

STATEMENT BY MINISTER OF COMMUNICATIONS ON THE REPORT OF THE MINISTERIAL TASK TEAM ON SENTECH AND SABC

4 February 2010

TASK TEAM MEMBERS:

- *Themba Langa (Chairperson)*
- *Julia Hope*
- *Mike Makhura*
- *Mochele Noge*
- *Quaraysh Patel*
- *Thandi Rmathesele*
- *Jonathan Cawood*
- *Jason Minnaar*
- *Gift Buthelezi*
- *Patrick Craven*
- *Two officials from National Treasury*

The Minister of Communications, General (Ret) Sipiwe Nyanda has received the final report of the Ministerial Task Team that was appointed in June 2009 to look into the affairs of state-owned signal distributor SENTECH and the public broadcaster, the SABC.

The report made several findings and recommendations with regard to the viability relevance, impact and sustainability of the two entities.

SABC

➤ *Leadership:*

- *The Task Team found that there was a gap between the board of directors and management and advised on the need for a close working relationship between the two.*
- *The Task team found that there was a lack of collective management and decision making to an extent that key decisions were centralised to few individuals.*
- *Senior positions are currently held by people who are nearing their retirement age and the Task Team advised the Minister that the SABC's recruitment strategy should focus on developing and grooming young talent to prepare them for leadership positions.*

➤ *Governance:*

- *Task Team found that the relationship between the Public Broadcaster and the shareholder was a reactive one instead of proactive. (A shareholder compact agreement that will address this issue has since been concluded and signed by both parties.)*

- *Due process in several instances was not adhered to when concluding agreements with service providers.*
- *Certain key business operations that required central monitoring and management, including some aspects of procurement were found to be decentralised. Such an arrangement presented challenges so far as coordination of operations and decision making is concerned.*

➤ Business:

- *The Task team found that there was no correlation between the SABC's business plan and its mandate as a public broadcaster.*
- *The team also found that the business model of the SABC is not sustainable and it's disintegrated.*

➤ Finance:

- *The Task Team found that the SABC was not observing and/or utilising financial systems put in place.*
- *The Team also found that the public broadcaster was heavily reliant on the office of the CFO.*
- *No monthly financial reports were submitted from heads of divisions.*

Several developments have since taken place at the SABC since the Task Team started its work. These include the appointment of a new Board of Directors and a Group CEO, development and signing of the Shareholder Compact and National Treasury approval of the Guarantee. The Task Team provided indirect assistance to the Interim Board including and also during the Auditor General's investigation process. The outcome of this process has led to action being taken against some employees of the corporation. The Ministry of Communications is adamant that these changes will soon yield results particularly as it relates to the successful implementation of the corporation's turn-around strategy.

SENTECH

The Task Team's principal finding on Sentech is that the signal distributor is in urgent need of a turnaround strategy.

In an extensive 93-page report, the Task Team urges drastic and immediate action if Sentech is to avoid lapsing into terminal decline.

The Task Team found that the organisation's current situation was caused by several factors, prime among them being:

- A new legal and regulatory regime that has opened the market for new entrants;
- The absence of a clear and comprehensive ICT industry framework;
- A misaligned business strategy in support of the national service delivery agenda;
- The state of the markets it serves;

- Declining profits; and
- The demands of a digital environment which will further erode its profitability.

Highlighting the competitive threat, the report indicates that changes in legislation brought about by the Electronic Communications Act, have seen the entry of more than 300 new competitors. Previously Sentech enjoyed a monopoly in the broadcast distribution space.

The Task Team also found that the definition of Sentech's role lies at the heart of its problems along with the strategies it has pursued and its failure to break into the telecommunications market. The migration to less expensive digital channels is an added challenge to Sentech. The Task Team emphasises that Sentech is in a financially thorny position because of the unprofitable products in its telecommunications suite. It is of the view that these products affect the profits made from regulated and unregulated signal distribution.

The SABC is the single-most significant revenue-generating client to Sentech as a whole. Sentech derives as much as 75% of its revenue from the SABC.

The exposure is such that should the SABC be in a position to self-provide, Sentech's revenue generation will be adversely affected.

The Team maintains that Sentech's degeneration into its current loss-making situation began with the awarding of telecommunications licences and the organisation's attempt to launch its telecommunications services without adequate funding, robust business plans and well thought-out strategies.

In an endeavour to come find solutions, the Team considered four strategic options:

- *The first is to reposition Sentech in terms of its core competence as a broadcasting signal distributor.*
- *Option two is for Sentech to leverage its core competence to look for opportunities on the continent, where it is already doing business.*
- *The third option is for Sentech to continue with its diversification strategy of growing the telecommunications business -- a move that would require it to leverage from strategic partnerships with other seasoned players. It would need to revisit and rejuvenate its reputation to attract potential suitors.*
- *The fourth option is for Sentech to transfer its non-broadcasting ECNS and non-broadcasting ECS businesses to Infosat.*

The Team makes several strategic recommendations, among them:

- Exploitation of Sentech's unused or underutilised licences through private-public partnerships;
- Exploitation of the potential African market by selling its core competence in broadcasting signal distribution;
- Clarity needed regarding Sentech's funding going forward;
- Sentech should remain responsible for encoding and multiplexing;
- Sentech should lobby government to develop legislation to guarantee its position as the preferred supplier of broadcast signal distribution to the SABC;

- Sentech should discontinue all loss-making products and ventures;
- Government should “dispel role ambiguity” by distinguishing between Sentech’s mandate and those of other SOEs. “Co-operation rather than competition will contribute towards efficiency, economy and effectiveness in the use of limited government resources;
- Government should urgently address Sentech’s DTT infrastructure shortfall;
- Leadership and governance needs to be strengthened;
- Sentech must develop a talent management strategy;
- Sentech must dynamically combine its core competence with a diversified product offering;
- Staff and executives with competencies in broadcast signal distribution need to be recruited, developed and retained; and
- Stabilisation support to finance the winding down of Sentech’s non-profitable products is “desperately” needed

The Task Team considers that in its current state, Sentech is “rudderless, inadequately funded and misdirected”; that its status quo renders it an unsustainable business.

I am fully satisfied with the findings of the Task Team, the members of which I thank for their time, effort and insight into what is a highly complex issue. The Team has clearly come to grips with what is required to render the SABC and Sentech economically viable entities. I also wish to express special thanks to the Minister of Finance for availing two of his senior staff members to work with the Task team. My Ministry will look at the Team’s findings and recommendations with a view of effecting changes where necessary and feasible in the shortest possible timeframe.

Ends.