COMMITTEE REPORT OF THE PORTFOLIO COMMITTEE ON PREMIER'S OFFICE; FINANCE; ECONOMIC DEVELOPMENT AND TOURISM

SECOND (2nd) QUARTERLY PERFORMANCE REPORT FOR THE 2017/18 FINANCIAL YEAR – MPUMALANGA ECONOMIC GROWTH AGENCY (MEGA)

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1. INTRODUCTION

The **Portfolio Committee on Premiers Office; Finance; Economic Development and Tourism** (the Committee) has a Constitutional mandate, in terms of Section 114(2)(b) of the Constitution of the Republic of South Africa read with Rule 131(1)(b) of the Mpumalanga Provincial Legislature to oversee the performance of the Mpumalanga Economic Growth Agency (the entity) and hold it accountable through various measures.

The consideration and scrutiny of the Second (2nd) Quarterly Performance Report for 2017/2018 of the entity is the tool the Committee uses to determine whether the entity has proper plans and programmes to realise its strategic objectives and ultimately to deliver basic services to the citizens of Mpumalanga.

The Committee tables this report in accordance with the provisions of the Rules and Orders of the Mpumalanga Provincial Legislature, as an account of its oversight work done for consideration and adoption in order to monitor the performance of the entity for the 2017/2018 second quarter.

2. METHOD OF WORK

The Speaker referred the entity's Second (2nd) Quarterly Report to the Portfolio Committee on Premier's Office; Finance; Economic Development and Tourism for consideration and report back to the Legislature, as contemplated in Rule 218 (4) of the Rules and Orders of Mpumalanga Provincial Legislature (the Rules).

The Committee met on 08 November 2017 to deliberate on the entity's research analysis on the second quarterly report and scrutinize in detail the aforementioned document; met the entity on 14 November 2017 on the 2017/18 second (2nd) quarter report and subsequently met on 22 November 2017 to consider the draft Committee report.

3. OVERVIEW BY THE MEC

The MEC of the department, Mr SE Kholwane gave an overview of the department's performance on the 2017/18 2nd Quarter Report to the Committee; and also covered the parastatals / public entities under the department, which included Mpumalanga Economic Growth Agency (MEGA). The MEC stated that admittedly the process of reconfiguring the organisation of the department and the public entities has taken longer than anticipated. He further noted the shortfalls in the performance of the entities and has engaged the accounting officers / authorities about the importance of implementing acceleration plans for all priority programmes and targets.

Be it as it may, the MEC reported that some notable progress in many areas has been made. The department has activated the new Mpumalanga Enterprise Development Fund to strengthen credit extension to productive sectors of the economy and the SMMEs and cooperatives in particular; the department has also concluded the feasibility studies for all three industrial technology parks, paving the way for accelerated implementation of their industrialisation programme, amongst others. The MEC stated that more can be done and the department is committed to ensuring that all the institutions in this portfolio achieve their targets at the end of the current financial year.

The MEC indicated that the department will continue to implement policies that promote public private partnership in order to fast-track delivery of the much needed social and economic infrastructure in the province. In line with this policy imperative, the MEC mentioned that the Provincial Government, with the support of SAB delivered multi-million rand Bulk Water Reticulation at Agri-Village in Jabulani in Mkhondo Local Municipality on Tuesday 24 October 2017. According to the MEC, this water infrastructure which includes 153.5 kl reservoir tank and borehole pumps is a massive victory for community that was previously isolated in their land, and with minimal access to basic services.

The MEC stated that the department's objective statement is that more can be achieved if the department centrally coordinates private sector support as opposed to approaching private sector individually aggravated by ever emerging interest groups resulting in launching small isolated projects with minimal or zero impact. The MEC further indicated that it is important in a stressful economic environment like is experienced currently, that Government, Business, Labour and Civil society continue to work together and address the economic challenges together as partners.

In conclusion, the MEC stated that the Government is determined to ensure that the focus is on labour intensive projects that will not only stimulate employment but also economic growth in the province.

4. GENERAL OBSERVATIONS

The entity has managed to achieve 54% of its targets for the second quarter of the 2017/18 financial year compared against the 45% in the first quarter. It has spent 49% of its annual budget and 92% of its projected quarterly budget as at the end of the second quarter. This reflects an under-expenditure of 8% on its projected quarterly budget for the entity as at the end of the second quarter of the 2017/18 financial year.

