**1. THE PORTFOLIO COMMITTEE ON SMALL BUSINESS DEVELOPMENT,**

**HAVING UNDERTAKEN THE OVERSIGHT VISIT TO MPUMALANGA**

**PROVINCE FROM 27 - 31 MARCH 2017, REPORTS AS FOLLOWS: -**

**1. INTRODUCTION**

The report of the Portfolio Committee on Small Business Development (“the Committee”) addresses its oversight visit to Mpumalanga Province assumed on the 27th to 31st of March 2017 to projects sponsored by the Department of Small Business Development (“the Department”) under the Co-operative Incentive Scheme (CIS) programme. Also, the visit involved a stopover at Mzanzi Agricultural Co-operative Limited project in Mokgwaneng, one of the four co-operatives funded indirectly by the Small Enterprise Finance Agency (SEFA), an agency of the Department, in a broiler production project overseen by Super Grand Agricultural Feed Primary Co-operative Limited. Mokgwaneng is a village within Ephraim Mogale Local Municipality (LM), a LM under Sekhukhune District Municipality (DM) of Limpopo Province. The Committee visited a total of thirteen (13) projects situated across six (6) local municipalities, namely, Dr JS Moroka, Ephraim Mogale (Limpopo Province), Victor Khanye, Bushbuckridge, Nkomazi and Chief Albert Luthuli.

The oversight visit was in accordance with the mandate of the Committee as outlined in the Constitution of the Republic of South Africa, (“the Constitution”), which is to legislate, conduct oversight over the executive and facilitate public participation. Its obligation is further governed by Parliament’s mission and vision statements, the rules of Parliament and Constitutional requirements in an endeavour aimed at forging the realisation of a developmental state and ensure effective service delivery. The visit was to furthermore accomplish the Committee’s own strategic objectives which are rooted on the strategic objective(s) and outcome(s) of the fifth Parliament. These (strategic objectives of the Committee) further recognises the Department and its agencies’ priorities as captured in their respective five-year Strategic Plans and Annual Performance Plans (APP). As a result, this visit was key to ascertaining the extent to which the Department’s endeavours to accomplish intents and purposes enclosed in Programme three, basically measures aimed at “implementing a new support model for co-operatives, including implementation of the Co-operatives Act and the establishment of a Co-operatives Development Agency and Tribunal, as well as development and provision of financial incentives”.

**2. BACKGROUND**

Before the visit, Mpumalanga was one of the four provinces that had not been visited by the Portfolio Committee. The region of Mpumalanga, formerly known as Eastern Transvaal prior 1994, is one of the nine (9) provinces making up the Republic of South Africa. It is divided into three municipal districts, namely, Gert Sibande, Ehlanzeni and Nkangala, and these are further split into 18 local municipalities. The name [Mpumalanga](http://www.mpumalanga.com/) is a Nguni word meaning “the place where the sun rises”. The province lies in the Eastern South Africa neighbouring Kingdom of Swaziland and Mozambique in the east and share borders with the provinces of [Limpopo](https://en.wikipedia.org/wiki/Limpopo) to the north, [Gauteng](https://en.wikipedia.org/wiki/Gauteng) to the west, [Free State](https://en.wikipedia.org/wiki/Free_State_%28province%29) to the southwest, and [KwaZulu-Natal](https://en.wikipedia.org/wiki/KwaZulu-Natal) to the south. The Province is fairly modernised with the town of Mbombela enjoying qualities of a cosmopolitan city and one of the fastest growing nodes in the country. Following amalgamation with uMjindi Local Municipality after the 2016 local government elections (LGE), Mbombela Local Municipality is pressing ahead towards attaining a Metro status in 2021.

The Mpumalanga region is the second-smallest province after Gauteng with a surface area of only 76 495 square kilometres or 7 percent of South Africa’s land area. However, it prides itself of being the fourth-largest economy in the country. According to Statistics South Africa (STATSSA) 2011 Census report, Mpumalanga is home to just over four (4) million people. It has robust agriculture, mining, tourism and manufacturing sectors with a propensity to provide ample downstream and value adding opportunities for survivalist, small, micro, medium and co-operative enterprises. It is a province with an immense investment potential and host to international players such as South African Synthetic Oil Liquids (SASOL), South African Pulp and Paper Industries (SAPPI), Mondi, Eskom and most cherished tourism attraction, Kruger National Park.

Critical for economic growth and social development is the provincial excellent road network that enables regional trade by linking its major economic hubs to Limpopo, Gauteng, KwaZulu Natal and most importantly Mozambique, which also provides port access as Mpumalanga is a landlocked region. Mozambique is one of the Southern African Customs Union (SACU) signatory. As such, the Maputo Corridor, which connects the province with Gauteng and Maputo in Mozambique, provides generous prospects in terms of economic development and growth for the region. The thriving tourism sector anchored on the privately owned Kruger Mpumalanga International Airport with direct flights to and from Cape Town, Durban and Johannesburg, provides numerous downstream benefits emanating from tourism related activities.

