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Zondo Commission – SAA board interfered in procurement processes

What started out as a quest for South African Airways (SAA) to secure a debt consolidation loan in 2015 became a case of gross flouting of its procurement processes, largely at the hands of its board.

This has been the evidence of the financially unstable airline's former treasurer, Cynthia Stimpel, before the commission of inquiry into state capture. Stimpel's objection to a board-proposed move to get the funding from the Free State Development Corporation (FDC) led to her suspension in late 2016.

A series of questionable events that characterised the project would see proposal after proposal tabled and rejected, amid what Stimpel called a culture of interference from the board, which was at this point chaired by Dudu Myeni.

SAA first issued a request for proposals in February 2015, when it was decided that the state-owned entity (SOE) needed about R14-billion to fund a consolidation process. Following a protracted period of deciding on multiple options, Stimpel's team settled on either acquiring a facility from a company called Seacrest Investments which offered R15-billion, or going with the option of their usual funders in the banking sector, from whom they could only get R4.5-billion. The latter option meant that SAA would partially cover its debt, but would have to return to the market for another loan.

Seacrest, however, raised eyebrows within SAA on the basis that there was too little information on the company. The large value of its offer to SAA warranted a due diligence exercise, which the parastatal embarked on, to satisfy themselves. Despite the mystery surrounding the company, Stimpel was of the view that it made a good offer. The added importance of securing the loan from a reputable company in good standing is that the security that SAA had against the massive loan were government guarantees to the same value. This factor also meant that there was involvement from National Treasury in the process.

The two options of Seacrest and a partial bank loan were eventually put forward for the board's consideration, in an early December meeting. The feedback from then interim CFO Phumeza Nhantsi on the board's resolution on the matter was that it had crushed both proposals. A new proposal was tabled, and it was from the FDC, which proposed to fund the full R14-billion required. Oddly, a directive followed the tabling of the proposal: then CEO Musa Zwane and Nhantsi were to proceed with finalising this offer.

"My expectation was that the board would have either approved Seacrest, or turned it down and approved the consolidated banks," Stimpel said.

"It was really unusual for me to see that our first recommendation of Seacrest was declined, and our second recommendation of the consolidated banks was also declined. The board resolution recommended for us to go with funding from the FDC."

In offering reasons for backing the FDC proposal, the board argued that because it was itself a state entity, there would be little risk associated with taking its funding. Stimpel disagreed with this, noting that a deal between two would only serve to concentrate risk within government.

Her worries were allayed when the FDC proposal – which at that point was only a letter stating that it wanted to provide the funding – was rejected by National Treasury, which informed SAA that borrowing is prohibited between two SOEs. SAA was at this point reporting to National Treasury and not the Department of Public Enterprises, its normal reporting authority, owing to a prolonged state of financial instability.

The FDC letter that prompted the board's interest, noted a partnership with a foreign company Grissag, that would provide the funding. The Free State-based director of Grissag, Peter van der Merwe, testified on Friday that it was on his enquiry with FDC that the corporation became interested in the funding deal.

Prior to FDC, he had been approached by Seacrest, when it was in pursuit of the same SAA loan deal. Seacrest and Grissag needed each other on the basis that the former had a Financial Services Board license allowing it to go into the funding space, while Grissag had access to the funds from its international associations with financial institutions, but it had no license. Grissag also lacked a BEE component required for such a deal because, said Van der Merwe, they were a new company, having only registered the South African branch in early 2015.

When Seacrest failed to secure the deal, and later the FDC, a third interest came knocking on Grissag's door. BNP Capital approached Van der Merwe with a proposal to facilitate the deal with SAA, and he was again interested. But again red flags surfaced for Stimpel and the rest of the team working on the project. BNP had come in via a board decision to appoint a service provider for advisory services. Another RFP process was undertaken, and following the receipt of several bids, BNP was awarded the contract, the scope of which was broadened later by the board to incorporate fund-sourcing services.

By this point Stimpel had been motivated to blow the whistle on the irregular events surrounding the deal, and approached both Corruption Watch and Outa, with the latter taking on the case. Following media reports on the details, she was suspended on a charge of misconduct. Stimpel would learn through the disciplinary process that she was suspected of having leaked confidential information to the media. With the assistance of Webber Wentzel Attorneys, she fought her suspension, and eventually reached a settlement agreement with SAA.

SAA announced the decision to cancel the transaction in July 2016.

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