The programme which has contributed the most in the performance of the entity is Programme 2 – Corporate Services, which achieved 91% of its targets as at the end of the second quarter. The programme which has performed the least of all of them is Programme 6 – Funding which achieved 9 of its 30 targets at 30%.

5. PROGRAMME ANALYSIS

PROGRAMME 1: OFFICE OF THE CEO

The Committee noted that the entity attained 7 of its 8 planned targets under Programme 1 named "Office of the CEO". This translates to 88% achievement for planned targets in the second quarter.

The programme failed to register 20% of the entity's assets in its name. The entity stated that the process took longer than anticipated due to historical issues. The entity also stated that the City of Tshwane has finally agreed to grant the clearance certificates for all the Ekangala–A properties which were previously accounted as MEGA's properties.

i. The Committee enquired on whether this implies that the properties in Ekangala-A are now not in the books of the entity. In response, the entity reported that these properties were removed in MEGA's books in 2015. These properties relate to the so called "dual properties" where MEGA registered co-ownership as security for housing loans granted. This duplication of accounting for the properties as both investment property and housing loans were identified by the AG as part of the March 2014 audit. Management reviewed this list of properties and removed it from the list of investment property as part of the March 2015 annual financial statements.

According to the entity, cancellation of bonds and handing over of title deeds will be done in respect of housing loans that were settled in full and also in respect of prescribed debt.

ii. The entity reported that the initial list of the properties in question was 308 and given that some of the properties have already been transferred, the list reduced to 278 (the entity has subsequently submitted this list to the Committee).

iii. According to the entity, management is undertaking a similar exercise for properties with similar challenges to that of Ekangala-A, namely:

• Negotiate for the issuing of clearance certificates by the respective municipalities;

• MEGA will thereafter proceed with the cancellation of bonds and handing over of title deeds in respect of housing loans that were settled and also including prescribed debt.

Programme 1: Expenditure Analysis

Main Budget	As at 2nd Quarter	% Main Budget	% of Projected
24,715,000	10,174,000	41%	84%

Programme 1 was allocated a budget of R24 715 000.00 for the 2017/18 financial year. The entity has spent R10 174 000.00 as at the end of the second quarter which translates to 41% of its annual budget and 84% of its quarterly budget of R12 150 000.00; this is an under-expenditure of 16% on the quarterly budget. Part of the under-expenditure was due to vacancies as a result of the non-finalisation of the Organisational Design process.

PROGRAMME 2: CORPORATE SERVICES

The Committee noted that the entity attained 10 of its 11 planned targets under Programme 2 named "Corporate Services". This translates to 91% achievement for planned targets in the second quarter.

On page 25 of the entity's quarterly report under Human Resources, the entity failed to develop 10% of the employees due to delays in the finalisation of the personal development plans and workplace skills plan.

i. The Committee requested the entity to indicate what plans are put in place to ensure that it conducts training to its employees throughout the financial year. The entity reported that the provision of training and other developmental interventions was temporarily put on hold during the organisational re-alignment process. This was to ensure that all future interventions were structured to align with the outcomes of the competency assessments conducted during this process, i.e. to address the competency gaps identified and thus avoid investing on interventions that would not equip employees to perform at the required competency levels in the roles in which they would be placed.

The entity further stated that to date, 65% of employees have been placed and Performance Development Plans put in place to address competency gaps. HR has initiated the process to have the moratorium on the provision of training lifted and in the interim, training providers have been identified for aspects such as project management, financial modelling as well as ABET. It is anticipated that the training plan will be in full swing in terms of implementation, at the start of the new calendar year, i.e. January 2018.

Programme 2: Expenditure Analysis

Main Budget	As at 2nd Quarter	% Main Budget	% of Projected
39,366,000	14,383,000	37%	64%

Programme 2 was allocated a budget of R39 366 000.00 for the 2017/18 financial year. The entity has spent R14 383 000.00 as at the end of the second quarter which translates to 37% of its annual budget and 64% of its quarterly budget of R22 397 000.00. This is an under-expenditure of 63% on the quarterly budget. Part of the under-expenditure was attributed to the non-implementation of phase 2 of the OD process which was delayed.

PROGRAMME 3: FINANCE

The Committee noted that the entity attained 3 of its 5 planned targets under Programme 3 named "Finance". This translates to 60% achievement for planned targets in the second quarter.

On page 40 of the entity's quarterly report, the programme failed to reduce debtor days to less than 180 and improve accurate billing by 80% for the second consecutive quarter. This was attributed to delays in the development of standard operating procedures and difficult trading conditions.