The Committee embarked on a visit to a selected few of the 400 co-operatives that have benefited from the Department CIS programme since inception in 2014. The visits also encompassed a stop-off at i-Cat head office in Pretoria, and one of the poultry project funded by SEFA in Sekhukhune DM, Limpopo province. A total of 12 CIS beneficiary projects, all in Mpumalanga, had been selected for assessment to gauge the level of progress, to understand their business and operational requirements, opportunities and challenges, impact on poverty and job creation, alignment with local and district municipality Integrated Development Plans, Mpumalanga Economic Growth and Development Path, Mpumalanga Infrastructure Development Master Plan and Intergovernmental Relations Framework Act to mention but the few. The Committee visited and interacted with the following companies, co-operatives and municipalities: -

* i-Cat (Pretoria, Gauteng);
* i-Cat Road Construction project (Dr JS Moroka Local Municipality);
* Thembisile Poultry Primary Co-operative Limited (Dr JS Moroka Local Municipality);
* Kangaroo Chicken Farmers Organisation Agricultural Primary Co-operative Limited (Dr JS Moroka Local Municipality);
* Dr JS Moroka Local Municipality;
* Super Grand Agricultural Feed Primary Co-operative Limited (Ephraim Mogale LM);
* Mzanzi Agricultural Co-operative Limited (Ephraim Mogale Local Municipality);
* Victor Khanye Local Municipality;
* Thuthukani Poultry Farm Co-operative Limited (Victor Khanye Local Municipality);
* Ehlanzeni District Municipality;
* Xinkuhlwana Skills Development and Projects Primary Co-operative Limited (Bushbuckridge Local Municipality);
* Vurhonga Farming Co-operative Limited (Bushbuckridge Local Municipality);
* Working Together Trading and Farming Primary Co-operative (Bushbuckridge LM);
* Bushbuckridge Local Municipality (Political leadership opted to disregard the PC visit);
* Sidla Banyembenya Co-operative Limited (Mbombela Local Municipality);
* Intsengu Agricultural Primary Co-operative Limited (Mbombela Local Municipality)
* Nkomazi Local Municipality;
* Vulamehlo Crop and Livestock Co-operative Limited (Nkomazi Local Municipality);
* Imvuno Farmers Agricultural Co-operative Limited (Nkomazi Local Municipality);
* Chief Albert Luthuli Local Municipality and;
* Umsenga Farming Co-operative Limited (Chief Albert Luthuli Local Municipality).

**3. OBJECTIVES OF THE VISIT**

The aim of the visit was to evaluate progress made on projects supported by the Department as per its strategic objectives, to test the authenticity of the information provided by the Department and its agencies through its quarterly and annual reports, to interact with internal and external stakeholders to inform the Department future strategic plans and annual performance plans, to ensure intergovernmental checks and balances in an effort to simplifying the Departmental systems and processes and essentially to:-

3.1 evaluate the state of co-operatives supported by the Department under the CIS programme;

3.2 the extent of synchronisation with respect to service(s) and product(s) offering by the Department and its agencies;

3.3 assess the impact of financial and non-financial support given to co-operatives by the Department and its agencies on triple challenges antagonising South Africa;

3.4 interact with the Provincial Departments of Economic Development, Tourism and Environmental Affairs, COGTA, Agriculture and Rural Development which lead programmes of developing survivalist, small, micro, medium and co-operative enterprises;

3.5 enhance understanding the nature and state of co-operatives in Mpumalanga province including level of stakeholder participation, both in the public and private sectors;

3.6 enhance cooperation and coordination between all spheres of government in developing small business sector and to;

3.7 enable the affected groups to speak for themselves.

**4. COMPOSITION OF THE DELEGATION**

The delegation comprised of members of the Portfolio Committee on Small Business Development, Parliamentary Officials, and officials from the Department of Small Business Development, officials from Districts and Local Municipalities Local Economic Development (LED), officials from Mpumalanga Department of Economic Development, Agriculture, Rural Development and Cooperative Governance and Traditional Affairs (COGTA). Officials from Small Enterprise Finance Agency attended only a single leg of the visit, the Ephraim Mogale Local Municipality.

**4.1 Members of the Portfolio Committee on Small Business Development**

Ms NR Bhengu, MP (ANC) Leader of the delegation

 Mr X Mabasa, MP (ANC)

 Mr SD Bekwa, MP (ANC)

 Mr TZN Khoza, MP (ANC)

 Ms N Mthembu, MP (ANC)

 Mr RWT Chance, MP (DA)

 Mr HCC Kruger, MP (DA)

 Mr TE Mulaudzi, MP (EFF)

 Mr SC Mncwabe, MP (NFP)

 Rev. KRJ Meshoe, MP (ACDP)

**4.2 Parliamentary Officials**

Mr NK Kunene Committee Secretary

 Mr S Gumede Committee Content Advisor

 Ms N Jobodwana Committee Assistant

 Ms N Zixesha Executive Secretary

**4.3 Department of Small Business Development Officials**

Mr Petrus Mathonsi Assistant Director

Mr Tinyiko Baloyi Assistant Director

Ms Elizabeth Moleko Deputy Director

Mr Emmanuel Moshoeshoe Trade and Industry Advisor

Mr Kopano Ramashala Business Advisor

**DAY ONE: DR JS MOROKA AND EPHRAIM MOGALE LMS**

**5. VISIT TO I-CAT ENVIRONMENTAL SOLUTIONS HEADQUARTERS**

The first day of the Committee’s oversight programme was dedicated to visits in Dr JS Moroka and Ephraim Mogale Local Municipalities. The first point of call was I-CAT offices, located in N4 Gateway Complex, just outside Pretoria. During this leg of the visit the Committee was joined by the Minister of Small of Small Business Development Hon Lindiwe Zulu. I-CAT Environmental Solutions delegation headed by the Chief Executive Officer Mr James van Reenen visited Parliament on the 7th of December 2016 and did a brief but informative presentation regarding one of the company’s innovative solution called GreenBit. The meeting had then taken a resolution that, during its planned oversight visit to Mpumalanga, the Portfolio Committee would prioritise visit to I-CAT head office and at least one of the project where this solution is currently being piloted in Dr JS Moroka Local Municipality. I-CAT Environmental Solutions is a leading environmental management company with its primary focus on supplying products and service to assist companies in environmental management. The organisation has formulated and developed innovative and affordable dust suppression products for an effective and durable method of controlling dust, products to assist with surface stabilisation and significant water use reduction for an exceptional economical overall cost.

