

BUSINESS DAY

STATE-OWNED ENTERPRISES

How corrupt power captured Eskom and helped pull the plug on growth

The usual suspects have been named but a parliamentary inquiry will hopefully shine a light on all dirty tricks

12 SEPTEMBER 2017

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Parliament will soon begin its inquiry into Eskom and other state-owned enterprises (SOEs). As it summons witnesses to give evidence, further details will come to light around the repurposing of governance and the centralisation of rent-seeking opportunities to unlawfully benefit a politically connected elite.

If Parliament fulfils its constitutional mandate, the fingerprints of the president, the Gupta family and its associates, ministers Malusi Gigaba and Lynne Brown, and implicated Eskom board members and management will be revealed.

Looking back, we can see what happened. Shortly after Zuma ascended to the presidency in 2009, he expressed an unusual degree of interest in board and management appointments at Eskom and Transnet. Then public enterprises minister Barbara Hogan's resistance to dubious cadre deployments soon cost her her job.

Hogan's replacement, Gigaba, was more yielding. One of his first moves was to overturn a procurement decision on which the Eskom executive and board had signed off — the replacement of Koeberg steam generators. Soon after, he gutted the board and agreed to new appointments, most of whom had no corporate or electricity sector experience.

During the previous decade, Eskom had had relatively stable and strong leadership. Reuel Khoza chaired an Eskom board that incorporated as many as three CEOs from international power companies. Yet for Zuma, this experience was no longer fit for purpose.

Brian Dames, who was Eskom CE when Gigaba took the reins, was treated appallingly by the new minister. Letters were delivered to his office, indicating that his services were to be dispensed with, then extended, and then terminated, with scant notice. He also received anonymous death threats.

Gigaba eventually appointed Collin Matjila as acting CEO in March 2014, against then Eskom chairman Zola Tsotsi's advice. Gigaba was influenced, in part, by entreaties made by Eskom group technology and commercial executive Matshela Koko. Subsequently published #GuptaLeaks e-mails revealed that Gupta lieutenant Salim Essa circulated Matjila's CV to Tony "Rajesh" Gupta and Duduzane Zuma just days before the appointment.

President Jacob Zuma's second term generated more aggressive governance changes to grease the wheels of rent-seeking at Eskom. Brown replaced Gigaba as public enterprises minister in May 2014. Matjila had already signed the controversial R43m deal with the Guptas' The New Age newspaper and further used his time as acting CEO to sabotage the Koeberg steam generator tender and an information technology (IT) contract that could have saved Eskom R1bn, instead favouring T-Systems, a company lobbied for by Essa.

Ending Matjila's run on the utility, Brown appointed former public enterprises director-general Tshediso Matona as CEO in October 2014. Unfortunately for him, she also appointed a new board that December — one packed with Gupta associates. Essa allegedly acted as an intermediary between the minister and the new board and

informants have confirmed meetings at Brown's residence where the Guptas were present.

Once Matona launched a tender for the provision of forensic and anticorruption consultation services for Eskom in January 2015 — later awarded to Dentons law firm — it was clear he could not survive. But the shock suspension of four executives in March, including Matona, followed by the ousting of Tsotsi as Eskom's chair a few weeks later, was clearly not the move of a fledgling board. Eskom's very own Ides of March was orchestrated from the highest level.

The president not only personally called the public enterprises director-general to put this in motion (Brown was in Dubai at the time), but also summoned Tsotsi to his Durban residence, where Dudu Myeni relayed the president's instructions. Jacob Zuma's favourite, Ben Ngubane, was then appointed board chairman, despite previous efforts by the ANC to prevent this. Brown also agreed to second Brian Molefe, along with his right-hand man, Anoj Singh, from Transnet.

Dentons' contract was terminated just two months after its investigation began and Brown, the perpetually self-proclaimed victim of misinformation, withheld the report, which contained the names of guilty parties and damning evidence of their wrongdoing, from Parliament and the public. Brown also kept the report from the Eskom war room and Deputy President Cyril Ramaphosa, who had been charged by the Cabinet to restore power supply security and improve governance at SOEs.

With the governance of Eskom thus captured and repurposed, the next period witnessed the scaling up of grand corruption, with the Guptas managing the complex enterprise of brokering and money laundering.

The most bold-faced examples include Eskom's facilitating and financing of the Guptas' acquisition of Glencore's Optimum Coal Holdings. This scheme had already started under Gigaba, when coal miner Glencore was driven into "business rescue". But it was then Eskom CE Molefe, partnered with Singh, Koko and mines minister Mosebenzi Zwane, who made the heist possible. While Glencore was shaken down, the Guptas' Tegeta benefited from an Eskom guarantee (R1.6bn), a hefty and unusual prepayment (R600m) and additional lucrative coal contracts, effectively enabling them to buy Optimum. Further instances of Gupta-favoured coal contracts and the squeezing out of large coal miners will be revealed in Parliament's inquiry.

Eskom has also funneled at least R500m to advisory firm Trillian — majority owned by Essa, until recently — under the pen of Singh. An independent review, which Eskom lied about and ignored, flagged these deals as irregular. But Trillian was not only used as a conduit to transmit money to Gupta-connected networks, it was also used to legitimise irregular Eskom processes, including the awarding of the multibillion-rand tender for the refurbishment of Duvha power station boilers to Dongfang (since interdicted by the courts).

But too much remains in the shadows: Koko's contracts with his stepdaughter's company, Impulse, during his tenure as acting CEO; the irregular diesel contracts to supply

emergency turbines (snuck through during the load-shedding years); hefty maintenance contracts for old plants; and the gargantuan construction contracts for new builds Kusile, Medupi and Ingula, as well as the president's ambitions to procure a fleet of unneeded and expensive nuclear power stations.

Eskom's qualified audit also raises serious concerns around internal financial and risk controls including why Eskom let go two leading global auditing firms in previous years.

Just as details of the political project to undermine and repurpose Eskom's governance to facilitate massive rent-seeking and corruption are coming to light, so too are the dire consequences of the forays made into Eskom coal, equipment, IT, media and advisory procurement contracts. Eskom's finances are in trouble. Though revenues are stagnant, costs are rising and large amounts of debt need to be financed. The utility now poses a significant threat to the fiscus and to SA's economic growth prospects. The costs of the Zuma era are all too evident.

Parliament's inquiry is positioned to further illuminate how Eskom has come to where it is today, and to expose those responsible. Hopefully, it will also recommend improvements to the governance of SOEs, as well as the restructuring of the power sector, which would protect electricity supply from subversion in future.

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