Programme 3: Expenditure Analysis

Main Budget	As at 2nd Quarter	% Main Budget	% of Projected
44,192,000	25,009,000	57%	113%

Programme 3 was allocated a budget of R44 192 000.00 for the 2017/18 financial year. The entity has spent R25 009 000.00 as at the end of the second quarter which translates to 57%

of its annual budget and 113% of its quarterly budget of R22 096 000.00; this is an over-expenditure of 13% on the quarterly budget.

PROGRAMME 4: STRATEGY AND COMMUNICATION

The Committee noted that the entity attained 12 of its 24 planned targets under Programme 4 named "Strategy and Communication". This translates to 50% achievement for planned targets in the second quarter.

On page 41 of the entity's quarterly report under the Trade and Investment Promotion sub-programme, the entity achieved 6 of its 13 targets. The sub-programme failed to implement targets relating to attracting and facilitation of Investments in the province due to prolonged negotiations with potential investors resulting in delays.

i. The Committee sought clarity on whether the entity will be able to catch up to the annual target of attracting and facilitating investment to the province by the end of the financial year based on the challenges experienced in the second quarter and that most targets were not achieved in the first quarter. In response, the entity reported that it is unlikely that the Agency's Investment Attraction and Facilitation target for 2017/2018 will be achieved. Mpumalanga's investment climate should not be understood in isolation as the province is competing with a range of potentially compelling developed and developing economic investment opportunities. Economic growth in South Africa is projected to continue to be weak and prospects for South Africa's economic growth have deteriorated. Corruption, political and regulatory instability, labour regulation, and crime are cited as the most significant weaknesses of South Africa's investment climate. South Africa's sovereign credit ratings have been downgraded by the three principal rating agencies and further downgrades may follow. Investment activity will, at least in the shorter term, continue being affected by the considerably difficult economic climate and there is clearly a crisis of confidence amongst the country's businesses and potential investors.

The Committee noted that on page 52 of the entity's quarterly report under the Marketing and Communications sub-programme, the entity achieved 1 of its 3 targets. The programme failed to coordinate one (1) meet and greet with MEGA tenants and clients as well as hold one (1) media briefing. The entity stated that media briefings and meet and greets were cancelled since they coincided with other key events.

ii. The entity reported that it is taking every step necessary to make up for the targets that were not achieved in the previous quarters. Work is already being carried out during the third quarter in an attempt to cover the shortfall of previous quarters. This, the entity is convinced, will be achieved during the first month of the fourth quarter.

Programme 4: Expenditure Analysis

Main Budget	As at 2nd Quarter	% Main Budget	% of Projected
26,140,000	13,534,000	52%	86%

Programme 4 was allocated a budget of R26 140 000.00 for the 2017/18 financial year. The entity has spent R13 534 000.00 as at the end of the second quarter which translates to 52% of its annual budget and 86% of its quarterly budget of R15 769 000.00; this is an under-expenditure of 14% on the quarterly budget. Part of the under-expenditure was attributed to vacancies due to the non-finalisation of the OD process.

PROGRAMME 5: PROPERTIES AND INFRASTRUCTURE

The Committee noted that the programme has achieved 6 of its 9 targets (67%) it had planned for the second quarter of the 2017/18 financial year.

On page 56 of the entity's quarterly report under the Properties and Infrastructure programme, the entity failed to have a value of R200 000 000.00 investment projects approvals due to delays in the participation of the strategic development partners.

Programme 5: Expenditure Analysis

Main Budget	As at 2nd Quarter	% Main Budget	% of Projected
489,683,000	239,873,000	49%	88%

Programme 5 was allocated a budget of R489 684 000.00 for the 2017/18 financial year. The entity has spent R239 873 000.00 as at the end of the second quarter which translates to 49% of its annual budget and 88% of its quarterly budget of R272 990 000.00; this is an under-expenditure of 12% on the quarterly budget.

PROGRAMME 6: FUNDING

The Committee noted that the entity attained 9 of its 30 planned targets under Programme 6 named "Funding". This translates to 30% achievement for planned targets in the second quarter.

The entity failed to meet various targets relating to the disbursing of loans to SMMEs, Agricultural loans as well as Housing loans. It also failed to make inroads in support to the local tyre initiative, Creative Industries Initiatives as well as the Sanitary towel programme. The entity stated it was focusing on putting in place arrangements for the transfer of projects from DEDT for the second consecutive quarter. Other reasons given by the entity included partnership agreements taking longer than anticipated and loan assessment and due diligence investigations taking longer than planned due to capacity and skills inadequacy.