**5.1 What is GreenBit**

GreenBit is a natural binding agent combined with an emulsified bitumenous product to create a durable gravel road sealant. It is an environmentally safe alternative to pure chemically based products for permanent gravel roads on mines and residential areas. I-CAT developed this application which produces a durable, smooth and dust free surface that eliminates the need for frequent maintenance for marketing to government sector in its road maintenance programme. The company, through partnership with the Department of Transport (DOT) and most importantly the local government which do the construction and maintenance of municipal roads, seeks to craft an ecosystem that supports co-operatives development. The aim being to use the model to generate sustainable co-operatives in order to create jobs particularly for youth and women owned co-operatives in rural areas. According to the company, GreenBit has been extensively tested on both public and mine haulage roads. It produces a strong base with a smooth and durable surface. Maintenance sprays are dependent on external factors but the company ‘is happy that its clients are extremely satisfied with results, which exceed expectations on durability’.

**5.2 Summary of Discussions and Recommendations**

Members of the Portfolio Committee were generally receptive of the project. However, they probed the management of the company if any of the state departments specifically DOT and Cooperative Governance and Traditional Affairs (COGTA) have been engaged with respect to the project in particular the funding model as almost all road infrastructure in both rural and urban communities is funded through conditional grants. The construction and maintenance of municipal roads is the responsibility of local government. Therefore, the sustainable funding model for roads infrastructure at municipal level, especially in rural areas where there is no property rates tax funding tends to be problematic. Members also raised the challenge with Municipal Finance Management Act provisions which regulates how unsolicited bids are handled, in relation to the project in question.

There was also a strong sentiment that municipalities are swamped by road infrastructure backlogs which in many instances have triggered violent protests. There is thus a need to tackle this problem in a more sustainable and integrated fashion. This being a pilot project to test its feasibility, there are lot of government departments that needs to be approached. There was also a strong sense that this project could be one of the arsenal at the Department disposal in tackling triple challenge facing the country. Members felt it was important for the Department to take this project and own it, and make a name for itself, and possibly make it one of its flagship project particularly that it is anchored on the co-operative model.

Members alluded to South Africa that is two worlds in one, first being “urban with excellent road network, neatly maintained, world class infrastructure” and the other with “the long grass, rural, dust and dirty with implications to the health of the poor”. Members cited areas or villages where Ambulances or Police cannot reach, such that even during funerals people are often required to carry coffin(s), including schools that are not accessible in bad weather conditions, and farmers that produce crops in remote and inaccessible areas, elevating the necessity for the Department to negotiate with other Departments, Provincial Departments and Municipalities. I-CAT itinerary was concluded by a visit to a site in Dr JS Moroka Municipality.

**6. VISIT TO THEMBISILE POULTRY PRIMARY CO-OPERATIVE PROJECT**

Thembisile Poultry Primary Co-operative Limited is a five-member start-up commercial venture conceptualised in 2012. It has been operating informally until incorporation in line with the Co-operative Act in 2015. Initially, the project was operated in Cullinan, a small town 30 kilometres east of Pretoria, but owing to challenges with the landlord, switched to Dr JS Moroka Local Municipality, a LM under Nkangala District Municipality. Co-operative members received training from the Agricultural Research Council (ARC) on broiler management and thereafter solicited the assistance of the Nelspruit based Service Provider, Malaika Holdings (Pty) Ltd, to develop the business plan which was then submitted to the Department as part of the application for financial assistance. The land has since been acquired from the tribal chief through a common user right scheme, Permission to Occupy (PTO) which allows the co-operative occupation right over the piece of land where the broiler structures are currently being erected.  It must be said, however, that PTO is a less formal tenure right that merely evidences a user right and as such is only a personal right and not registerable in a Deeds Registry.

**6.1 Observations and Findings**

The Committee observed and found the following:

6.1.1 The project is funded by the Department to the tune of R348 000 for various components which include, among others, broiler house, concrete floor, water tank, manifold system, full package curtain system, automatic bell drinkers, chick trays, founts, foot bath, thermometer, tube feeders, 2000 day old chicks, bio sprayers to mention just the few;

6.1.2 The Service Provider is Malaika Holdings (Pty) Ltd, headquartered in Nelspruit, which handled a complete financial transaction on behalf of the co-operative;

6.1.3 Additional or supplementary infrastructure such as running water or borehole, road access, electricity and ablution facility remain a challenge. As a result, makeshift coal stove (imbawula) is used to keep the chicken warm, paraffin lanterns are used for lighting, water is sourced from the neighbours at a cost and access road to the actual site require some attention;

6.1.4 The project has neither been introduced nor known by Dr JS Moroka Local Municipality and Nkangala District Municipality and therefore unable to attract further infrastructural support largely as a consequent that it does not appear on the integrated development plans (IDP) of the two municipalities;

6.1.5 The first batch of 3000 chickens were sold to the community and whackers, there is therefore no guaranteed or sustainable market for the co-operative;

6.1.6 Members of the co-operative are not known locally, they commute daily from Mamelodi where they are residing to a site, some 40 kilometre distance which puts the long-term viability of the project in doubt;

