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Zondo Commission – Regiments Capital scored millions through work that Transnet could have done in-house

To help fund its ambitious multi-billion-rand locomotives project in 2014, Transnet had to enter into several loans with financial services institutions from supplier countries as well as local banks. The projected cost of the project – which was approved by the parastatal's board on the back of a memorandum by then group CEO Brian Molefe – stood at R54-billion, via a confinement that did not follow supply chain processes.

The process of securing the loan facilities in question had already begun, and the negotiation team comprised Transnet employees and representatives from consultancy firm Regiments Capital – which according to the acting GCEO Mohammed Mohamedy, had been slipped into the lead role of the contract consortium, effectively through another confinement arrangement prepared by Molefe. Mahomedy is currently testifying before the commission of inquiry into state capture.

Transnet's options for negotiating interest rates for the different loans included a process Mahomedy called "interest rate swapping". While traditionally an entity could enter into either a floating or fixed interest rate for a loan, with swapping, the company could opt for a floating rate, and once the facility has been secured, swap that for a higher, but fixed rate. The benefit for the company borrowing is that the risk of a fluctuating rate is removed, albeit the end result being that it pays back a higher interest.

"[A swapped rate] is a perception of de-risking for Transnet, to now say 'you now have a fixed rate for 15 years'," Mahomedy elaborated. The loans entered into with the different financial institutions were over this period, envisaged to run until 2030. "When we apply it to billions, it translates into billions of rands that can be lost, so it is a calculated risk that a business should take."

An additional facility, referred to by Mahomedy as a "club loan" and valued at R12-billion, was entered into with several local financial institutions. It is named this way to reflect that it was syndicated financing from, among others, Absa and Nedbank, with Transnet owing each one a particular amount of the R12-billion. The club loan became a target of Transnet treasurer Phetolo Ramosebudi, who in December 2015 wrote a memorandum to then chief financial officer Gary Pita, seeking approval for the club loan to be swapped from a floating rate option to a fixed one. This move was opposed by Ramosebudi's team, but went ahead anyway.

The swap was done, and for their part in negotiating it, Regiments was paid over R200-million – but there is no record, according to Mahomedy, of a procurement process that entitled Regiments to render such a service on behalf of Transnet. It would also assist in facilitating another swap arrangement, for which again the company was paid handsomely. Regiments also benefited financially from several other transactions made to Transnet by the other funders.

At this point, the company was offering services across different functions of Transnet, which included the advisory role for the funding programme, determining and negotiating the swap deals with financial institutions, as well as asset management for the Transnet pension fund, through a company within their stable.

“Looking at that, executives across all the units should have raised that as a red flag.

“In my view, in 2015, Regiments had largely become the lead consortium partner through the exit of McKinsey at the time,” said Mahomedy. He emphasised that Transnet had all the necessary skills to carry out the execution of swap deals, as that part of the work had been started by Ramosebudi’s predecessor Mathane Makgatho, under whom the treasury team had engaged the different financial institutions involved in awarding Transnet the loan facilities it required.

Ramosebudi resigned from Transnet in October last year, after being served with a suspension notice pending an investigation into allegations of an irregular relationship with Regiments.

Mahomedy told the inquiry that on review of the cost of swapping interest rates with the financial institutions, Transnet incurred realised losses of up to about R1.4-billion.

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