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

FIRST (1st) QUARTERLY PERFORMANCE REPORT FOR THE 2018/19 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 First (1st) Quarterly Performance Report for 2018/2019 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 2018/2019 first quarter.

2. METHOD OF WORK

The Speaker referred the entity's First (1st) 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 21 August 2018 to deliberate on the entity's research analysis on the first quarterly report and scrutinize in detail the aforementioned document; met the department on 28 August 2018 on the 2018/19 first (1st) quarter report and subsequently met on 12 September 2018 to consider the draft Committee report.

3. OVERVIEW BY THE MEC

The MEC of the department, Mr SE Kholwane gave an overview of the performance of the department for the 2018/19 1st Quarter Report to the Committee; and also covered the parastatals / public entities under the department, which included Mpumalanga Economic Growth Agency (MEGA). The MEC reported that this entity was given the responsibility to implement the Government Nutrition Programme (GNP) on behalf of the Provincial Administration in the 2017/18 financial-year. During that financial-year, the entity was able to supply fresh produce to 11 hospitals and to 37% of schools which benefited about 323, 626 learners in the Province. The MEC further indicated that the second Phase of the programme that was planned to commence from 1 April 2018, where the programme would include the supply of dry goods as well and increasing the number of hospitals from 11 to 33, was however postponed to September this year, following state of readiness assessment by the Premier; this was reportedly done to afford adequate time for preparations for a smooth transition for the scaling up of supplies.

The MEC reported that the construction of the Mpumalanga International Fresh Produce Market (MIFPM) is progressing well, with 98% of the bulk-water pipeline and bulk earthwork in place. It is anticipated that the service provider to construct the main market and ancillary buildings will be appointed before the end of the next quarter.

In conclusion, the MEC stated that the public entities have been stabilised. The Boards of the three (3) public entities are fully capacitated with the legally required members, including the MEGA Board, albeit with three (3) interim members following resignations. The MEC stated that they are however currently assessing applications received to fill the three (3) vacancies for the remainder of the current Board's term of office, as contemplated in section 10(2) of the MEGA Act 1 of 2010.

4. GENERAL OBSERVATIONS

The entity has managed to achieve 64% of its targets for the first quarter of the 2018/19 financial year. It has spent 13% of its annual budget and 45% of its projected quarterly budget as at the end of the first quarter. This reflects an under-expenditure of 55% on its projected quarterly budget for the entity as at the end of the first quarter of the 2018/19 financial year. It is noted with concern that the entity has spent less than half of what it had been expected to spend by the end of the first quarter; reflecting a slow spending trend;

which can only indicate that it may struggle to spend the entire budget by the end of the financial year.

The programme which has contributed the most in the performance of the entity is programme 1 – Office of the CEO, which achieved 100% of its targets as at the end of the first quarter. The programme which has performed the least of all is programme 6 – Funding, which achieved two (2) of its six (6) targets at 33%.

5. PROGRAMME ANALYSIS

PROGRAMME 1: OFFICE OF THE CEO

The Committee noted that the entity attained three (3) planned targets under Programme 1 named "Office of the CEO". This translates to 100% achievement for planned targets in the first quarter.

i. The Committee requested the entity to provide an update on the placement of staff and the plans in place to finalise the process. The entity reported that the process of placing staff into the new organisational structure was concluded in February 2018 when the Record of Decision on the Appeals that had been lodged by employees was issued. What remains to be finalised is the management of the pool of unplaced employees. This process is being facilitated through Section 189 of the Labour Relations Act.

Programme 1: Expenditure Analysis

Main Budget	As at 1st Quarter	% Main Budget	% of Projected
22,328,000	4,317,000	19%	67%

Programme 1 was allocated a budget of R22 328 000.00 for the 2018/19 financial year. The entity has spent R4 317 000.00 as at the end of the first quarter, which translates to 19% of its annual budget and 67% of its quarterly budget of R6 408 000.00. This is an under-expenditure of 33% on the quarterly budget of R2 091 000.00. Part of the under-expenditure is as a result of fewer meetings due to the Board not forming a quorum, as well as services of the attorneys regarding debt recoveries being scaled down.

