom’s recent antipathy to its major coal suppliers, with contracts to supply Arnot, Majuba, Tutuka, Komati, and Matla power stations recently terminated, not suitably maintained, or due to end soon without renewal on the horizon.

Exxaro used to supply Eskom’s Arnot power station from a captive mine via conveyor belt - Exxaro owns the mining rights and Eskom the land. In 2006, the Arnot power station was upgraded but Eskom failed to secure land rights essential to extending the mine’s operations and, with reduced output, unit costs of coal increased substantially. There was also a dispute around when the contract would expire. Despite a term sheet being agreed in 2013, Eskom terminated the coal supply agreement in September 2015 and the mine was closed with the loss of 1500 jobs. The mine could still be re-opened but Eskom has expressed no interest in this and has, instead, increased its short-term coal contracts with mines such as the Gupta’s Optimum Coal mine, 60km distant. In the same year, Eskom also terminated an Arnot supply contract from the Mafube mine, which was jointly owned by Exxaro and Anglo, even though the cost of this coal was substantially cheaper than almost any other supply agreements, especially the Gupta contract.

Exxaro also had a fixed price coal contract, until March 2016, to supply Eskom’s Majuba power station from

its Leeuwpaan mine - but Eskom has failed to approve any extension of the contract. In the meantime, Eskom has agreed to ever increasing supplies from the Gupta’s Brakfontein mine, despite their coal not meeting power station quality requirements.

Exxaro supplies Eskom’s Matla power station on a cost-plus contract. However, Eskom again failed to invest further in the mine, as per the agreement, even though historically it was a low-cost producer. As a consequence, Eskom is trucking in coal at much higher prices.

Exxaro’s contracts to supply Eskom’s Tutuka and Komati power stations will expire at the end of 2017. Komati is also being supplied by the Gupta’s Koorfontein mine.

Another example of Eskom squeezing coal majors is Anglo’s New Largo coal deposit, which was the rationale behind Eskom’s siting of its new Kusile power plant. Heads of agreement were signed between the companies and Anglo proceeded with feasibility studies, environmental processes, and a mining right application; but then Minister Gigaba imposed a new 50+1 black ownership requirement without any official policy, legislative or regulatory backing in 2011. The mine remains undeveloped and coal is being trucked into Kusile at high cost and considerable risk.

Eskom coal procurements offer opportunities for new black-owned mines. As the shift from long-term contracts with coal majors to shorter term contracts with new entrants accelerates, transparency is important. It is clear that the Guptas have benefited from the shake-down of low-cost, long-term coal suppliers – arguably without supporting the transformation imperative that has made this possible.

Coal Questions

1. To what extent, and why, did Eskom board members and managers fail to comply with the PFMA and other Acts and regulations in the awarding of a series of coal contracts to:
 - Tegeta's Brakfontein coal mine to supply Majuba Power Station,
 - Tegeta's Optimum Mine to supply Arnot, and,
 - Tegeta's Koornfontein mine to supply Komati,at increased volumes, prices, and periods, without competitive tender, and despite some supplies repeatedly failing quality assurance tests?
2. What were the roles of Rajesh 'Tony' Gupta, Salim Essa, Ben Ngubane, Brian Molefe, Matshela Koko, and involved board sub-committees in the Glencore / Tegeta / Optimum Holdings deal including:
 - the cancellation of the Cooperation Agreement with Glencore;
 - levying a fine of R2.1 billion on Glencore (which was substantially reduced later for Tegeta);
 - the private commercial negotiations in Switzerland;
 - the Department of Mineral Resources issuing mine stoppages and threats to review or cancel mining licences and coal supply agreements in all of Glencore's mines;
 - refusing to consent to the sale of Optimum to another purchaser (Endulwini Consortium), meaning that Tegeta emerged as the only remaining entity that wished to make the purchase;
 - Matshela Koko insisting that the sale include not just Optimum Coal but also Koornfontein and the Richard's Bay Terminal export allocation;
 - Matshela Koko's leaking of confidential Eskom information to the Guptas;
 - Anoj Singh approving a R1.6 billion guarantee with Absa bank to facilitate the Optimum purchase by Tegeta;
 - authorising an extraordinary pre-payment to Tegeta, of R659 million, which was used to purchase Optimum?
3. What is the nature of relationship between Ben Ngubane, Brian Molefe, Matshela Koko, Anoj Singh (plus other Eskom board members and managers) and the Guptas? Have they benefited materially from this relationship?
4. It is clear that Tegeta has benefited from favourable treatment to the detriment of other coal companies, including those that are fully black owned. Please explain this apparent partial treatment?
5. Could senior executives from Exxaro, Anglo, Glencore and South32 outline and document Eskom's actions in shifting from long-term to short and medium term coal contracts and the consequences for Eskom's coal costs and security of supply?
6. Could Ministers Gigaba and Brown explain their roles in decisions pertaining to investment in coal mines to supply Eskom, including the lack of approval for Eskom to meet its obligations in cost-plus mines, as well as blocking the development of the New Largo mine to supply Kusile?
7. Could Brian Molefe and Matshela Koko, plus Eskom executives responsible for Primary Energy and Procurement, explain their actions in terminating contracts with coal majors and instead favouring particular mines, such as those owned by the Guptas?
8. Have the Guptas actually sold Tegeta or are they, in effect, still beneficiary owners?



