



**NATIONAL TREASURY  
REPUBLIC OF SOUTH AFRICA**

## **Report to Parliament**

### **1. SUBJECT**

**REPORT ON THE USE OF FUNDS IN TERMS OF SECTION 16(1) OF THE PUBLIC FINANCE MANAGEMENT ACT (ACT 1 OF 1999) (PFMA)**

### **2. PURPOSE**

- 2.1 To inform Parliament, in terms of Section 16(4)(a) of the PFMA, of the use of funds to defray expenditure of an exceptional nature which could not, without serious prejudice to the public interest, have been postponed to a future parliamentary appropriation of funds.
- 2.2 To inform Parliament that the financial support was intended to enable Eskom to meet its obligations and avoid a call on its existing guarantees.

### **3. BACKGROUND**

- 3.1 Section 16(1) of the PFMA enables the Minister of Finance to “*authorise the use of funds from the National Revenue Fund to defray expenditure of an exceptional nature which is currently not provided for and which cannot, without serious prejudice to the public interest, be postponed to a future Parliamentary appropriation of funds*”.
- 3.2 According to Section 16(4)(a) of the PFMA, “*an amount authorised in terms of section 16(1) must “be reported to Parliament and the Auditor-General within 14 days, or if the funds are authorised for the deployment of security services, within a period determined by the President*”.

#### **4. DISCUSSION**

- 4.1 The 2019 Budget Review, tabled by the Minister of Finance during his Budget speech, stated that “Government’s immediate focus is to address the substantial risks that Eskom poses to the economy and the public finances. In its current form, South Africa’s state-owned power utility is not financially sustainable, nor can it meet the country’s electricity needs”.
- 4.2 In addition, the Minister of Finance announced that the government has allocated R23 billion a year over the medium term to financially support Eskom during its reconfiguration. The allocated amount is intended to enable Eskom to defray its obligations, while making resources available for other urgent operational improvements.
- 4.3 It was anticipated that Eskom will continue to raise the required funding according to its funding plan which is supported by the Government guarantees until Parliament is constituted after the elections. Furthermore, that the appropriation of the R23 billion would follow the normal Appropriation process and therefore that the funds would be disbursed between August and October 2019.
- 4.4 Consequently, the National Treasury did not submit a Special Appropriation Bill for consideration by Parliament as there was no indication that Eskom will experience difficulty in raising the required funding to defray its obligations until the Appropriation process is concluded. However, by the end of March 2019, it became evident that Eskom was experiencing difficulties in raising the required funding as well as drawing down on existing facilities.
- 4.5 Eskom had expected to drawdown R7 billion from the China Development Bank (CDB) facility of US\$2.5 billion which was concluded on 24 July 2018. Although CDB had committed to disburse these funds to Eskom by 25 March 2019, the bank was unfortunately unable to timeously execute this planned drawdown due to its Central Bank exchange control requirements. CDB subsequently indicated that the planned drawdown will now be executed during April 2019.
- 4.6 The delay in accessing this planned drawdown from CDB resulted in Eskom being unable to meet its obligations that were due at the end of March 2019 and this resulted in Eskom experiencing liquidity challenges.
- 4.7 In order to avert this liquidity challenge, National Treasury engaged the Corporation for Public Deposits (CPD) on 27 March 2019 to assist Eskom by advancing a bringing facility of R4.6 billion until 8 April 2019 while Eskom is waiting for the CDB funds. This amount was to be guaranteed under the Domestic Medium Term Note programme that Eskom has registered on the Johannesburg Stock Exchange. After following its internal processes, on 29 March 2019 the CPD declined to provide Eskom with the requested funding which resulted in Eskom facing a severe liquidity crisis.

- 4.8 As a contingency measure, Eskom requested ABSA Capital to provide a bridging facility of R3 billion which was supported by a Government guarantee and which matured on 2 April 2019. This facility was repaid with the R5 billion that was disbursed to Eskom through Section 16 of the PFMA.
- 4.9 During this time, the Department of Public Enterprises and Eskom were still engaging on the proposal for financial support to be considered by the Minister of Finance which was submitted on 26 March 2019. Upon reviewing this application, the National Treasury established that it was focused on addressing the medium to long-term financial sustainability of Eskom instead of the immediate liquidity challenges that they were experiencing. Therefore, the Minister of Finance invoked Section 16 of the PFMA to assist Eskom with its immediate liquidity challenges and avoid a call on the Government guarantees. Engagements are continuing between the National Treasury, Department of Public Enterprises and Eskom regarding the long-term financial sustainability of Eskom.
- 4.10 Based on the 2 per cent limit of the appropriated national budget as contained in the Section 16(2) of the PFMA, only R17,652 billion can be transferred during the 2019/2020 financial year as the maximum amount. The remaining balance of the R23 billion will have to be subjected to the normal Appropriation process when Parliament is constituted after the election.
- 4.11 It should be noted that the failure by Eskom to meet its obligations may have triggered a call on Government guarantees. To date, Government's exposure to Eskom in terms of the guarantee utilisation amounts to R281 billion. Therefore, providing the R23 billion will enable Eskom to maintain positive a cash flow and honour its debt obligations as they fall due.
- 4.12 In order to avert a default by Eskom on its obligations, on 2 April 2019, the Minister of Finance invoked Section 16 of the PFMA and authorised the payment of R5 billion as a direct charge against the National Revenue Fund with the balance of the R17.654 billion to be disbursed in accordance with Eskom's cash flow requirements. The next tranche will be required on or before 30 April 2019.
- 4.13 Eskom does not anticipate to generate sufficient internal cash to pay all of its maturing obligations at any point in time over the next five years and will therefore rely significantly on financing and refinancing activities. Even after accounting for funds raised, cash flow is not adequate to fund its capital expenditure programme.

**5. CONCLUSION**

- 5.1 This report serves to inform the Parliament on the use of funds in terms of Section 16 of the PFMA authorised by the Minister of Finance on 02 April 2019.



**TT MBOWENI**  
**MINISTER OF FINANCE**  
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