PROGRAMME 2: CORPORATE SERVICES

The Committee noted that the entity attained three (3) of its five (5) planned targets under Programme 2 named "Corporate Services". This translates to 60% achievement for planned targets in the first quarter.

On page 29 of the entity's quarterly report under Human Corporate Services, the entity failed to achieve 5% implementation of the Performance Management System due to delays in project execution which impacted on targeted implementation date. Failure to implement this system may negatively affect the performance of the entity.

i. The entity reported that due to limited capacity within the HR unit, the project was outsourced to a service provider to provide the necessary support in executing the project. The entity experienced financial constraints during the course of the project and the service provider withheld their services thus impacting progress.

ii. The Committee enquired on the measures in place to ensure that the Performance Management System will be in effect by the second quarter of the current financial year. In response, the entity indicated that the issues highlighted above have subsequently been resolved and an acceleration plan is being executed to fast track the project.

iii. The Committee enquired on when does the entity plan on finalising the IT strategy as to ensure that the IT equipment required is purchased in the current financial year as planned out in the APP of the entity. The entity reported that the first 2 phases of the IT Strategy development process have been concluded. It is anticipated that the final strategy document will be finalised in the early part of the third quarter. In the interim, based on the AS-IS report, quick wins have been identified and are being implemented as a means to fast track the inter-operability of current systems in the interim, which will ultimately facilitate the envisaged integration in the medium to long term.

Programme 2: Expenditure Analysis

Main Budget	As at 1st Quarter	% Main Budget	% of Projected
34,131,000	6,570,000	19%	67%

Programme 2 was allocated a budget of R34 131 000.00 for the 2018/19 financial year. The entity has spent R6 570 000.00 as at the end of the first quarter, which translates to 19% of its annual budget and 67% of its quarterly projected budget. This is an under-expenditure of 33% on the quarterly budget of R9 857 000.00. Part of the under-expenditure was attributed to under-spending on the recruitment and advertising owing to the delay in the finalisation of the placement process as well as the development of the IT strategy not yet finalised and as a result IT equipment not yet been procured.

PROGRAMME 3: FINANCE

The Committee noted that the entity attained two (2) of its three (3) planned targets under Programme 3 named "Finance". This translates to 67% achievement for planned targets in the first quarter.

On page 36 of the entity's quarterly report the programme failed to generate revenue to the amount of R129 800 000.00. The entity instead raised revenue of R44 800 000.00, falling short by R85 800 000.00. The shortfall was attributed to the delay in the commencing of Phase 2 of the Government Nutrition Programme, which involves dry goods. The programme was scheduled to commence in April 2018 and has now been rescheduled to September 2018.

i. The Committee enquired on why the entity rescheduled the initial date of commencing with Phase 2 of the Government Nutrition Programme which involves dry goods. The entity reported that Cabinet took a decision to allow the Government Nutrition Programme an opportunity to prepare for the implementation of Phase 2, including finalising SCM processes for the dry goods. Hence the GNP has been given three (3) months to commence from 01 October 2018.

ii. The Committee sought clarity on whether or not the entity has identified distribution centres for the dry goods such as those with the perishable goods; and if so to identify which areas. The entity indicated that the existing Distribution Centres (DC) were initially refurbished and prepared for both fresh produce and dry goods. Currently the DC's are not optimally utilised therefore there is no need for additional storage facilities.

Programme 3: Expenditure Analysis

Main Budget	As at 1st Quarter	% Main Budget	% of Projected
38,356,000	11,986,000	31%	91%

Programme 3 was allocated a budget of R38 356 000.00 for the 2018/19 financial year. The entity has spent R11 986 000.00 as at the end of the first quarter, which translates to 31% of its annual budget and 91% of its quarterly projected budget of R13 223 000.00. This is an under-expenditure of 9% on the quarterly projected budget by R1 237 000.00.

PROGRAMME 4: STRATEGY AND COMMUNICATION

The Committee noted that the entity attained seven (7) of its nine (9) planned targets under Programme 4 named "Strategy and Communication". This translates to 78% achievement for planned targets in the first quarter.

On page 41 of the entity's quarterly report, the entity failed to convert the value of investment pipeline into implementable projects. The entity had planned to convert investment to the value of R100 000 000.00 into implementable projects. This was attributed to delays in the signing of an MOU that would ensure the convertibility.

