Coega, Parliamentary Accountability, Offsets and the South African Arms Deal

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PSAM Case Reference: ECEAT0015

Brief Details

In 1999 the South African government signed contracts to purchase R30 billion worth of military hardware from a number of international arms suppliers. This controversial arms deal was °Æsold°Ø to the South African public on the basis of the °Æoffset°Ø benefits that would accompany the deal. The public were told that the deal would bring R110 billion in direct foreign investment and 65 000 jobs. The Coega Project, to establish an Industrial Development Zone in the Eastern Cape, was held to be the biggest single beneficiary of the arms deal. The German Submarine Consortium (including Howaldtswerke-Deutsche Werft, Thyssen Nordseewerke and Ferrostaal) was awarded a R4.5 billion tender to supply submarines on the basis of its commitments to invest in Coega. A Ferrostaal project manager told the press in May 1999 "Coega°Øs stainless steel mill is ready to roll, with the only hold up being the signing of the deal to buy the submarines". He was quoted as saying "I°Øm ready to go. But I have to keep my foot on the brake until the military offset deal is signed".

To date (May 2003) not a cent has reportedly been invested in Coega as a result of the arms deal. Instead the South African tax-payer will foot the multi-billion rand costs for the construction of a harbour, Industrial Development Zone and other infrastructure required to make the Coega Project economically feasible.

In 1999 the national government established a private company, the Coega Development Corporation (CDC), to drive the implementation of the Coega Project. In 2001 the PSAM questioned the CDC°Øs constitutional and legal mandate. No information was available at that time indicating how the CDC was constituted, whether it was a public entity and how it would be held accountable for its use of public funds. Despite this lack of accountability the CDC had been allocated hundreds of millions of rands by the Eastern Cape department of Finance (R185million was allocated in 2001 alone) and the national government.

Due to the PSAM°Øs interventions it was established thatall shares in the CDC are held by the Eastern Cape Development Corporation, a public entity created by the Eastern Cape Department of Economic Affairs, Environment and Tourism. Up until this point the CDC had not tabled it°Øs annual reports and financial statements in the Eastern Cape provincial Legislature and, as a result, had evaded effective parliamentary oversight. It was also unclear whether the CDC had complied with the Public Finance Management Act and State Tender Board regulations during the course of conducting its activities.

The PSAM also raised concerns about the fact that a number of contracts had been awarded by the CDC to companies connected to members of its own board of directors. It also awarded a contract to a company connected to South Africa°Øs ex-Minister of Defence who was intimately involved with the decision making process during the arms deal. A Special Investigation into the Coega Project published by the national Auditor-General°Øs office in October 2002 found no evidence of benefits accruing to individuals involved in CDC°Øs procurement processes. However, it also found no evidence of the economic viability of the project. It is not known what steps the Eastern Cape Department of Economic Affairs has taken to enforce the °Æoffset°Ø undertakings made by Ferrostaal, Thyssen and HDW in respect of the Coega project.

^^Top Of Page^^

Detailed Overview

In 1999 the government sold its purchase of R30bn of military hardware to the South African public on the basis of the °Æoffset°Ø benefits accompanying its deal with international arms suppliers. The public were told that the deal would bring R110bn in direct foreign investment and 65 000 jobs. The Coega Project, to establish an Industrial Development Zone in the Eastern Cape, was held to be the biggest single beneficiary of this deal. Two years down the line not a cent has been invested in Coega as a result of the arms deal. Instead the South African tax-payer will foot the bill for the construction of a R4.5bn harbour in Coega.

The government has now established a private company, the Coega Development Corporation (CDC), to push ahead with the construction of the Coega Project regardless of its economic viability. Despite its lack of constitutional or legal mandate the CDC has been allocated R185million by the Eastern Cape department of Finance this year alone. CDC cannot be held accountable to Parliament and does not have to comply with the Public Finance Management Act or State Tender Board regulations.

The PSAM has established that the CDC has awarded a number of contracts to companies which are connected with members of its own board of directors. It has also awarded contracts to a company connected with an ex-Cabinet Minister who was intimately involved with the decision making process during the arms deal.

Amount Involved
R 185,000,000.00

Corrective Action
It is not known what steps the Eastern Cape Department of Economic Affairs has taken to enforce the 'offset' undertakings made by Ferrostal, Thyssen and HDW in respect of the Coega project. The national office of the Auditor-General conducted a special Investigation into the Coega Project. These findings were published on 22 October 2002.
The allegations and complaints lodged with the Auditor-General were grouped into four focus areas: procurement; corporate governance and financial management; due process and compliance; economic viability.
Procurement
The Auditor-General reviewed the policies and procedures followed in the awarding of contracts over the period 2000 to 2001 and found no conflicts of interest or benefits accruing to individuals involved in the contract awarding process. However, the investigation did not include a review of the actual adjudication processes for tenders nor did it include a review of all tenders submitted.
Corporate governance
The Coega Development Corporation°Øs (CDC) appears to have acknowledged that having the chair of its Board of Directors, Moss Ngoasheng, as chair of the corporation°Øs Audit Committee was not consistent with the conventions of good corporate governance. The Auditor-General°Øs report states that chairperson of the CDC Audit Committee was replaced in October 2001.
Due process and compliance with legislative requirements
The Auditor-General°Øs report found that as of October 2001 the CDC had not yet obtained a zoning permit to rezone the Coega area from Agricultural to Industrial usage. The CDC was only constituted as a legal Industrial Development Zone (IDZ) operator in January 2002 when it obtained a provisional IDZ operator°Øs permit. Despite its lack of legal standing CDC had started work on the Coega site in February 2001 (almost a year earlier).
Economic viability
The Auditor-General reported that neither of the economic feasibility studies witnessed by the Auditor-General°Øs team at the time of the audit found the project to be economically viable. However, the report fails to address the steps taken by the Eastern Cape Department of Economic Affairs to enforce the °Æoffset°Ø undertakings made byFerrostaal, Thyssen

and HDW in respect of the Coega project which would contribute to the economic viability of the project.

Has the case been resolved?

No

Was there a satisfactory resolution?

Unresolved. It is not known what steps the Eastern Cape Department of Economic Affairs has taken to enforce the °Æoffset°Ø undertakings made by Ferrostaal, Thyssen and HDW in respect of the Coega project

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