TRILLIAN



Salim Essa



Eric Wood



Brian Molefe



Anoj Singh



Charles Kalima



Edwin Mabelane

February: Trillian submits first direct invoice to CFO Singh

2016

April: Eskom pays Trillian same day that Optimum bought

2016

December: Minister Brown denies that Eskom has any contracts with Trillian

2016

March: Trillian report used to justify Dongfang tender award

2017

July: Eskom admits to paying Trillian R500-million since 2016

2017

August: Eskom admits to lying about legitimacy of Trillian contract. Suspends and then re-instates Edwin Mabelane & Charles Kalima

2017

In December 2016, Minister Lynne Brown categorically denied that Eskom had any contracts or had conducted any business with Trillian Capital Partners. It has since emerged that Eskom not only paid Trillian at least R500 million for 'consulting' work originally contracted to McKinsey, it lied about this and the results of an independent review conducted by Oliver Wyman that had red-flagged Trillian deals.

It appears that the Gupta consultancy may have functioned as a conduit for external instructions, a way to transmit money to Gupta-connected networks, and a means to 'legitimising' irregular Eskom processes. Trillian was first paid R30.7 million by Eskom for a 'corporate plan' on the same day that the Gupta's bought Optimum Holdings. Trillian bank statements show R160 million was paid to an unknown beneficiary on the same day. In March 2017, a Trillian report - undertaken in just two days - led to the selection of Dongfang in an R4 billion tender process, even though this report contradicted the recommendations provided by the Eskom executive and KPMG. Despite the money paid to Trillian, there appears to be little evidence to indicate any substantial work undertaken by the company. Yet Eskom has not only paid the company sizeable amounts, but has also explained critical procurement decisions by referring to Trillian reports.

It is worth remembering that Trillian (and Regiments) played a similar role at Transnet (and when Brian Molefe and Anoj Singh were CEO and CFO, respectively). It would seem that then Trillian shareholders - Salim Essa and former Regiments director Eric Wood - together

with Molefe and Singh were able to transfer the arrangement from one state owned company (SOC) to another. It is also important to remember that this arrangement was facilitated by McKinsey - specifically directors Vikas Sagar and Alexander Weiss (recently suspended), who are said to have identified and shared sensitive information with then Trillian majority shareholder Salim Essa on 11 key projects in Eskom that could bring in R9.4 billion in consulting fees over a 4-year period.

Trillian has also been named by the media and in #guptaleaks as being involved in the Gupta money-laundering operation, funnelling payments to shell company Homix.

1. How did Regiments/Trillion obtain inside information on Eskom's procurement budgets? What is the full scope of the Eskom procurements that they targeted and influenced?
2. What payments have been made by Eskom to Regiments and Trillian since 2009? Were these payments made with or without contracts? Do any of the payments appear well out of proportion with the value of the work supposedly delivered? Which Eskom executives were involved, how?
3. What role has McKinsey played in the relationship between Eskom, Regiments, and Trillian?