The entity further failed to hold one (1) trade exhibition/mission facilitated. The entity stated that the Department of Economic Development and Tourism (DEDT) cancelled its participation and stated that it would be held in the third quarter.

i. The Committee enquired on when the entity will finalise the MOU as to ensure that investment is converted into realisable implementable projects. In response, the entity stated that it will be able to conclude and sign at least two MoU's during the second quarter of the current financial year. The MoU's are between MEGA and SANY; and, MEGA and SAFCOL.

Programme 4: Expenditure Analysis

Main Budget	As at 1st Quarter	% Main Budget	% of Projected
27,142,000	4,793,000	18%	63%

Programme 4 was allocated a budget of R27 142 000.00 for the 2018/19 financial year. The entity has spent R4 793 000.00 as at the end of the first quarter which translates to 18% of its annual budget and 63% of its quarterly projected budget of R7 635 000.00. This is an under-expenditure of 37% on the quarterly projected budget of R2 842 000.00. Part of the under-expenditure was attributed to call off Foreign and Outward Missions, as well as certain vacancies awaiting the finalisation of the placement process.

PROGRAMME 5: PROPERTIES AND INFRASTRUCTURE

The Committee noted that the programme has achieved one (1) of its two (2) targets (50%) it had planned for the first quarter of the 2018/19 financial year.

The entity reported on page 19 of its quarterly report that there was a minor dispute with the service provider that was resolved during July 2018 regarding the Nkomazi Special Economic Zone (SEZ).

i. The Committee sought clarity from the entity on what the challenge was and how the entity managed to resolve the matter. In response, the entity indicated that under the current fiscal constraints, the strategy to attract investments in the MEGA property portfolio has been approached from three fronts, namely partnerships with Strategic Development Partners, establishment of the Infrastructure Fund, and the DTI's Critical Infrastructure Programme. The following is a brief overview of the challenges faced in attracting investments through the above-mentioned approaches:

- <u>Strategic Development Partners</u>

It took much longer to finalise the development agreements on awarded contracts to redevelop the identified property assets, namely Siyabuswa Shopping Centre, Kabokweni Shopping Centre, and No. 66 Anderson Street building. It is envisaged that these development agreements will be concluded by end of the second or third quarter of the 2018/19 financial year. On conclusion of the development agreements, it is estimated that an amount of R300 000 000.00, over a period of 18 to 24 months will be invested by the Strategic Development Partners.

- <u>Infrastructure Fund</u>

The aim of the Infrastructure Fund is to attract private sector investment to various infrastructure projects, including property development opportunities in the Province. Since the establishment of such a Fund requires the concurrence of the Minister of Finance, the MEC of Finance, Economic Development and Tourism in the Province sought such concurrence in July 2017. As at the end of the first quarter of 2018/19, the Minister had not responded to the MEC's request. As a result of this delay, this mechanism cannot be used to leverage investment into the MEGA property portfolio.

- <u>DTI's Critical Infrastructure Programme</u>

As at the end of the first quarter of 2018/19, the DTI had funded (since 2017/18) the revitalisation of the Ekandustria Industrial Park. In December 2017, MEGA engaged the DTI to obtain funding to commence the revitalisation of Siyabuswa and Kabokweni Industrial Parks. As at the end of the quarter, the funding of approximately R50 000 000.00 for each industrial park had not been confirmed by the DTI.

MEGA continues to engage with the DTI and it is estimated that the funding will be approved at the beginning of the third quarter of the 2018/19 financial year.

Programme 5: Expenditure Analysis

Main Budget	As at 1st Quarter	% Main Budget	% of Projected
488,178,000	65,734,000	13%	52%

Programme 5 was allocated a budget of R488 178 000.00 for the 2018/19 financial year. The entity has spent R65 734 000.00 as at the end of the first quarter, which translates to 13% of its annual budget and 52% of its quarterly projected budget of R127 084 000.00. This is an under-expenditure of 48% on the quarterly projected budget of R61 350 000.00. The under-expenditure was attributed to vacancies as well as under-expenditure on bulk electricity and under-expenditure on the Mpumalanga International Fresh Produce Market (MIFPM).

