

Department of Public Enterprise Interview Transcript

Date: 18 March 2021

Venue: Virtual

Chairperson: Mr Richard Goode

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***Chairperson:** From the perspective of the Department: What do you feel are the key takeaways of where the SOEs responses being exemplary and similarly where there might be grounds for legitimate criticism about how to learn from mistakes and do things better. So, if we could start with overall framing of the role that the SOES have played in managing the response to the pandemic?*

DG Tlhakudi: The invited colleagues were much more internally focused than sector focused to this discussion because when we looked at the request it was about management of Covid-19 pandemic so we thought it is about what we are doing as a department to ensure people are safe.

This pandemic when it hit us early last year it was one of those that you learn as you are doing kind of situation we only got to appreciate the full impact for instance on the particular sectors and operations of entities as we go along and of course one of the major thing that we have to address quite early on was just ensuring that people do come to work so that we can be able to deliver services that required, there was not that much information out there as to what we are dealing with and the case in point was with regard to Transnet, which was very critical in ensuring that essential services do come into our country - those that are coming most especially through the ports need to be railed into the inlands of our country. The numbers that we have worked with in the beginning in terms of ensuring that there is social distancing in the workplace we had to pump those up in order to address the congestion that we were experiencing especially at the ports, one of the decisions that the ports had to make was between what is essential goods what is not essential goods. We had to decide then what needs to be moved and this turned out to be much more difficult and intensive but we managed to do well in the end. The team can add/share as well what was the cost of that in terms of people's lives facing in the Transnet.

The same happened at Eskom, because electricity is obviously as a critical enabler of the functioning of our economy. We convened the chairpersons and CEOs. We set up a working group coordinated by the team just to ensure that as we learn we are able to disseminate that information to everyone who are SOCs. We had an entity like DENEL for instance develop a ventilator. This is a sophisticated product that they're able to come up with utilising the knowledge gained in developing armaments. The following divisions got involved: The Missiles division as well as Aeronautics division, so the Aeronautics division worked with DEFY availing their engineering and production capabilities to help out there. The smaller entities, by virtue of bigger presence they have in rural parts of our country also contributed their bit with regard to ensuring that they avail their facilities to help with the fight against the pandemic: SAFCOL in Limpopo and Mpumalanga, Alexkor in the Richtersveld also did its bit. Maybe Mogadime want to say a bit more in terms of some of the things that that we've been done including Transnet's paper initiative?

Benedict Mogadime: Based on the pandemic as the DG has indicated it was something that was not expected but the SOCs had to develop quick strategies to manage the pandemic and to look at what support they can provide to Government and amongst the things that they did for instance Eskom had donate its facility in Midrand to ensure that it becomes a quarantine facility for government and the Transnet had to also to offer for the same purpose the Esselen Park facilities and for Transnet further to use its Transnet-Phelophepa healthcare train to support are various communities, especially those in the rural areas in terms of supporting all government's initiative to manage the curve. So those are the issues, in fact they even went to other areas the in rural areas (Gauteng for example). Strategies such as the screening/ irregular screening and testing of those after screening was deployed, they should go for testing and of those that are positive to ensure that they provide the necessary support to them as well as their families we have also those who have passed on due to the pandemic. By the 5th of February we had about 4 fatalities at DENEL, 82 in Eskom and 97 in Transnet, but basically is that whilst it is regrettable to have those fatalities I think the SOCs within the department have managed the pandemic in a way that within their operations they support the employees and their families as well as government to ensure that they manage the curve.