6.1.7 Also of concern, is that the site is positioned alongside residential homesteads. It is thus unclear if the area is demarcated for domestic or commercial purposes;

6.1.8 SEDA is a passive participant in the project, having only been made aware of the project a week before the Committee’s oversight visit. As such, no non-financial support such as training or skills development has been extended to the members of the co-operative beside the one offered by ARC at the beginning of the project;

6.1.9 There is no strategic or long-term vision from the Department to include young and recent graduates from TVET colleges and Universities to form part of these projects in order to sharpen their skills and impart and provide technical support to the co-operatives;

6.1.10 Contrary to other projects that the Committee had visited, for instance in Limpopo Province, there is no strategy to utilise Expanded Public Works Programme (EPWP) to offset wages and/or stipends of the members of a co-operative, an approach that is unfortunately missing in all the projects the Committee visited in Mpumalanga.

**6.2 Recommendations**

6.2.1 The Department has a responsibility to broaden its understanding of all the projects under its support, identify gaps that require intervention in the form of additional funding and infrastructure, technical assistance, skill development, training and those that require signing of transversal agreements in an effort to leveraging soft and hard infrastructure that is so desperately needed by the co-operatives;

6.2.2 The Department also need to provide adequate support to the projects, both financial and non-financial, lead an integrated process of nurturing co-operatives from inception phase to spearheading market access intervention programmes particularly in light of the 30 percent procurement policy from small businesses as announced by the President during the 2015 state of the nation address (SONA);

6.2.3 The Department must engage both Dr JS Moroka LM, Nkangala DM and various Departments of interest to its mandate in Mpumalanga with a view to validation of project specific transversal agreements, such as, strategic utilisation of its shared economic infrastructure facility (SEIF) financial package to establish communal abattoirs for use by a large number of co-operatives with interest in chicken production in order to achieve economies of scale.

**7. VISIT TO KANGAROO CHICKEN FARMERS ORGANISATION PRIMARY CO- OPERATIVE PROJECT**

Kangaroo Chicken Farmers Organisation Agricultural Primary Co-operative Limited is located in a village called Siyabuswa, KwaMhlanga. It is a five-member co-operative project which started in 2001. The seed funding of R140 000 to put up the first structure was provided by the Provincial Department of Social Development in 2001. The training on broiler management and basic business skills was offered by Mpumalanga Regional Training Trust (MRTT) during the same year. The business started as an experimental project but has experienced marginal growth and managed to expand its operational capacity to two structures. When the Portfolio Committee visited the project the total number of chickensor stockon hand were 2000 birds, down slightly from 2500 the previous month that is according to the Chairperson. Numbers are still small but the growth has been exponential and able to realise savings which members have used to pay wages of R1600 on a monthly basis. The land is owned by the Chief of the village. The co-operative is one of the CIS beneficiaries financed by the Department to purchase a delivery bakkie at Kia Motors in Hatfield Pretoria for R245 000. There is a balance of R100 000 on the CIS which the co-operative is planning to utilise for expansion once its revised business plan is complete.

**7.1 Observations and Findings**

The Committee observed and found the following:

* + 1. The Committee was impressed by the project particularly the effort towards providing shelter for poor women, employment creation and eradication of poverty;
		2. The Co-operative product has substantial demand but the supply capacity is inadequate owing to the shortage of infrastructure such as cold room, abattoir and fencing to name just the few;
		3. There is no fixed or viable market for the co-operative apart from the community. The official(s) from the Department tasked with the responsibility for market access were not present throughout the oversight visit. This is despite all the co-operative projects that the Portfolio Committee has visited in the past have consistently raised the question of market access as a major hurdle;
		4. The co-operative has had few engagements with potential buyers such as Eskom and Royal Mnandi, a specialist outsourced catering company and member of Bidvest network. Their stringent criteria nevertheless require substantial investment in the value chain i.e. Hazard Analysis and Critical Control Point (HACCP)and Safe Quality Food (SQF) Certification among others in order to meet required food safety standards;
		5. The participation of the Provincial Department of Social Development through principal funding of the project, assisted the growth of the co-operative to a certain extent;

**7.2 Recommendations**

7.2.1 A similar recommendation made by the Portfolio Committee as above is that the Department has a responsibility to broaden its understanding of all the projects under its support, identify gaps that require intervention in the form of additional funding and infrastructure, technical assistance, skill development, training and those that require signing of transversal agreements in an effort to leveraging soft and hard infrastructure that is so desperately needed by the co-operatives;

7.2.2 The Department also need to provide adequate support to the projects, both financial and non-financial, lead an integrated process of nurturing co-operatives from inception phase to spearheading market access intervention programmes particularly in light of the 30 percent procurement policy from small businesses as announced by the President during the 2015 state of the nation address (SONA). The Department’s concentration appears to be exclusively on addressing the demand side yet its Achilles heel is proving to be its lack of foresight in dealing adequately with supply side capacity;

7.2.3 The Department must engage both Dr JS Moroka Local Municipality, Nkangala District Municipality and various Departments of interest to its mandate in Mpumalanga with a view to validation of project specific transversal agreements, such as, strategic utilisation of its shared economic infrastructure facility (SEIF) financial package to establish abattoirs for use by a large number of co-operatives with interest in chicken production in order to achieve economies of scale, various Sector for Education and Training Authorities (SETAs) as well as South African National Apex Co-operative (SANACO) to name just the few.