PROGRAMME 6: FUNDING

The Committee noted that the entity attained two (2) of its six (6) planned targets under Programme 6 named "Funding". This translates to 33% achievement for planned targets in the first quarter.

On page 53 of the entity's quarterly report, Programme 6 failed to reach a total of R4 000 000.00 in loan disbursements and instead managed to disburse R1 700 000.00. The entity stated that there were conditions that had to be met before disbursements could be made and these were not met.

i. The entity reported that typically there are two (2) types of conditions precedent, namely standard and other or additional conditions, and the latter differs depending on the nature and sector of the business. Standard conditions are mainly documentation to be signed or submitted, e.g. Loan Approval Acceptance Letter and Contractual Agreements. Additional conditions on the other hand are dependent on specific needs of the business and scheduling per an implementation plan. For further illustration, practical scenarios are discussed hereunder:

1. Galitos project - took longer to rollout due to delays in getting sites ready, and the implementation process from Galitos Franchisor which included training, equipment manufacturing lead times, set-up and operation.

2. Total Horticulture - the client could not secure an extension of a service contract which was a condition precedent to the approval of the loan; whereas at the time of approval all indications were that the contract with ESKOM was going to be extended.

3. Shopmore Supermarket - is a new supermarket concept, which battled to skim the market as it is an unknown brand and this resulted to the entrepreneur leasing out the property to Usave. Therefore it was no longer justifiable to release the funds that were budgeted for equipment and stock as Usave self-financed its activities.

4. Timbali project - has not signed the loan agreement and currently negotiating to access an alternative MEGA managed fund (MAFISA) which levy lower interest rate (8%).

5. G3 Abattoir - has not submitted approved building plans and proof of appointment of a contractor registered with the NHBRC.

ii. The Committee requested the entity to explain why it did not take into consideration the above when planning for disbursement for the quarter. The entity stated that most of the delays happened due to unforeseen events and the entity will ensure that disbursements are effected responsibly.

The Committee also noted that the entity further failed to achieve any disbursements for businesses through the MEGA/Standard Bank Fund. The entity stated that there were delays in setting up the Enterprise Development (ED) Unit and its procedures. Moreover, the entity reported that the ED Unit has since been set up and a steering committee established to oversee transactions on a monthly basis.

iii. Since the ED Unit and the Steering Committee has been established, the Committee enquired on when the MEGA / Standard Bank fund will begin to be utilised by applicants. The entity stated that from 01 to 03 August 2018, training was provided to staff members from MEGA, Standard bank and Provincial Supply Chain Departments. To date over R3 000 000.00 has been disbursed to SMMEs; the value of pipeline applications being assessed is in the region of R 15 000 000.00.

iv. The Committee requested the entity to provide an update on the Dalamba Victorious shopping complex Project in Kinross and state whether there has been any progress made since the last visit by the Portfolio Committee. The entity reported that the supermarket is not yet trading; the application lodged with the National Empowerment Fund (NEF) to finance the franchise supermarket was unsuccessful.

MEGA undertook to explore financing the supermarket and resolved to refer the opportunity to Absa Bank. The bank is currently evaluating the funding opportunity with ongoing discussions taking place between Absa bank, Dalamba Company and MEGA. Once funding has been secured, the Dalamba Company can proceed to establish the site, completing fittings according to the franchisor's specifications and commence trading.

v. The Committee requested the entity to indicate whether the machine from China has been delivered at the Ntirisano Sanitary Towel Cooperative and state further plans to support the Cooperative. According to the entity the machine has not yet been delivered and DRDLR is urgently attending to this matter. The entity will provide the cooperative with the additional crucial components of the machinery and storage facility in the form of a container. The entity further indicated that it is also engaging the DTI on raw material service providers in China as there is none available locally.

vi. The Committee requested the entity to provide an update on the operationalisation of the Donkerhoek Water Bottling Plant considering that R78 000.00 has already been spent as at the end of the first quarter with an initial budget of R80 000.00. In response the entity stated that it is important to highlight existing institutional arrangements on the Donkerhoek Water Bottling Plant project. The stakeholders that are key to the operationalization of the plant are DRDLR, DEDT, MEGA and NDA. To operationalise the plant, pilot production was recommended due to numerous technical challenges that prevented the plant from functioning apart from financial constraints.

