Introduction

On 22 February 2023, the Minister of Finance introduced the Eskom Debt Relief Bill in Parliament, which is a crucial step towards addressing the financial and operational challenges faced by Eskom. This Bill is a result of the government's commitment to support Eskom in dealing with its debt obligations and the associated finance costs. This is just one of the many initiatives undertaken by the government to help Eskom become a profitable, transparent, and efficient entity.

It is important to note that transparency, accountability and fighting corruption were key considerations in the design of the debt relief package. These principles were integral in defining the roles and responsibilities of the parties involved and in ensuring that the financial reporting requirements were clear and straightforward.

Overall, the Eskom Debt Relief Bill is a significant step towards restoring Eskom's financial stability and ensuring its long-term sustainability. This arrangement, subject to strict conditions, will relieve extreme pressure on the utility’s balance sheet, enabling it to conduct necessary investment and maintenance. It also supports restructuring the electricity market to help South Africa establish a stable, uninterrupted power supply as it transitions to a new energy future.
Frequently Asked Questions

1. **The first component of the debt relief arrangement of R184 billion is to be made available to Eskom over the medium term, does this mean that we will see an improvement in the financial position of Eskom from the onset?**

Clause 2(1) of the Eskom Debt Relief Bill outlines the financial support that will be made available to Eskom in the coming years. Specifically, the Bill stipulates that R78 billion will be allocated to Eskom in the 2023/2024 financial year, followed by R66 billion in the 2024/2025 financial year and R40 billion in the 2025/2026 financial year.

These funds will be accessible to Eskom only after the Bill is enacted, and only for the amounts specified for a particular financial year and on the dates determined by the Minister of Finance (clause 2(2)(a)). The debt relief arrangement thus envisages an improvement in the financial position and liquidity of Eskom over the medium term.

2. **What are the conditions for the conversion of the loan (or portions thereof) into shares of Eskom?**

The Minister of Finance has provisionally proposed conditions as outlined in Annexure W3 of the Budget Review 2023. These conditions will take effect when the Eskom Debt Relief Bill is enacted into law. The Minister of Finance thereafter may review and modify the conditions at any time.

Notwithstanding the fact that adherence to the conditions is the responsibility of Eskom, the settlement of the liability in shares, however, is triggered only after the Minister of Finance is satisfied that the conditions have been met and informs Eskom in writing of such (clause 2(2)(c)).

3. **The arrangement refers to the Minister of Finance, does this change who the Executive Authority for Eskom will be over the medium term?**

The designated Executive Authority for Eskom will remain the Minister of Public Enterprises. This means that the debt relief arrangement will not alter the current governance structure of Eskom or the Minister's role as its Executive Authority.

4. **The advance of funds will take the form of an interest-free subordinated loan, what does this mean?**

An interest-free loan is a type of loan that does not require the borrower (Eskom) to pay any interest on the principal amount borrowed. Essentially, the lender provides the borrower with money without charging any additional cost for the loan. Some interest-free loans may have a repayment period, while others may be structured as a one-time payment.
If Eskom meets the conditions associated with the loan, the Minister of Finance will allow Eskom to repay the loan through the issuance of shares instead of making cash payments.

If a loan is subordinated, it means that the lender has agreed to give up its priority in the event of a borrower's default. In other words, subordinated loans are lower in priority than other types of debt that the borrower may owe.

A failure by Eskom to achieve and/or adhere to specific conditions will cause the loan amount to be repaid to the National Revenue Fund at market rates. The subordination of the loan implies that Eskom may give priority first to the repayment of domestic and foreign debt. This means that the loan amount will be settled only after the repayment of domestic and foreign debt.

5. **What is the mechanism to monitor compliance with the conditions set by the Minister of Finance?**

Adherence by Eskom will be assessed on a quarterly basis. A quarterly meeting will be held between Eskom, the National Treasury and the Department of Public Enterprise to review the compliance report submitted by Eskom whereafter a recommendation will be made to the Minister of Finance on the progress and the value of loan settlement to be approved.