**8. VISIT TO DR JS MOROKA LOCAL MUNICIPALITY**

The Dr JS Moroka Local Municipality is a Category B municipality situated within the Nkangala District in the north-western part of the Mpumalanga Province. It is the smallest of six municipalities in the district, making up 8 percent of its geographical area which consist of 55 villages, roughly over 31 wards and an average population of 250 000 people. The LM is a mixture of urban, peri-urban and rural settlement. There is no tangible or viable economic activity which exacerbate an already high unemployment rate. As a result, the Tshwane and Johannesburg Metros are the most important employment centres and large numbers of people commute daily to these areas.

The Committee itinerary included a working lunch at the Local Municipality headquarter where it was warmly received by the political leadership. The Committee was received by the Mayor of the local Municipality Councillor RS Mathabe. Following the introductions, the Chairperson of the Committee made a brief presentation outlining the objective of the oversight visit, brief summary of the nature of the financial support extended by the Department to the co-operatives in the LM, expected roles of provincial, district and local spheres of government towards supporting these projects. The Portfolio Committee learnt quite a few things including that the mandate of the Department was not known nor clearly understood in the area, it being denoted or referred interchangeably with the Department of Trade and Industry was rather alarming.

**8.1 State of the Small Businesses in the LM**

According the LM integrated development plan (IDP) co-operative(s) is one of the sectors earmarked for expansion in order to augment and intensify economic activity in the region to address the needs of the unemployed. Hundreds of co-operatives have been set up in the area, many under the jobs for growth programme, others linked either to the Department of Agriculture or Department of Social Services and some have been set up by producers, workers and business people themselves. Other businesses are registered in line with the Mpumalanga Business Act no.2 of 1996 as survivalists, street traders, whackers and tuck shop owners and the Municipal Officials conduct inspections to businesses that are operating within Dr J.S. Moroka to check compliance with the said act and also to ascertain if they keep up with expected health hazards.

There is a concern nonetheless that people are turning households into businesses so that they can be able to lease them to foreign nationals such that these shops end up being used simultaneously for residential and commercial purposes. In many instances, the windows of the food premises operated by foreign nationals are closed using bricks, and by so doing, they contravene R.962 of 23 November 2012 as promulgated under food, cosmetics and disinfectants Act no.54 of 1972. The local municipality is therefore in a process of holding meetings with the business holders in order to encourage them to apply for trading licences and permits, renew expired licences and payments of the municipal services.

**8.2 Summary of the Discussions**

During brief engagement with the leadership and officials from the local municipality the Committee was told that there are sector departments such as the Department of Agriculture that just provide support and leave it at that without really making any form of contact with the LM. For instance, Member of a Municipal Council Ms Dipuo Mahlangu indicated that, in some cases, the Ministers would come make commitments and never come back, like the Minister of Small Business Development did in June 2015, specifying that since her visit, nothing has come of it. She further lamented the national departments for not working with the local municipality and stressed that there are numerous initiatives that have since collapsed owing to lack of harmonisation between different spheres of government.

The visit of the Portfolio Committee was thus applauded as signalling the start of something tangible and beneficial to the local municipality. The LED Manager Mr J Shabangu went further to state that there are Fresh Produce Market (FPM) and abattoir buildings in Ward 20 within the LM that have not been put into productive use. These are some of the structure sponsored by the national Departments without involving the local municipality which makes it impractical to exercise oversight at local level. The Municipal Manager Mr BS Mahlangu also emphasised this gap and pointed out that there is very little progress that has been attained. However, the LED Manager has been brought in precisely to ensure that economic development is energised.

Members of the Committee took turn to ask questions of clarity or add inputs. Members for instance were keen to know the current status of the relationship between the LM and Department of Agriculture, the status of the Fresh Produce Market (FPM) and the LM involvement in the Agri-park initiative. If these structures i.e. FPM were to be resuscitated, where would the produce come from considering or deducing from what can be seen at a face value that, not much land is available or zoned for agricultural purposes. Further questions from Members were asked with respect to efficacy of LED Forums with other local and district municipalities, or if at all they do exist. Members were concerned that it seems, the focus especially of the national departments is more on building infrastructure which ultimately tend to become white elephant because there is no coordination taking place either horizontally or vertical to ensure that these projects do come to fruition. For instance, Nokaneng, one of the villages within the LM known for agriculture, the Committee was briefed that there are 17 tractors belonging to the village but only four (4) working, there is a state of the art milling plant that is not operational also built by the Department of Agriculture.

**8.3 Concluding Remarks**

The Municipal Manager acknowledged that there is a gap between the LM and various Departments, especially the Small Business Development around the issues of coordination that require further attention. On linking the FPM and/or Agri-park hub he made an example of some citrus farm about 20 kilometres from Marble Hall which could be used a feeder to the FPM or Agri-park hub initiative. The medium to long term strategy is therefore to establish light manufacturing industries to process citrus into juice and various other by-products, and link this production value chain with other well established producers from Limpopo province who are already exporting to overseas markets. The LED Manager, stated that six co-operatives have already been identified to kick-start this project. The LM enjoys a strong relationship with various government departments such as Agriculture, having instituted an abattoir project in Ward 20, built stalls and boreholes.

The LM concluded by emphasising that the issue was the lack of technical support and commercialisation of the projects and link with markets. The Minister of Small Business Development acknowledged that indeed, coordination was a serious problem, but equally reminded the municipalities that they were the eyes and ears of the National government. She stressed the necessity for educating communities to appreciate what they are sitting with, indicating that “it was unfortunate and unacceptable that infrastructure worth millions is allowed to become white elephant, it was deplorable that people cannot defend equipment bought by their own government”. While the issue of coordination is generally a national problem that require some serious introspection at a much higher level, the Department of Small Business Development will press ahead with consolidating its relationship with local and provincial governments in light of the fact that the Department cannot be everywhere, a bridge can only be walked by locals through cementing ties between the Department and local sphere of government.

