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Zondo Commission – SAA, SAAT procurement irregularities revealed

SAA Technical (SAAT) has to date spent just over R1-billion towards a contract that is shrouded with irregular processes, bidder favouritism and possible corruption, according to a senior official. SAAT is the national carrier's aircraft maintenance division and is solely owned by SAA. For this reason, its procurement processes are governed by the Public Finance Management Act, which in terms of this contract was flouted in several instances.

Giving evidence before the commission of inquiry into state capture on Thursday, acting head of procurement at SAAT, Schalk Human, told of the inappropriate conduct of senior SAAT officials, including his predecessor Nontsasa Memela, during the bidding process for a contract for the supply and maintenance of aircraft components. The contract was awarded in July 2016 to a joint venture made up of US-based AAR Corp and local BEE partner JM Aviation. So eager was SAAT to establish a "strategic partnership" with AAR, that it took about three years to finally award a contract, after its tender process went back and forth several times.

The tender was first issued in February 2013, and after bids had been sourced, SAAT's cross-functional source team (CFST) – a component of the procurement process within SAAT – recommended a split approach, where Air France and Israel Aerospace could focus on each of the two fleets in its service, the Boeing and Airbus.

This recommendation was rejected by the board, resulting in the process being retracted.

The next time it was issued was in October 2014, where it would be evaluated over the course of early 2015. The process was suspended for three months and later retracted. It is understood that the suspension was pending the finalisation of a memorandum of understanding with AAR, a first-time bidder, over the localisation requirements of the bid. Human believes it was a show of favouritism towards AAR, as none of the other bidders enjoyed the same privilege.

On the third occasion of the tender being issued, later in mid-2015, a decision was taken for it to be a closed bid involving only a few suppliers, among them AAR, which brought on board Indiza Aviation as its local partner. It was to be for a five-month term, again while AAR and SAAT ironed out details of their MoU, before a long-term bid could be sourced. Air France, which had been the supplier until this point, had its service extended after an award could not be decided.

In the midst of all this, however, Human revealed, numerous anomalies occurred that have since surfaced, of correspondence between officials of SAAT and AAR, discussing elements of the longer-term bid process, despite it being still in progress. The commission is in possession of e-mail correspondence between AAR and SAAT.

It appeared that AAR was favoured, enjoying privileges not extended to the other bidders, and in one instance was in possession of information about the internal process that the company should not have been privy to.

It was at this stage that board member Barry Parsons resigned, on 24 July, penning a scathing letter to SAAT's company secretary citing numerous efforts to address what he saw as irregularities in the process, without any success. Parsons also recommended that an independent probe be established to determine whether all was above board. His departure followed soon after the MoU, the major hold up, between SAAT and AAR was sent to the board of parent company SAA for endorsement.

The final tender for a five-year contract was issued in December 2015, with the board approving the appointment of AAR in May of the following year, despite a recommendation by the management team that it be awarded to Air France, which presented the cheapest offer and highest level of expertise. JM Aviation, according to the submission from management, was suspected of a practice called "low balling" in which a bidder offers an unrealistically low price, to try to influence a favourable outcome. In its defence of JM Aviation, the board recommended that SAAT could address the possible low balling by making JM Aviation commit to sticking to its price and not compromise SAAT later. In her responding affidavit to Human's, former SAA board member and SAAT chairperson Yakhe Kwinana claimed that Air France was actually more expensive than AAR.

Before it could even start the work, however, JM Aviation was paid US\$4.3-million (about R60-million) by SAAT for reasons not known to Human, who said the practice is not unusual, but such money would be placed in a banking facility as credit assurance should the procurer not be able to meet the supplier's demand. The payment in this instance was, however, in cash.

Around the same time, in July, Memela had received a salary increase that according to Human fell outside of SAAT's adjustment cycle, raising suspicion. Furthermore, a later forensic investigation commissioned by a new SAA board in 2017 found that JM Aviation paid R2.5-million towards property registered in July 2016 and belonging to Memela in Bedfordview. The house is worth just over R3-million.

Memela, who also chaired the bid adjudication committee, appeared to have interfered in the evaluation process earlier in the year, despite it falling outside of her jurisdiction. In a statement in which she responded to Human's affidavit to the commission – read out by evidence leader Michael Mbikiwa – Memela said not only was she not that big of a fish, but she did not have the power to influence any decisions of the CFST, which was in charge of the evaluation process.

A summons has been issued for Memela, who is expected to appear before the commission on Friday.

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