IMPULSE



Matshele Koko



Koketso Choma

Matshele Koko appointed head of Group Technology & Commercial

2014

April: Koketso Choma appointed Director at Impulse

2016

November: Matshele Koko appointed Acting CEO

2016

April-March: Impulse awarded R1-bn in contracts under Koko's oversight

2016-2017

May: Matshele Koko put on special leave pending inquiry into Impulse

2017

Matshele Koko has survived the various waves of controversy that have led to both implicated and innocent executives leaving Eskom since 2009. In May 2017 he was however put on special leave, pending the investigation into Eskom's awarding of R1 billion in contracts to Impulse International while his 26-year old step-daughter, Koketso Choma, was a director on the board. Choma is also one of two trustees of the Mokoni Trust, which held a 35% shareholding in the company. Impulse has benefitted from sub-contracts on some of Eskom's biggest expenditure items, including new builds Kusile and Medupi.

The Impulse contracts, however, are likely just the tail end of a long piece of string. Koko is known to have been the one to head up the R659 million pre-payment that enabled Gupta's Tegeta to buy Optimum Coal Holdings. Koko has also been implicated in the #guptaleaks, which suggest that he shared sensitive information with the Guptas. According to #guptaleaks and select informants, Koko has had dealings with the Guptas since at least 2015, including an all-expenses paid trip to Dubai in January 2016.

In addition to links with the Guptas, Koko has held the key position of Head of Group Technology and Commercial (later Group Generation and Technology) for the better part of a period that has been fraught with

corruption scandals in procurement deals, including for primary energy inputs, transportation, and capital expenditure.

1. How did Matshele Koko, in partnership with others, abuse his position to corrupt Eskom procurement processes? In which way did he facilitate Gupta-linked contracts or those directed to his family interests?
2. What contracts have been awarded to Impulse over the years? Which ones were awarded when Matshele Koko was in a decision-making position in procurement? Indicate which of these were awarded during his tenure as Acting CEO and those awarded while his step-daughter, Koketso Choma, was a director or equity holder?
3. In addition to possible family benefits through the Impulse contracts, what other material benefits has Koko accrued through Gupta-linked and other Eskom procurements?
4. Are any actions being taken to further investigate and/or prosecute Koko?

STILL IN THE SHADOWS

There are additional areas that arguably warrant further investigation.



There are allegations that Matshela Koko colluded with the Coal Transporters Forum and Unions to plan protests against possible closures of coal mines and the inroads of Independent Power Producers (IPPs). Misleading information was presented to these organisations on Eskom's plans to shutter old **coal** power stations, as well as on the relative costs of coal versus renewable energy. The consequence of this misinformation was the shutdown of central Pretoria by hundreds of coal trucks on 1 March 2017 plus a number of other protests damaging to the economy. The facts need to emerge and sensible policies need to be developed to manage these tensions.



Diesel is used to fire turbines at Eskom's Ankerlig and Gourikwa power stations. Ordinarily, these run for less than 5% of the time to supply electricity at peak demand periods. In times of load shedding, however, they were run hard to keep the lights on – at a cost of around R10 billion per annum. There is evidence that Eskom gave diesel contracts at inflated prices to companies that clearly had no prior experience and acted merely as intermediaries.



When Eskom's expensive infrastructure is damaged or destroyed, the costs of replacement are huge. While the corruption around the award of the Duvha Unit 3 boiler **refurbishment** has been well documented, less has been reported on the **replacement** contracts for the Duvha

Unit 4 generator or the Majuba coal silo. Given the track record of Eskom's Board Tender Committee, a spotlight should also be shone on these contracts.



Eskom has had to spend more on maintenance to reverse the declining performance of its power stations, the plant availability factor of which decreased from 90% to 70% at one stage. These lucrative **maintenance contracts** have not been adequately investigated by independent parties.



Eskom's capital budget is larger than any other government entity. We know that Eskom's new power stations – Medupi, Kusile and Ingula – are several years late and more than 200% over budget. Each have involved multiple **construction contracts**. Some evidence has been uncovered of awards to favoured parties (including Impulse), but the full scale of contractors and sub-contractor work should be examined.



Electricity demand is flat, new power stations are coming on line, and there is no urgency in committing to large new power investments. This has not stopped various parties pushing hard for a fleet of **nuclear** power stations and also the so-called Coal 3 plant (after Medupi and Kusile). At the same time, the more affordable, flexible and scalable options of renewable energy IPPs suffered from a blanket refusal by Eskom to sign any more contracts, including those that were already in procurement stage. The motivations for blocking renewable IPPs while pushing nuclear has been cause for suspicion.