**9. VISIT TO MZANZI AGRICULTURAL CO-OPERATIVE PROJECT**

Mzanzi Agricultural Co-operative Limited is one of the four co-operatives funded by SEFA for a sum total of R5 million. The Co-operative is leasing a 10-hectare farm from Bareki community Trust. The farm has a transformer and two boreholes. It is a five-member women owned co-operative based in Mokgwaneng village, Ephraim Mogale municipality, Sekhukhune district of Limpopo province. Each of the four projects received loan amounts of R5 million indirectly from SEFA. The loans were approved on the basis or financial strength of Super Grand Agricultural Feed Primary Co-operative Limited (“Super Grand”) balance sheet, which also plays administrative and managerial role to the project. Other co-operatives involved in the project, these were not visited by the Portfolio Committee, are: -

* Khayalethu Masakhisane Skills Farming Primary Co-operative Limited project which was formed in 2008 and incorporated as a co-operative in 2009. The co-operative is based in Gemsbokspruit, Thembisile Hani local municipality in Nkangala district. The co-operative is a joint beneficiary of a 572 hector farm with Hitsakile Agricultural Primary Co-operative Limited from the Department of Rural Development and Land Reform through a lease. The members have more than twenty years of farming experience in activities that include broilers, livestock, and crops. The work to be completed includes concrete slabs, building and welded mesh window frames;
* Hitsakile Agricultural Primary Co-operative Limited was formed in 2008 to undertake agriculture related activities but only registered as a co-operative on the 27th of May 2016. It is a seven-member co-operative domiciled in Thulamahashe, Thembisile Hani local municipality. It is joint beneficiary of 572 hector farm with Khayalethu Masakhisane Skills Farming Primary Co-operative Limited and;
* Tsebere Mphephe Farming and Projects Primary Co-operative Limited was formed in 2010 as a close corporation (CC) before being converted on the 17th of March 2016 into a Co-operative. It is founded by six members, all residents of Elias Motsoaledi local municipality, a LM under Sekhukhune DM of Limpopo province. The co-operative was created to participate in the poultry industry. It is a lessee of a 20-hectare farm, from Lebone Trust, a community trust which members of the co-operative are part of.

**9.1 Background**

In 2010, the Department of Agriculture provided a R3.5 million grant for each Co-operative to build broiler production houses on the land reform farms that they are leasing in Mpumalanga and Limpopo provinces. The projects experienced challenges early on due to lack of technical experience, high input costs and lack of markets. These challenges brought them to a standstill until Super Grand got involved. Since 2010, Super Grand provided the market for broiler chickens to the Co-operative, through its Enterprise and Supplier development programme that assists emerging farmers to participate in the mainstream economy. Furthermore, Super Grand has an off-take agreement with Kroons Abattoir to supply 500 000 broiler chickens for every 35 days.

After Super Grand’s involvement, the Co-operatives were able to provide 200 000 broilers/chickens from October 2013. There was however a shortage of 300 0000 broilers that needed supply. Due to this need the Co-operatives and Super Grand took a decision to increase the existing capacity by adding chicken houses that can take 50 000 chickens each. This would result in an increase of supply by another 250 000 chickens. Henceforth, this culminated in the request for SEFA to fund the Co-operatives to increase their capacity and provide revolving working capital. In November 2015, SEFA approved R20 million for the four Co-operatives. This funding is split as follows:

* R16.8 million instalment sale loan to construct the broiler houses infrastructure, and;
* R3.2 million for a revolving working capital loan for 5 years.

The table below depicts the project structure where the main participants in the project and their responsibilities are shown linked to the above process flow: -

**Table 1**

|  |  |  |
| --- | --- | --- |
| **Partners in the value chain** | **Role** | **Structures in place** |
| 1. **Super Grand**
 | * Provides inputs (one day old chicks, medicine, feed), Technical Support to Co-operatives;
* Supplies fully grown chickens to abattoir;
* Ensures that the Co-operatives repay SEFA loan;
* Skills transfer to the Co-operatives in terms of maintenance and monitoring of the broiler houses.
 | * Partnership agreement with Co-operatives.
* Off take agreement with the abattoir.
* Co-operation Agreement with SEFA.
 |
| 1. **The Co-operatives**
 | * Acquire broiler houses where they grow chickens that are supplied to the abattoir;
* Maintain the broiler houses;
* Acquire skills from Super Grand in the maintenance and monitoring of the broiler houses whilst the chickens are growing.
 | * Partnership Agreement with Super Grand;
* Maintenance agreement with the supplier of chicken houses.
 |
| 1. **Kroons Abattoir**
 | * Buy the chickens from Super Grand for slaughter;
* Supplies fresh chicken meat to a number of key wholesalers ( Pick ‘n Pay, Spar, Makro).
 | * Off Take Agreement with Super Grand.
 |
| 1. **Equipment Supplier**
 | * Supply the Co-operatives with the chicken houses (Broiler).
 | * Supplier Agreement.
 |
| 1. **SEFA**
 | * Provide funding for the infrastructure and working capital to the co-operatives.
 | * Loan agreement with the Co-operatives.
 |
| 1. **Pick n Pay/ Spar /Makro**
 | * The market for the chickens from the Abattoir.
 | * Agreements with Kroon to supply the chicken meet.
 |
| 1. **Department of Rural Development/ Community Trust**
 | * Provided lease land to the Co-operatives.
 | * Agreements with Co-operatives.
 |
| 1. **Department of Agriculture**
 | * Provided the Co-operatives and Super Grand with grants.
 | * Agreements with Co-operatives and Super Grand.
 |
| 1. **IDC/NEF/Vendor financing**
 | * They finance the activities of Super Grand as the holding company.
 | * Loan agreements.
 |

