

McKinsey Letters Add Twist to South Africa Corruption Scandals

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- Eskom paid project partner after McKinsey ended relationship
- South Africa's power company last week suspended CFO Singh

[Eskom Holdings SOC Ltd.](#) continued to pay Trillian Capital Partners Ltd. even after McKinsey & Co. warned the South African state power company that it had concerns over transparency at the project development partner.

Letters written in March 2016 by McKinsey to Eric Wood, the chief executive officer of Trillian, and Eskom's recently suspended chief financial officer, Anoj Singh, show the U.S. consulting firm was concerned about the reputation risk of working with Trillian. McKinsey highlighted the lack of detail given by the company about its shareholders and potential conflicts of interest, the letters seen by Bloomberg show.

Eskom is spending billions of dollars on new power plants and is at the center of allegations that the Guptas, wealthy businessmen working with South African President Jacob Zuma's son, used their relationship with the president to win lucrative contracts from state companies. The family are business associates of businessman Salim Essa, who sold his stake in Trillian in July.

"McKinsey is uncomfortable about Trillian's transparency on conflict issues," the U.S. firm wrote in a March 30, 2016, letter to Singh. "McKinsey has material concerns around reputational risk to the firm," and, as a result, has stopped working with the company, it said. Trillian said its unaware of any reasons for McKinsey's concerns and has denied accusations it did little work for the money it received.

Zuma Scandals

Zuma has faced a succession of scandals, including allegations that he allowed the Gupta family to influence government appointments and the issuing of state contracts. These controversies have spread to [global companies](#) including accountants KPMG LLP and McKinsey, which have been accused by opposition parties and civil-society groups of facilitating, being party to or turning a blind eye to wrongdoing. KPMG's top eight partners in South Africa have quit and the company has apologized for its conduct and ordered an independent probe.

"Trillian staff completed all the work allocated to them by McKinsey and billed for the work authorized and approved by Eskom," Trillian said in an emailed response to questions.

“Trillian is unaware of any concerns which were raised by McKinsey with Eskom. Trillian is not aware of any basis for McKinsey raising concerns with Eskom after the commencement of the joint work for Eskom, or at all.”

While the U.S. company has denied being involved in any corruption, it has started an internal probe into its dealings with Trillian.

“This undoubtedly reflects badly on Eskom,” said David Lewis, executive director of South Africa-based Corruption Watch. Even so, it doesn’t “allay our profound suspicions about McKinsey,” he said.

Corruption Watch is planning to ask the U.S. Department of Justice to probe McKinsey, while South African Public Enterprises Minister Lynne Brown has told Eskom to investigate taking legal steps against the consultant and Trillian. The opposition Democratic Alliance has filed charges of fraud, racketeering and collusion against the U.S. firm and said it also plans to contact the DoJ about the work for Eskom.

Payments Received

In order to keep its consulting contract with Eskom, McKinsey was required to have a so-called supplier development partner and agreed to work with Trillian. The two companies could have earned more than 7 billion rand (\$515 million) from the state utility over the duration of the contract. By the time McKinsey stopped working with Trillian in about June 2016, the U.S. firm had earned a fixed fee of 70 million rand while its partner was paid about 30 million rand, according to a person familiar with the payments.

McKinsey also earned around 900 million rand for meeting performance targets, the person said, asking not to be identified as the payments haven’t been made public. Eskom has said it paid Trillian 495 million rand, with some of that coming after McKinsey’s letter.

Focusing on Trillian’s ultimate ownership and how this may conflict with its role as an adviser to Eskom, the McKinsey letters said that the contractor didn’t answer the firm’s questions. The correspondence is signed by senior McKinsey executives.

‘Partial Information’

Numerous separate discussions were held by McKinsey and Wood, who orally offered “partial information” concerning Trillian’s shareholders and directors, according to the letters.

Singh was placed on leave in July after he was linked to a series of deals involving the Gupta family as well as Trillian and was [suspended](#) last week pending a disciplinary hearing. He has denied wrongdoing.

We “are looking into all these issues to determine their veracity,” Eskom spokesman Khulu Phasiwe said by phone. “In due course, the Eskom board will report how far it has progressed with its investigation.”

— *With assistance by Paul Burkhardt*