Eskom had the most competent and experienced **Treasury** department of all South Africa's SOCs and, in years past, was successful in raising competitively priced debt on local and international capital markets. That capacity has deteriorated and advisory and capital-raising services are now often contracted out at an exorbitant cost. Eskom's credit rating has plunged and it has increasingly turned to development finance institutions, including the China Development Bank, to raise debt without disclosing its cost of capital. Eskom debt and financing costs have ballooned and it now poses a real threat to the sovereign.



Finally, there have also been concerns around Eskom's **audits**. Eskom used to have three auditors, including two large international firms. SizweNtsalubaGobodo is the sole remaining firm. Eskom received a qualified audit in 2017, with billions in irregular expenditure noted. This threatened to trigger serious breaches of some of its debt covenants and raised the possibility of sovereign guarantees being called, which would have had catastrophic fiscal and macro-economic consequences. This has raised a number of questions, including around why a qualified audit was not initiated at an earlier stage. The fact that those who are legally responsible, and/or those with well-founded suspicions of illicit on-goings at the utility, failed to trigger this and other important mechanisms that are meant to prevent the abuse of resources and executive power indicates either an alarming failure or extensive usurpation of Eskom's governance.

Ultimately, any project to repurpose Eskom's governance to facilitate systematic corruption in the power sector undermines and threatens the utility's financial viability and its ability to power South Africa's economy and improve the welfare of all its citizens.

RECOMMENDATIONS

Parliament's Committee on Public Enterprises' Inquiry into Eskom will likely make findings around the manner in which the governance of South Africa's state-owned electricity company has been undermined and re-purposed to materially benefit a politically connected elite, while compromising national economic and social development. It will likely also shine a light on the systematic and individual acts of corruption around Eskom procurement. Hopefully it will also make recommendations to prosecute culpable individuals, reform governance, and restructure South Africa's electricity sector so that grand corruption is less possible in the future.

Parliament has the power to call on Ministers, Eskom board members, executives, professionals, and other relevant stakeholders, to testify on how Eskom came to where it is today and what might be done to re-position the electricity sector to power economic growth and expand social welfare sustainably in the future. The Inquiry has the potential to both illuminate the past and the future.

The immediate task of the Committee will be to probe breaches of laws and regulations and expose individual acts of corruption. Where these are clear, it will need to recommend prosecution and forward relevant details to the national prosecuting authorities. The Inquiry is a unique opportunity to force implicated individuals to answer, under oath and publicly, to widely publicised incidents of administrative and financial malfeasance, and blatant corruption.