Chairperson: *Perhaps we should just move through the list of questions that we submitted and then we can circle back on issues that if they come up, if I may put the second question It's probably quite a quick answer is the: what from the DPE side or perspective has been the effect of the COVID pandemic on the implementation of the Eskom Roadmap?*

DG Tlhakudi: So far it has been a minimal, we are on track with regard to implementation of the roadmap we have in terms of unbundling itself, separating the bundles into three businesses. The functional separation has been achieved, we have three boards that have been set up and we have MDs that have been put in place. The distribution of overhead resources to the three entities is happening especially the technical resources that is complete now and we are looking forward to in the next financial year to achieving the legal separation. So, it has been minimal, the impact has been on the generation performance side because some of the skills that are required are coming through contractors, some are overseas base to bring them into the country on time prove to be quite a challenge and I was saying that in terms of some of the arrangements that we had. Be sure that you have the skills available and I want to say if we have not had so many challenges the maintenance program could have been also been expedited.

Avhasei Ramuhulu: In terms of maintenance we have been trying to assist in terms of Visa applications because the Koeberg maintenance regime is very strict and then we had to have various engagements with NDOH and DIRCO to try to manage and make sure that they maintain Koeberg.

Chairperson: *The third question concerning the power sector which has been a growth constraint in the South African economy for well over a decade. And what was very clear in the chapter is how the lockdown saw a major reduction in demand. We still see the demand and supply and imbalances in the system and which is why we raised this question from the perspective of the shareholder department for Eskom. I mean, do you think that there is sufficient decisiveness right across government to deal with the power system outlook and to remove it as a constraint on growth?*

DG Tlhakudi: The Deputy President has been entrusted with the responsibility to ensure that the challenges of energy beyond Eskom even including municipal debt be addressed and it shows that there is intent at the top to have these things addressed. We even have municipalities approaching Eskom to help with the distribution challenges that they have and some of the entities that are supplying electricity to manufacturing plants that are critical to respond to a pandemic like Oxygen manufacturing for instance and it shows that there is an integrated effort across government to ensure that the problems of electricity are eliminated going forward.

But one of the challenges of the development that's retarded our progress has been the years of the state capture that we have gone through and the two power stations (Medupi and Kusile) that should

have provided additional capacity into the system. We're having to deal with design challenges, having to deal with sub-optimal management decisions that were made there such that the reliability and availability of those power stations are affected. It is going to take some time – Eskom has indicated that by 2023 at least we should see load shedding disappear, we also need additional capacity that should be added to the grid which Department of Mineral Resources and Energy is working on and they send out requirements into the market and we should see some back-up, emergency capacity coming through. So there is strong intend to address literally many years of inaction and many years of mismanagement so that's that would be my response to that.

Chairperson: *What is absolutely central is that the COVID pandemic has focused on the people that make institutions operate and we have looked hard at the health and strategic responses of the SOCs to care for their employees etc. but even in the infrastructure sector there are clear problems with the availability of the required skills competencies and certainly in the worst effected areas, we've seen a lot of lot of skills deficits at being at the root of why the services are not being performed in the way that they should be. Because of our short-term medical focus that COVID is forcing us to look at, there's a risk that as a country, as the world, we sort of lose sight of all of the other things that are longer term and important, and so that is why this issue was raised and spelt out. Is that a concern that the DPE has felt: that the long-term development of the country's human skills potential could be threatened and what should be done about it?*

DG Tlhakudi: My personal view is that the skills issue is sometimes overplayed if I put it that way. What has happened is that all organisations including government, that are in crisis, lose good people. That's what has happened, it does not mean we don't have good people in the country and what we are trying to do now is reverse the brain drain that we have had from state institutions so that we can achieve the things that needs to be done, so that would be my response to your side.

The National Skills Fund has directed a lot of money towards production of artisan skills through Transnet, Eskom and DENEL, those young people are not being absorbed in the economy and we say we don't have skills. We have a lot of skilled people that are no longer in the state and not been taken by the private sector as well.

