

Business Day

Eskom bailout must be underpinned by long-term turnaround strategy, FFC says

The Financial and Fiscal Commission says the Eskom situation epitomises the governance, leadership and general inefficiencies that characterise all state-owned companies

03 SEPTEMBER 2019 - 11:36 LINDA ENSOR

The commission that advises the government on fiscal policies has highlighted leadership instability at state power producer Eskom and the absence of a clear strategy to improve its financial viability, as a serious concern.

Financial and Fiscal Commission (FFC) chair professor Daniel Plaatjies briefed parliament's appropriations committee on the Special Appropriation Bill which allocates R59bn to Eskom over two years — R26bn in 2019/2020 and R33bn in 2020/2021 — to help it deal with its debt burden of over R440bn.

“The commission underscores the point that financial challenges are only a fraction of Eskom's problems,” Plaatjies said.

“The situation of Eskom epitomises the governance, leadership and general inefficiencies that characterise all state-owned companies. What is required are sound and monitorable implementation plans and strategies to turnaround these institutions with clear deliverable and reporting time frames.

“There is also a need to ensure that the electricity generation space is open for more independent power producers, that Eskom tariffs are fair and cost reflective and that municipal debt is resolved.”

Plaatjies said the Eskom bailout be accompanied by a plan for establishing the utility on a sound footing.

He said the poor performance of Eskom was the culmination of serious deficits in governance, leadership, efficiency and effectiveness in the management of public resources.

Plaatjies noted that the R59bn bailout for Eskom would result in a widening of the budget deficit to above 5.7% in 2020, especially considering that poor economic growth would result in revenue undercollection. The bailout would also result in the widening of the debt to GDP ratio.

Taken together this would put SA's investment grade status by Moody's Investors Service at risk of a downgrade.

“The above worrisome situation will be compounded by the fact that the bailout is not anchored in a sound and monitorable plan or strategy to get Eskom out of the doldrums into a sustainable growth pathway. Furthermore, the bailout is given in the context of a leadership void at Eskom.”

The bailout would also negatively affect service delivery as it would draw funds from other programmes.

The FFC recommended that conditions be attached to the Special Appropriation Bill, including the subjection of Eskom management to intense parliamentary scrutiny.

What was also needed was the acceleration of the establishment of legislative and regulatory frameworks for an energy transition towards cheaper renewable power generation and for the unbundling of Eskom into three separate units — generation, transmission and distribution.

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