**9.2 Observations and Findings**

The Committee observed and found the following:

* + 1. All four projects received a loan amount from SEFA totalling R20 million via, seemingly, Super Grand Agricultural Feed Primary Co-operative Limited. Super Grand has various subsidiaries, at the time of finalising the oversight report, both SEFA and Super Grand had not clarified which of the Super Grand subsidiaries had actually been used as a conduit in receipt of the funds as monies had not been paid directly to co-operatives;
		2. During the oversight visit the Portfolio Committee was informed that co-operatives were funded on the strength of Super Grand balance sheet. However, it was again not cleared which of the Super Grand subsidiaries had actually been evaluated as part of the due diligence process by SEFA;
		3. The Portfolio Committee notes nonetheless that 2016 SEFA Annual Report makes reference to a partnership with Super Grand (Pty) Ltd (an entity that legitimately does not exist) but not Super Grand Agricultural Feed Primary Co-operative Limited, save to say that Super Grand Agric Feed company was only incorporated in October 2014, the next financial year end being the 1st of February 2015. For that reason, it is the understanding of the Portfolio Committee that it would not have been feasible for SEFA to have done due diligence on such a fairly new entity;
		4. During the Portfolio Committee interactions with SEFA represented by Mr M Sekgwane, Super Grand represented by Mr S Mabuza and members of the co-operative in Mokgwaneng, Committee members were informed that SEFA and Super Grand met in 2013, and SEFA funded the four co-operatives in 2015, yet two of the four co-operatives, HITSAKILE AGRICULTURAL PRIMARY CO-OPERATIVE LIMITED and TSEBERE MPHEMPE FARMING AND PROJECTS PRIMARY CO-OPERATIVE LIMITED were only registered in 2016, the latter being a conversion of a Close Corporation into a Co-operative. As things are, there is therefore a potential scenario where the funding approval might have preceded co-operatives incorporation. Once more, at the time of finalising the oversight report this poser had not been made clear by either parties;
		5. Pursuant to 9.2.3 above, it is unclear if 2016 SEFA Annual Report assertion that “these projects have proved to be very successful”, a reference to the four co-operatives under observation, was a deliberate attempt to misinform SEFA stakeholders, most importantly the Shareholder and Parliament, as some of the developments discovered by the Portfolio Committee on just this project alone indicate quite the opposite. There is too much tension and frosty relationship between Mzanzi Agricultural Co-operative Limited and Super Grand, it is thus a distortion, misrepresentation and unclear on what basis was this audacious statement made on an official document, Annual Report, when the project was destined to collapse even before it commenced, due to a manner in which it had been structured;
		6. The Committee was told of outstanding previous payments cycle from Super Grand to the Co-operatives, outstanding electricity bills, broiler mortality as well as production cycle stoppages;
		7. The Portfolio Committee was further told that the Department of Agriculture intervened and undertook to make outstanding electricity payments. Also, SEFA and Super Grand representatives jointly undertook to make outstanding payments to the Co-operatives on or before the 31st of March 2017. However, at the time of finalising the oversight report, both parties, SEFA and Super Grand, had failed to honour their undertaking of paying monies owed to Co-operatives;
		8. Each co-operative owes SEFA R5 million plus interest charges, all four co-operatives are struggling to pay this money back, in fact not even a cent of the capital or interest amount is being serviced by co-operatives. In the meantime, principal loans are accruing interest and penalty charges are being added to a staggering principal debt that co-operatives owe SEFA;
		9. Perhaps the only, impromptu and non-binding concession the Portfolio Committee could negotiate with SEFA representative on behalf of the co-operatives, was the possibility to circumvent predating interest charges from the date of loan approval, but to start charging interest as at the beginning of 2017, but still, this is hardly a lasting solution;
		10. It is inconceivable that underprivileged co-operatives from deep rural poverty appear to have been coerced into taking SEFA loans to acquire the same components, material and stock that could either have been subsidised through DSBD Shared Economic Infrastructure Facility (SEIF) or the CIS grant. The Portfolio Committee regards this as outright indecorous, inappropriate and gross injustice to the poorest of the poor, it must never be condoned nor allowed to ever happen again.

**9.3 Recommendations**

9.3.1 There were too many grey areas regarding SEFA and Super Grand presentations with regards to how the project had been packaged and financed from the beginning. It was probably the first of its kind and, it in fact raises more questions than answers. An urgent and exhaustive engagement with SEFA Accounting Authority and Accounting Officer, as well as the Director General of the Department needs to be scheduled as a matter of urgency to unpack this issue. The Portfolio Committee need to be comprehensively briefed and updated on how SEFA funds its projects;

9.3. In preparation for this meeting, the Portfolio Committee would request to be furnished with all necessary documentation i.e. minutes of the adjudication committee meeting, minutes of the meetings between/among the co-operatives, SEFA and Super Grand, applicable SEFA investment guidelines and all other material that would assist the Portfolio Committee undertake and recommend a well-informed intervention;

9.3.3 As above, an urgent meeting with all stakeholders concerned is essential to afford everyone an opportunity to enlighten the Portfolio Committee what exactly transpired in this project, and jointly work out a mechanism of using CIS and SEIF to recapitalise gigantic debt(s) facing these co-operatives;

9.3.4 Finally, the onus is on the Portfolio Committee, pursuant to its constitutional responsibility to carry out its own inquiry, including forensic analysis where apposite, in order to take an appropriate remedial action.