Benedict Mogadime: What the DG is saying is that as you are aware that the SOCs about the role that they've been playing even in the previous regime to develop skills for the economy, they are still committed to doing that whilst they are training for the operational requirements, they also trained

for the national pool. And the collaboration that we have with the Department of Higher Education, we have trained about 4005 artisans through that process some of them were absorbed through our SOCs and some we're not able to be absorbed by the economy and as such we had a number of demonstrations by the young people at our offices, at Union Building but some of them were not absorbed. Nevertheless, our SOCs are still committed to optimize the training facilities and to mitigate on the risks: what they are doing currently is that they are establishing partnerships with TVET colleges and there's a process that the department (with SOCs) is leading to look into establishing partnerships with the private sector as well to ensure that the TVET graduates get placed for experiential learning or work integrated learning to ensure that they acquire the required work experience before they do Artisan training. Students from the University of Technology needs to get practical training for full qualification. We need to establish partnerships to ensure that the young people are skilled properly. The focus is of course on national scarce and critical skills and their focus is mainly on training for those occupations that are in demand in terms of discussing core skills National scarce skills, which is the responsibility of the Department of Home Affairs, Department of Higher Education & Department of Trade and Industry; so those are the three departments are responsible to ensure that the national skills list is aligned to the needs so but the challenge that the DG has said that there is sometimes challenges where there's an indication that there are lack of skills but as we support through our SOCs we have a problem in terms of absorption into employment.

Chairperson: *We are well aware that the DPE is not the shareholder minister as such for the state Assets in the ICT sector, but there are important communication resources which reside within the SOCs and that is why we put this question that: is the best use of the fibre capacity in the public sector being made and what would your view from DPE be about more efficient use or pooling of these critical resources to help South Africa improve connectivity and in particular to lower the barriers to entry to data that are clearly a problem at which is obstructing South Africa's progress in moving into the digital age. So given that task as such is not part of the DPE's portfolio, but still that there is a lot of fibre that resides in is SOCs. Do you have a view as a department or a position on a particular role for the SOCs with these key networks in making progress on reducing barriers to entry reducing costs for data?*

Avhasei Ramuhulu: I think like from Eskom they do have got infrastructure and then we have been in negotiation with other players in the ICT so that they can also be able to tap into Eskom's fibre Networks. The negotiations and engagement are ongoing between Eskom and other providers and we do support the government initiative about Connect SA and the like.

Chairperson: *We specifically talked about SA connect because of the importance of its role in the education sector and particularly in providing access to the Learners and what is quite clear in the lockdown period is that these were absolutely essential requirements but that they unfortunately map the reality of inequality in our country. So that's why we wanted to hear what the DPE might be able to do or its views on giving more impetus to the fulfilling the ambition of SA connect because it's it is frankly well behind schedule and isn't really delivering what it should be.*

Avhasei Ramuhulu: Yes if I may, there has been engagement between Broadband Infraco and Eskom in terms of infrastructure demand but also we need to understand where Eskom is in terms of finances. I think they need to get some of the return because customers also pay for such kind of infrastructure and then but there has been ongoing negotiation between Broadband Infraco in that area, but there must be also fairly compensation to Eskom so that Eskom, with that might be having challenges further in terms of financial challenges.

Chairperson: *The last question was driven by the subsection on transport and construction and what is quite evident is that South Africa's capacity in this area has really suffered a great deal of pain and company closure in the construction sector, but it's one of the central parts of government's economic recovery strategy. And the SOCs have continued to be key providers of fixed investment in these sectors. So, if we look at the future and you look at recovery, what is the DPE view on how fixed investment can be driven to support the economic recovery and are those other strategies which you are going to focus on?*

DG Tlhakudi: Our SOCs, including the major ones, do not have strong balance sheets. This means we need some creative solutions if we are going to be able to realize some of the projects, infrastructure projects that we wanted to have implemented by now. And this would mean that there must be a form of partnership between SOCs and private capital. There are enough Instruments within our space to enable that to happen. A case in point is transport infrastructure, we need to look at that very closely and see how we can bring the private sector into that particular space. Both in relation to the main corridors as well as the secondary corridors on the rail side and the port side as well, there is a major opportunity there that for us to bring in that private capital and as we have said earlier, on the energy front there is a need for additional capacity so, we must find a way, on reasonable terms terms to bring in private capital to add that additional capacity, but all this requires decisiveness. The nature of government, the way we work we are very consultative. And that means that a lot of time gets used up, coming up- developing appropriate solutions. Private capital has to put forward more patriotic

terms, at times the returns they expect are unreasonable. I must qualify what I've said by saying that the multinationals that are operating in our country seem to be much more amenable to doing business on acceptable terms, compared to extortionist terms we sometimes see.