The entity has been heavily reliant on the partnership agreement in the pipeline with Standard Bank which has a potential of boosting its cash flow. The agreement was signed in September 2017 and this is anticipated to increase the number of disbursements for the rest of the financial year.

i. The Committee requested the entity to provide an update on the role of the partnership agreement on whether it has begun to disburse loans or not. The entity reported that the MEGA/SBSA funding partnership was successfully launched by the Honourable Premier, Mr DD Mabuza, on 14 September 2017 at the Govan Mbeki Local municipality, during the 'Taking Legislature to the People' (TLP) Programme that took place between 11 and 15 September 2017.

The entity further reported that the Partnership Agreement between DEDT and SBSA has been signed, and the final draft of a Business Development Service Provider (BDSP) Agreement to be entered into between MEGA and SBSA, is presently at legal review stage.

The Department of Economic Development and Tourism has embarked on roadshows in order to create awareness on this funding programme. The roadshows have included MEGA and other Provincial Government Departments. Mobilisation has been done in partnership with organised business formations as follows:

• 17 October 2017 - Dludluma Community Hall and Block B;

• 18 October 2017 - Schoemansdal and Driekopies Nkomazi;

• 07 November 2017 Block B, and

• 08 November 2017 Jeppes Reef.

Below are critical areas of focus to maximise the benefits from this public and private funding model:

Focus Areas	Status
• Launch the 2nd phase of the awareness campaign to expand reach, and exposure.	Awareness campaign in Gert Sibande and Nkangala Regions planned to be conducted within the November month.
• Signing of the BDSP Agreement between MEGA and SBSA.	Draft Agreement in place and expected to be concluded by end of November 2017.
• Opening of a "Third Party Funding Account", a critical financial instrument to enable transacting amongst the parties, namely MEGA, SBSA and SMMEs.	To be opened once the BDSP has been concluded and signed i.e. by end of November 2017.
• Mapping, documenting and communication of application processes.	Currently being finalised by Standard Bank.
• Financing of SMMEs.	Loan applications are being received for evaluation and processing. Funds to be disbursed once the BDSP Agreement has been signed.

ii. The Committee requested the entity to provide an update on the Government Nutrition Programme and how all the identified distribution centres have been operating thus far. The entity stated that since the inception of the Mpumalanga Government Nutrition Programme i.e. June 2017, approximately 1 452 tonnes of fresh produce were procured from farmers. About 69.3% of this total was procured from Small holder farmers and 30.7% had to be procured from Commercial farmers and National Fresh Produce Markets in order to supplement the quantities sourced from the farmers.

• Collection of the produce from the farmers is done through the Transport SMME's. MEGA has been in discussions with the Youth Chamber with an aim to assist youth to procure vehicles that are in line with the required specifications. The Transport SMMEs provided SMMEs by the Chamber would then be contracted by MEGA in line with the PFMA requirements.

• The three Distribution Centres are running as planned and created about 71 job opportunities so far.

• Evaluation on the number of jobs that have been created at smallholder farmers as a result of the programme is currently underway. A detailed independent impact evaluation will be conducted after six months of the implementation of the programme (January 2018).

iii. The entity stated that the reason it has taken more than two quarters to take over the projects from the Department of Economic Development and Tourism, is because the projects were handed over by the department on 16 August 2017.

iv. The Committee requested the entity to provide a list of all the loans that have been approved for the 2017/18 financial year thus far and provide aftercare measures that have been put in place to assist the clients. A list of loans approved thus far is detailed below by the entity:

No	Client Name	Type of Business	Approved Amount
1	Malomane SS	Home Loan	R 981 000.00
2	Emseni Kuyandza (Pty) Ltd	Bridging Finance	R 390 860.40
3	Zemangce (Pty) Ltd	Bridging Finance	R 715 000.00
4	Dli Wako Mphuti Bakery	Working Capital	R 96 310.00
5	Hillsview Community Coop	Vegetable farming	R 160 665.00
6	Aphale LT	Home loan	R 331 000.00
7	Mokoena EP	Home loan	R 200 000.00
			R 2 874 835.40

The entity further reported that in terms of the aftercare service, client visits are conducted on a monthly basis to assess status of each project. Findings from these visits are used to formulate interventions to address challenges identified and close gaps to improve performance of funded clients.

v. Considering that the entity has fallen behind in achieving its targets for this programme, the Committee enquired on the measures that will be put in place to ensure that the annual targets will be met. The entity indicated that it is currently processing a total of twenty five (25) loans valued at R69 000 000.00 which have a high prospect of approval. The value of the loans surpass the budget available of R40 000 000.00.

vi. With regards to the Dalamba Victorious Trading Enterprise and Projects (PTY) LTD located in the Govan Mbeki Local Municipality, the entity reported that construction is in progress and is 90% complete. The structure for the supermarket and liquor store comprise phase one of the development of the shopping centre.