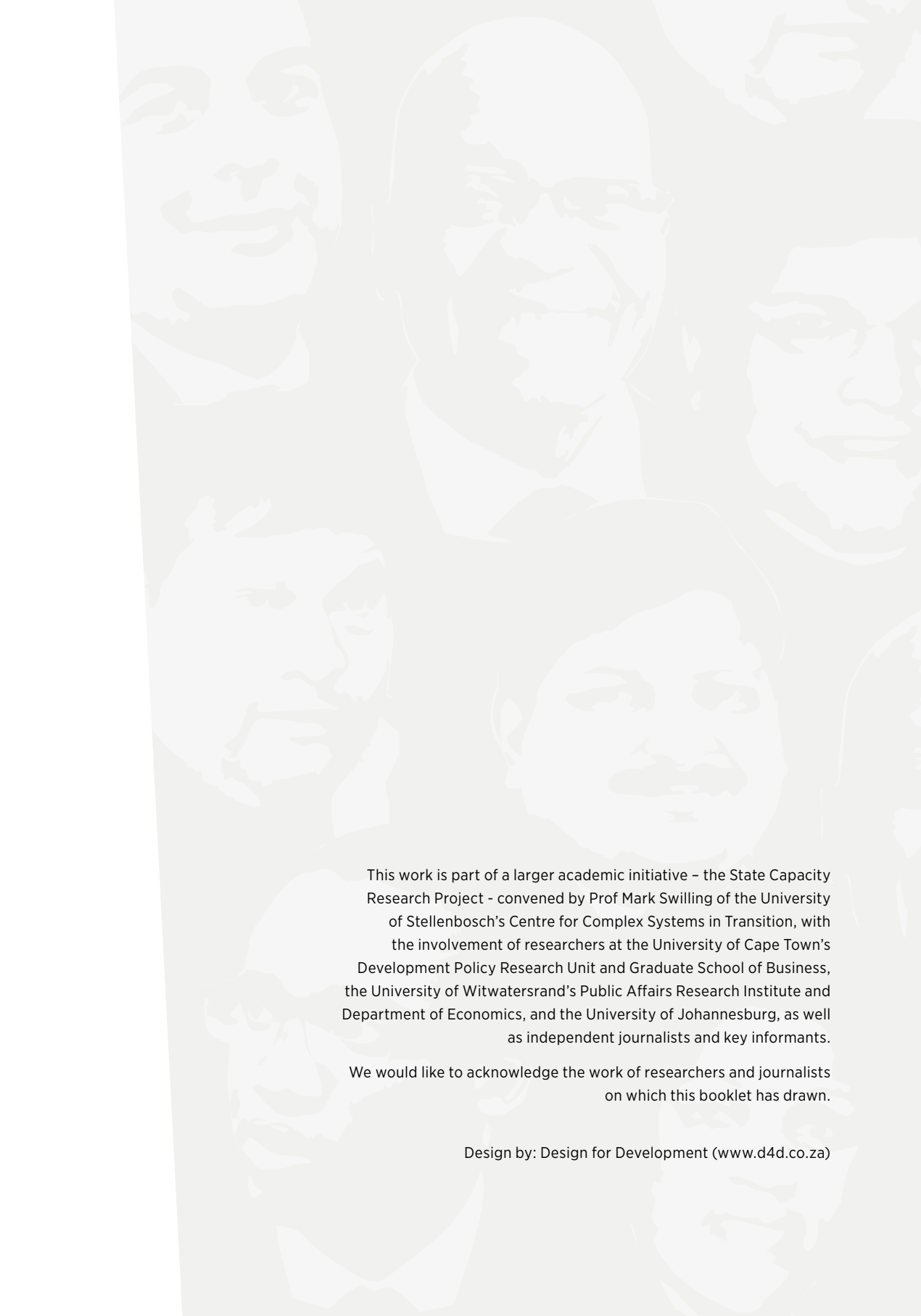
A further, and in many ways more fundamental, task of the Committee will be to expose the way in which board and executive appointments and directives have been subsumed by a political project that serves a narrow and corrupt elite, and to make recommendations on how governance of Eskom could be reformed and strengthened in the future. Much work has already been done. A Cabinet sanctioned activity by the Deputy-President's team has looked at the way in which SOC board appointments are made, including instituting nomination committees and eligibility criteria, as well as arms-length performance contracts which map

out government's policy and economic objectives, set specific targets and then hold boards and management to account.

There is a wealth of international experience of how to reform state-owned utilities to improve their performance. There is general agreement that state-owned utilities should not rely on soft budgets and fiscal grants when there are much more pressing needs in education, health and other social services. Electricity companies should be financially viable. Technical and financial innovation in the power sector – like telecommunications – now demonstrates that competition and private sector participation is possible and beneficial, subject to appropriate regulation and policy instruments that meet social goals. Most developed and emerging economies have broken up and unbundled their electricity utilities and encouraged more competition.

Power sector reform proposals are probably beyond the remit of this Committee. However, it is clear that unbundling Eskom, to create a separate generation company and an independent grid, will accelerate private investment in the sector and spark competition. This would make it more difficult to extract economic rents or add costs to electricity prices or to threaten the financial viability of the sector and the security of electricity supply that is so fundamental to economic and social development. It is hoped that the recommendations of the Committee will at least fuel the momentum that is building for power sector reform.

South Africans are watching Parliament's Committee on Public Enterprises' Inquiry into Eskom and look forward to its recommendations around holding individuals, as well as institutions, to account.



This work is part of a larger academic initiative – the State Capacity Research Project – convened by Prof Mark Swilling of the University of Stellenbosch’s Centre for Complex Systems in Transition, with the involvement of researchers at the University of Cape Town’s Development Policy Research Unit and Graduate School of Business, the University of Witwatersrand’s Public Affairs Research Institute and Department of Economics, and the University of Johannesburg, as well as independent journalists and key informants.

We would like to acknowledge the work of researchers and journalists on which this booklet has drawn.

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