

NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 1275

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Dr D T George (DA) to ask the Minister of Finance:

- (1) Whether the World Bank has attached any conditions to the \$3,75 billion US loan extended to Eskom; if not, why not; if so, what are the relevant details;
- (2) whether the National Treasury has provided any guarantees for the loan; if not, why not; if so, what are the relevant details;
- (3) whether the National Treasury has attached any conditions to the guarantee of the loan; if not, why not; if so, what are the relevant details?

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REPLY

- (1) The World Bank attached the International Bank for Reconstruction and Development's (IBRD) General Conditions for Loans, Guarantee and Grant Agreements of the IBRD to the loan. Details are available on the World Bank's website. The website address for the General Conditions is.

http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTLAWJUSTICE/EXTTOPGENCON/0..menuPK:1581351~pagePK:64168427~piPK:64168435~theSitePK:1581337,00.html#IBRD_current

There were some modifications made to the General Conditions. These modifications pertain to the following:

- (a) The Bank agreed to apply retroactive financing for some components of the Medupi project which had already been procured subject to Eskom's procurement policy substantively complying with the World Bank procurement procedures and inclusion of the World Bank's standard reporting requirements on fraud and corruption;

- (b) Eskom is required to install Flue Gas Desulpharisation (FGD) equipment in each of the six generation units of the Medupi Power Plant in order to mitigate for the environmental impact of coal based generation. The implementation date will be determined through consultations between the World Bank and Eskom; and
 - (c) An obligation by Government to ensure that there is sufficient water for the plant.
- (2) The government acting through the Minister of Public Enterprises with the concurrence of the Minister of Finance, guaranteed the World Bank loan extended to Eskom. The guarantee was issued in terms of the Guarantee Framework Agreement of R176 billion which was provided to Eskom in 2009 to obtain funding for their capital expenditure programme for the next five years.
- (3) The following main conditions have been attached to the Guarantee Framework Agreement:
 - (a) Provision for the issuance of guarantees under the Guarantee Framework Agreement for different debt instruments or loans with government approval;
 - (b) Before accessing the market for a guaranteed instrument loan Eskom has to obtain government's agreement on timing of market access;
 - (c) Prior to committing on each issuance, government's approval on the terms and conditions and in particular the pricing of the instrument/loan has to be obtained;
 - (d) All guarantees issued under the Guarantee Framework Agreement must be for the funding of Eskom's capital expenditure programme;
 - (e) Utilisation of guarantees for new debt is set at R30 billion per annum from 2009/10 to 2013/14 but may, subject to approval by Government, be accelerated;
 - (f) Eskom has to report quarterly to the National Treasury and the Department of Public Enterprises on their capital expenditure plans and the utilisation of the guarantee issued under the Guarantee Framework Agreement. Eskom also needs to provide management accounts;
 - (g) In the event of default by Eskom, Government has the option of repaying the debt or to take over from the issuer and make payments on Eskom's behalf;
 - (h) In the event that Government makes a payment on behalf of Eskom, the claim on Eskom is subordinated to all other creditors; and
 - (i) Eskom is required to pay a guarantee fee on the guaranteed debt, but only once its key credit metrics achieve specified levels.