

# Ahem: about that missing R3bn, Eskom

## Futuregrowth steps up pressure on DBSA to pursue debt dodgers

By **CHRIS BARRON**

● During three weeks of negotiations with Eskom it became clear that it had no understanding of governance or why it is in such a mess, says the chairman of the Development Bank of Southern Africa, Jabu Moleketi.

The bank triggered a clean-audit clause in its debt agreement with Eskom after the auditor-general gave its financial statements for the year ended March the thumbs down, not least because of a missing R3-billion in unauthorised expenditure.

The bank demanded that Eskom's financial director, the Gupta-associated Anoj Singh, be removed immediately or it would call in a R15-billion loan.

This would have triggered the instant recall of some R351-billion worth of loans from its other creditors, including major local banks.

During increasingly tense discussions Eskom tried to get the bank to change the terms of the loan agreement and withdraw its ultimatum. The bank wasn't having any of it.

"We were making our views quite clear," says Moleketi, also a former deputy finance minister.

"We felt it was important for Eskom to understand the implications of a qualified audit."

Eskom didn't seem to understand why it

couldn't just scrap the requirement for a clean audit.

"We thought there was no appreciation on their side of the seriousness of the matter," says Moleketi.

More bizarre was that Eskom's "point man" in all its "negotiations, deliberations and correspondence" with the bank over the removal of Singh was Singh himself.

"We asked ourselves at the DBSA why this was so, because we believed it was important to hear the acting CEO's voice and the chairman's voice."

Singh is the man the bank believed was "at the centre" of Eskom's financial irregularities.

Eskom, not surprisingly, didn't see any reason that Singh shouldn't continue in his position as financial director.

When Moleketi told Finance Minister Malusi Gigaba that the bank was going to recall its R15-billion loan to Eskom, and what the implications of this would be for the government – that it would have to find hundreds of billions of rands very quickly when other creditors, who had made their intentions clear, called in their loans – the minister "understood our point of view" and "got involved".

It was only then, on July 27, "that it ultimately sank in that the CFO, who was at the centre of the audit qualifications, had to go, and that there was no way around this", says Moleketi.

Even if Eskom did not, the bank fully understood the devastating implications of what it was threatening to do, not just for the power utility itself but for the government.

"We fully understood," says Moleketi. "That is why we continuously engaged with



**DBSA chairman Jabu Moleketi says it was in the entire country's interest to send Eskom financial director Anoj Singh packing.**

Picture: Katherine Muick-Mere



**They are appointed for political reasons and often lack the appropriate qualities and skills**

**Jabu Moleketi**

Chairman, Development Bank of Southern Africa

Eskom and Treasury. We were not irresponsible or reckless about the matter.

"But we needed to send the message that issues of bad governance were not going to be tolerated."

The implications of not sending that message would have affected the bank's future funding abilities and the whole South African economy, he says.

It would also have placed at risk the international standing of South Africa's banks, which have to be compliant with the Basel III regulations on governance.

"As South Africans we needed to handle this matter."

The role of asset manager and DBSA funder Futuregrowth in the bank's ultimatum to

Eskom seems to have been integral.

After Futuregrowth suspended loans to the bank and other state-owned enterprises last year because of its concerns about governance, it and the bank had a "thorough interaction", says Moleketi.

"One of the things was to explore how we as an institution could ensure implementation of governance principles in our partners and our clients."

Futuregrowth made clear its concerns that the bank, as a funder of government institutions such as SOEs and municipalities, was not doing enough to ensure good governance and accountability.

"They had a legitimate concern around what it is that we are doing in terms of ensur-

ing governance in areas where we were exposed," says Moleketi.

It was particularly concerned about the size of the bank's exposure to Eskom, given its appalling governance and lack of accountability.

Moleketi believes the bank's ultimatum to Eskom might be a game-changer in that it "set a precedent, and I think it will be uppermost in the minds of a number of institutions ... the DBSA's stance has to a large extent indicated that things can no longer be done in the same way."

The bank has a clear vested interest in good governance. It gets no allocation from the national budget. It raises capital from the open market. It is rated and that rating, which determines the cost of the funds it raises, depends on its governance record.

Moleketi says that when the bank lends money to municipalities and SOEs, "it is incumbent on us to ensure good governance, good financial management, and that the money we lend is used for the purpose intended".

Given the shocking state of governance and financial management at municipalities and SOEs, has the bank fallen well short of its obligations?

"That we could and should do more, I concede," he says.

But ultimately it depends on the reports it receives from these institutions, and the quality of their boards.

"Certain things are not possible. Among them is whether we as the DBSA can have a say on who is appointed to these boards. The appointment of these boards goes through the cabinet. The purpose of appointments to these boards is not similar to boards in the private sector."

They are appointed for political reasons and often lack the appropriate qualities and skills, he says.

"The appointment of the CEO of these entities is also the function and responsibility of cabinet."

This was one of the things discussed with Futuregrowth. From what Moleketi says, the asset manager seems to have put the bank under pressure to address the issue of governance in the institutions it funds – with the help of Futuregrowth – more aggressively.

"We said to them: 'Let's craft a mechanism that takes our reality on board, so that we don't promise things that are not within our scope,'" says Moleketi.