6. **What happens if Eskom fails to demonstrate compliance with the conditions at the quarterly meetings?**

Failure by Eskom to demonstrate compliance will result in the delay in the settlement of the loan (or part thereof) until the next quarterly meeting, where compliance is reassessed. Failure to demonstrate compliance at the subsequent meeting, will result in the balance being carried over until 31 March 2026 (as non-interest bearing) whereafter the loan will be converted into a liability payable in cash and at market terms. A separate loan agreement will be entered into on 1 April 2026 to set the terms and conditions related to the interest-bearing loan. The subordinated nature of the loan will remain the same, however it will be an interest-bearing loan. The interest rate will be based on the prevailing market rate(s) of interest for a similar instrument with a similar term and credit rating.

7. **Given that no new borrowing will be permitted during the 3-year window, how will Eskom fund any capital expenditure requirements for completion of Kusile and Medupi?**

Eskom has been limited to capital investment for existing generation maintenance and outages and minimum emissions standards, flue-gas desulfurisation and investment in the strengthening, refurbishment and expansion of the networks. Funding for the completion of Kusile and Medupi and any other capital expenditure required for the maintenance of the
existing fleet will be from Eskom’s internally generated funds. Any deviation from this process can only be executed upon written permission from the Minister of Finance.

8. **Do the conditions include further operational efficiency requirements? Will the operational conditions be made public?**

There are several other proposed financial and operational conditions which have been incorporated into Eskom’s corporate plan submitted on 31 March 2023. These conditions will form the basis for inclusion in their shareholder compact with the Minister of Public Enterprises. The annual report of Eskom will include reporting against these targets. The Department of Public Enterprises along with the National Treasury will ensure that the operational efficiency as expected are included in all these accountability instruments. The general public will accordingly be able to assess the performance of Eskom from an analysis of its annual report.

9. **What is the current plan with respect to winding down the elevated Municipal balances?**

On 31 March 2023, the National Treasury issued MFMA Circular Number 124, which outlines the terms and conditions that municipalities must meet for their debt to be written off by Eskom. Under this initiative, municipalities that meet certain criteria may have a portion of their outstanding debt to Eskom written off. The debt write-off by Eskom will have no additional fiscal implications for the sovereign. This is part of the government’s broader efforts to address the financial challenges faced by municipalities.

It’s thus important to note that this initiative is distinct from the Eskom Debt Relief Bill, which provides financial support to Eskom directly. The National Treasury’s circular is aimed at addressing the financial challenges faced by municipalities that owe money to Eskom.

10. **What strategy has been considered for the 2025 maturities and has the R70 billion Eskom debt take-over been factored into this? Will treasury be selective with regards to the Eskom instruments that will be taken over? Do you expect that the “take-over” debt will be renegotiated or taken on the same terms?**

National Treasury is finalising the execution modalities of the debt instruments that will constitute the R70 billion debt. More detail will be released at a later stage after technical work has been concluded and discussed with relevant stakeholders.

11. **Do you expect Eskom to maintain engagements with the investor community going forward (despite the lack of borrowing over the next 3 years)?**

Eskom will continue to engage with the investor community as part of its normal investor roadshows as it is required to do. This will provide the necessary comfort that Eskom is on
track in terms of strengthening its financial sustainability and executing on its operational reforms.

12. With the independent review being run by the international consortium – Is it once off or ongoing? How does that fit into the other committees/workstreams that are currently in place and how will the progress be communicated?

The National Treasury has contracted an independent international consortium led by VgBE to undertake a once-off independent review of all Eskom coal fired power stations and to advise government on the operational efficiencies to be implemented to improve Eskom’s operations. The work has commenced and is expected to be concluded by July 2023. The outcome of the independent assessment will be shared with the National Energy Crisis Committee (NECOM). Eskom is then expected to implement all relevant recommendations emanating from this independent assessment, after approval by the Minister of Finance, and to formally incorporate these additional conditions into its corporate plan for the 2024/25 financial year.