The initial date of occupation was set to be 30 November 2017 and this was subject to the client receiving financial assistance from the National Empowerment Fund (NEF).

Dalamba Victorious Trading Enterprise and Projects ('the company') could not secure funding from NEF and the launch date of the supermarket has been brought forward to the first quarter of 2018. Subsequently, the Directors have made an application for financial assistance to MEGA/Standard Bank for the operation of the OK Mini Market of the supermarket to MEGA. Therefore, the application is under consideration at MEGA in terms of internal application process.

Programme 6: Expenditure Analysis

Main Budget	As at 2nd Quarter	% Main Budget	% of Projected
150,910,000	79,937,000	53%	113%

Programme 6 was allocated a budget of R150 910 000.00 for the 2017/18 financial year. The entity has spent R79 937 000.00 as at the end of the second quarter which translates to 53% of its annual budget and 113% of its quarterly budget of R71 031 000.00; this is an over-expenditure of 13% on the quarterly budget.

6. FINDINGS

After the interaction with the entity, the Committee made the following findings:

6.1 The entity attained nine (9) of its thirty (30) planned targets pertaining to the finance division. Furthermore, the entity had an under-expenditure of 8% on its projected quarterly budget at the end of the second quarter of the 2017/18 financial year.

6.2 The entity reported that to date, 65% of employees have been placed and Performance Development Plans put in place to address competency gaps; and it is anticipated that the training plan will be in full swing in terms of implementation, at the start of the new calendar year, i.e. January 2018.

6.3 An evaluation on the number of jobs that have been created at smallholder farmers as a result of the Government Nutrition Programme is currently underway.

6.4 The Dalamba Victorious Trading Enterprise and Projects could not secure funding from NEF. Subsequently, the Directors have made an application for financial assistance to MEGA/Standard Bank for the operation of the OK Mini supermarket; the application is under consideration at MEGA in terms of internal application process.

7. RECOMMENDATIONS

The Committee made the following recommendations:

7.1 The entity must develop systems, mechanisms and implementation plans to ensure that planned targets are met throughout the remaining quarters of the 2017/18 financial year, as well as implementation plans to mitigate under-spending of the approved budget.

7.2 The entity must submit a progress report to the Committee on the implementation of the training plan and ensure that the rest of the employees are accordingly placed within the current financial year.

7.3 The entity must submit a progress report on the detailed independent impact evaluation which will be conducted after six months of the implementation of the programme. The progress report must be submitted not later than 15 February 2018.

7.4 The entity must ensure that the Dalamba Victorious Trading Enterprise and Projects is assisted with the submitted application for the funding of the supermarket, possibly through the MEGA/Standard Bank partnership.

The Committee moves that the House adopts the report with the above recommendations.

8. CONCLUSION

The Chairperson wishes to express his gratitude to the MEC, Mr SE Kholwane, HOD, Mr MW Mkhize, the CEO Mr X Sithole, the CFO and the senior officials of the Mpumalanga Economic Growth Agency for their active involvement during the deliberations with the entity.

The Chairperson further wishes to thank the Hon. Members of the Committee for their sterling participation and input during the deliberations on the second (2nd) quarter report of the Mpumalanga Economic Growth Agency and also thanked the Legislature staff for their support and contribution towards the production of this report.

Unless otherwise stated a report detailing progress in the implementation of all recommendations in this report should be forwarded to the Committee by 31 January 2018 and thereafter on a quarterly basis.

23.11.2017

HON SI MALAZA (MPL), **DATE**

ACTING CHAIRPERSON: PORTFOLIO COMMITTEE ON PREMIER'S OFFICE; FINANCE; ECONOMIC DEVELOPMENT AND TOURISM

Appointed in terms of Rule 114 of the Rules and Orders of the Mpumalanga Provincial Legislature.