corruption watch

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Zondo Commission – Standard Bank probed suspicious transactions between Transnet and contractors

Standard Bank's Ian Sinton has revealed how his team had to investigate a trail of transactions over the course of 2014 that the bank deemed suspicious, stemming from Transnet as the original source and involving two contractors McKinsey and Regiments, before ending up in the accounts of then unknown companies Chivita Capital and Homix. Over R200-milliion was moved around in this way, before Standard Bank took action. The latter two companies held the stakes of Gupta associates Salim Essa and Kuben Moodley, according to Sinton. He was testifying at the commission of inquiry into state capture on Tuesday.

What raised the alarm for the bank, said Sinton, was the frequency at which large amounts of money – at some point R24-million at one go - was moving into and straight out of the account of Regiments, the black empowerment partner of consulting firm McKinsey, which had a reputation as a BEE partner of choice for state owned enterprises. Sinton invited Regiments director Niven Pillay to a meeting in October 2017 to discuss the transactions. At the time, McKinsey was contracted to Standard Bank for strategy development work, and the bank was concerned about media reports that the firm was linked to controversies involving alleged state capture by the Guptas. Sinton's priority was the reputational risk to the bank and its obligation to report possible fraudulent conduct.

Pillay explained the relationship between McKinsey and Regiments, saying that the former had secured a contract for consultancy work with Transnet, and a requirement of this was that they bring in a BEE partner. McKinsey settled on Regiments, which would in turn pay fees to two entities – Chivita and Homix - at the request of Essa and Moodley, as the companies represent their interests in the business arrangement.

Moodley had introduced Regiments to opportunities at Transnet back in 2012, which could be done through McKinsey, with Regiments as a preferred partner. A "division of revenue" agreement between the entities stated that while McKinsey would pay Regiments 30% of the fees they receive for the contract with Transnet for their part, Regiments would in turn move 30% of this share to Chivita and another 5% to Homix. Essa and Moodley, in essence, were benefiting for having placed the two companies close to opportunities, in a contract that had not gone out to tender. There was also an exclusivity agreement between McKinsey and Regiments, which blocked out any possible third parties. Sinton revealed that there also seemed to not have been a written explanation of the fee payment structure.

When he asked Pillay why Regiments would participate in such an arrangement, he was told that the company was comfortable, because they would not have the advantage of dictating fees under normal tender processes.

Sinton said there was an apparent fallout among the partners when then Regiments CEO Eric Wood took a unilateral decision to increase Essa's payout to 50% from the 30% that had been agreed on.

McKinsey, Regiments and later Trillian Capital, raked in millions in contracts from Transnet over a period of years, by establishing exclusive partnership arrangements that saw only them benefit from strategic work done for parastatals.

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