Lebohang Ntwampe: I think DG you have touched on the role of the private sector and how it will partner with our SOEs in as far as capital is concerned but we also need to look at areas of collaboration with the private sector. There are those opportunities that were identified particularly to address the modal imbalances that we have and ensuring that the structures exist to solve it. Transnet is coming in to attract more cargo from road onto rail and not necessary to enforce the competition between the modes but in truth rather strike their complementing opportunities that the road and rail actually have in ensuring the economic recovery. So, the modal balance is one of those low hanging fruits in which the leavers are in the main domestic policy and the ability of Transnet to really deliver those efficiencies and effective transportation of cargo. So, the DG has already touched on private sector participation in a number of opportunities that exist. We are also looking at the new ones set in the technology that you spoke to before we got into transportation. There is over 32,000 kilometres of rail network, there is an amount of fibre that is lying untapped and that can also be used to get into the technology and ensuring that the movement of cargo it's actually done and is so that customers could be aware of where their cargo is. And so indeed, there are quite a number of opportunities that could be leveraged in both employment entities within the government and also to allow the private sector to participate.

DG Tlhakudi: The commitment that has been made through PRASA on commuter rail is a big positive step, but we should be able to do much more in terms of improving our public transportation system. If you really want to improve the quality of life of our people, we must invest heavily in the public transportation system in most local income households, transport costs are the biggest cost item. So, something must be done there. So if we want to get immediate returns of our investments that's an area we must really focus on. It breaks my heart when you drive to the rural areas and you find people standing next to the road asking for a lift. The rural areas tend to be forgotten when we talk about this type of processes.

Chairperson: *Anyone else on the call who has a burning question that they would like to put to use this opportunity.*

Mzukisi Qobo: Thanks DG for the comprehensive responses. A thought struck me when you were talking about the relationship between government and private capital. I'm just wondering to what extent has government, SOEs in particular engaged with the development finance institutions to address some of the capital needs given what you said about deficient balance sheets in many of the SOEs.

DG Tlhakudi: I think Eskom has a few DFI's that are assisting in that area probably less so in Transnet. But there is room for us to do more like in relation to SAA. DBSA helped us out when we needed assistance with commencement funding in the first half of last year. They helped us out with about 3.5 billion, which we paid some time last year, but we also need to emphasize the developmental role of something like an airline and I must say that the African Development Bank gets it but what then we need to do, we need to be able to shows how increased connectivity within the continent and the driven by local African Airlines, it will help with economic development and the Inter-African trade for instance and get that funding to help connecting of secondary to main cities within the African countries is an area that requires particular attention. We know that that land-based transport infrastructure is very helpful in connecting but it also comes at a price especially to the ecology side of things. So, there can be some very creative aviation-based transport solution, air based transport solutions that we can come up with. For instance, like the trucks used by the mines operating in the darkest corners of our continent. So can't we come up with a similar solution, especially encouraging that development funding to give African Airlines a fair piece of action on this continent. 50% of air traffic within and coming into Africa are from African Airlines. And those monies do not come to the continent in some of the most profitable routes in the world. We need to come up with viable proposals that will get developmental finance institutions to have an interest in partnering SOEs to realize the opportunities on the various corridors such as the North-South and East-West corridors. There's a lot of work that is needed to be done to connect the Great Lakes from the West, those are the kind of projects that are needed for instance for the INGA project. So, we need to look at to how we can we can leverage these groups and type of institutions for those opportunities.

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