The Department of Rural Development and Land Reform (DRDLR) undertook to implement Pilot Production where by the DRDLR also made funds available for this project. Effectively, the DRDLR concluded a Service Level Agreement (SLA) with the CSIR for the objective of conducting pilot production. The term of the SLA had been set for two years starting 02 January 2016 until 31 December 2017. On the basis of the SLA with CSIR, the entity reported that the DRDLR is accounting fully over progress of the pilot production project. The rest of stakeholders supported the project by way of conducting monitoring progress and performing an advisory role.

Since the CSIR could not perform all tasks by the date of termination, the DRDLR extended the agreement for six months ending 31 July 2018. During this period, a number of delays were observed and which were pointed out by stakeholders to DRDLR through stakeholder meetings. The current status is that pilot production has not occurred continuously according to acceptable standards.

The CSIR attributed this to unreliability of the machinery in the production chain since it stalled regularly, and the CSIR did not have the capacity to make repairs but made use of a service provider. This led to the machines standing idle for extended periods which contributed to delays.

Since pilot production occurred intermittently thus did not succeed, full production could not occur in line with project plan deliverables. Stakeholders have observed that the plant has not demonstrated capacity to produce bottled water in an automated function per its design and concerns arising were communicated to the DRDLR. The entity and stakeholders have expressed discontent at the performance of the CSIR due to poor production capacity of the plant.

Stakeholders are informed that the DRDLR is considering a close out report received from the CSIR, and therefore it is highly recommended that the DRDLR in Mpumalanga to be afforded an equal opportunity to make a detailed presentation of the report and a recommended course of action. In support of the pilot production, the entity paid for operational costs being electricity and security costs.

Programme 6: Expenditure Analysis

Main Budget	As at 1st Quarter	% Main Budget	% of Projected
409,798,000	35,806,000	9%	30%

Programme 6 was allocated a budget of R409 798 000.00 for the 2018/19 financial year. The entity has spent R35 806 000.00 as at the end of the first quarter, which translates to 9% of its annual budget and 30% of its quarterly projected budget of R120 343 000.00. This is an under-expenditure of 70% on the quarterly projected budget of R84 537 000.00. Part of the under-expenditure was attributed to the non-commencing of Phase 2 of the Government Nutrition Programme, which is now scheduled to begin in September 2018.

6. FINDINGS

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

6.1 The Dalamba Victorious shopping complex Project is not yet operational to date.

6.2 The commencement of Phase 2 of the Government Nutrition Programme (GNP) is rescheduled for October 2018.

6.3 The entity has obtained a qualified audit opinion for the 2017/18 financial year with considerable improvement noted in the reduction of matters of emphasis.

6.4 The Committee noted that the entity still falls short in meeting targets pertaining to the disbursements of loans to SMMEs and Cooperatives.

6.5 The Donkerhoek Water Bottling plant in Mkhondo Local Municipality is currently non-operational.

7. RECOMMENDATIONS

The Committee made the following recommendations:

7.1 The entity must submit a detailed progress report to the Committee on the plan of intervention to assist Mr Dalamba to commence trading, not later than 12 October 2018.

7.2 The entity must submit a progress report to the Committee on the commencement of Phase 2 of the Government Nutrition Programme not later than 19 October 2018

7.3 The entity must strive to achieve an unqualified audit opinion for the 2018/19 financial year.

7.4 The entity must provide all projects currently funded by the entity as well as provide a synopsis and profile of each project; and submit no later than 19 October 2018

7.5 The entity, together with the DRDLR must provide a comprehensive report on the Donkerhoek Water Bottling Plant stating explicitly why the plant is non-operational.

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, the Acting HOD, Mr NM Sebitso, the Chairperson of the Board Mr Mculu, the CEO Mr X Sithole 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 first (1st) 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 22 October 2018 and thereafter on a quarterly basis.

12/09/2018

HON FV MLOMBO (MPL),
CHAIRPERSON: PORTFOLIO COMMITTEE
ON PREMIER'S OFFICE; FINANCE;
ECONOMIC DEVELOPMENT AND TOURISM

DATE