**DAY TWO: VICTOR KHANYE LOCAL MUNICIPALITY**

The second day of the Committee’s official visit was dedicated to three visits as follows, Victor Khanye Local Municipality under Nkangala DM in Delmas, site visit to one of the CIS funded project/co-operative, Thuthukani Poultry Farm Co-operative Limited also in Delmas and eHlanzeni District Municipality, headquartered in the city of Mbombela.

**10. VISIT TO VICTOR KHANYE LOCAL MUNICIPALITY**

Upon arrival at Victor Khanye Local Municipality, the Portfolio Committee was cordially received by the Executive Mayor of the LM, Councillor S Makhabane. Following the introductory and welcome remarks by the Executive Mayor, the Chairperson gave a detailed background behind the Committee’s visit to the LM, indicating among others that, most national and provincial Departments have co-operative programmes which are not strategically coordinated and harmonised to deal emphatically with the triple-challenge of poverty, unemployment and inequality ravaging the country. The Chairperson further pointed out that it seems, ‘these are nice to have programmes with interventions that tend to focus more on consumptive budget i.e. child support grants and free housing as opposed to addressing productive capacity’ to empower recipients to become self-sufficient.

Hence, the medium to long-term vision of the Portfolio Committee is to realise cost-effective utilisation of limited resources to see a number of child grant beneficiaries and those that are recorded in the indigent register of the municipalities being reduced and becoming productive and economic citizens that contribute to the revenue of the municipalities. Presently, the government outlay, estimated at R50 billion annually, is heavily skewed in favour of social services which is putting more strain on public resources. Co-operatives model and particularly the creation of the Department tasked with the responsibility to nurture and cultivate the culture of co-operatives and entrepreneurship is an opportunity that all the strata of society ought to embrace. However, this was not feasible if the Department entrusted with this responsibility is not up to the task as has been proven time and again.

Therefore, pursuant to its mandate the Portfolio Committee was paying a courtesy visit to the LM to establish if the Department itself was known to the LM, if the lines of communication between the LM and the Department have been established, to ascertain if the LM was aware of the existence of Thuthukani Poultry Farm Co-operative project as well as to establish if any support, financial or otherwise, has ever been provided to the co-operative, and if not why. The Victor Khanye Local Municipality (previously Delmas Local Municipality) is one of the six municipalities constituting district municipality of Nkangala. It is a category B municipality, one of the most strategically positioned local municipality on the boundary of the Guateng Province, less than 100 kilometers to/from Pretoria, Johannesburg and eMalahleni. The municipality is linked by a major freeway, the N12, which was declared a Maputo Corridor.

**10.1 Summary of the Discussions**

The Executive Mayor made a brief reflection with regards to the role of the local government in the projects of this nature which are clearly expressed in the integrated development plan (IDP), the role of IDP in planning processes and budgeting, role of LED Forums and MinMec structures in forging an integrated and coordinated methodology to project support. The project was not known to the local and district municipalities. The LM only came to know of the project after receiving a Parliamentary communique concerning the imminent visit. The Executive Mayor noted that most departments do not regard IDP processes of the local and district municipalities as significant to tactically avoid duplication and silo mentality challenge to service delivery. Most of the departments fund projects in the municipalities without even due consideration of the IDP and spatial development plans (SDP) of the local municipalities.

The LED Manager Mr S Masina added that the local municipality was working fairly closely with SEDA such that three of the co-operatives in the municipal database have in the past acquired assistance from the agency.An official from the Provincial Department of Agriculture Mr P Nkambule indicated that the department was only aware of the project in so far as the development of the business plan, which was subsequently forwarded to the Department of Trade and Industry (Small Business Development), and poultry training offered to the members of the co-operative sometime in 2015. The Department of Agriculture had further negotiated and solicited a letter of intent to purchase from Sunshine Poultry Abattoir in 2016 but due to lack of communication from the co-operative, not much progress had been recorded. The Provincial Department of Economic Development represent by Mr C Nhleko was totally unaware of this project, however, made a commitment to form part of the proposed interdepartmental steering committee.

**11. VISIT TO THUTHUKANI POULTRY FARM CO-OPERATIVE PROJECT**

Thuthukani Poultry Farm Co-operative Limited is a five-member co-operative founded in 2011 but incorporated in 2012. The co-operative domicilium address is Zone 3 Botleng location just outside Delmas. The co-operative had written to Victor Khanye Local Municipality Council as early as 2012 requesting authorisation to utilise a Portion of Delpark extension 4, a request which up until the Portfolio Committee visit, had not been dealt with adequately and to the contentment of the co-operative. Initially, applications for financial assistance to National Youth Development Agency (NYDA) and the Department of Trade and Industry had all been rejected because the co-operative had struggled to secure a site where broiler production would be carried out. Consequently, and since 2014, the co-operative has been leasing Plot 48, Leeuport in Delmas from Mr and Mrs Masango at a cost of R3000 per month. The co-operative aims to specialise in broiler production for the community of Botleng. The target market is accordingly Botleng community where employees from local municipality consume on average 3000 and pensioners 2000 live chickens. As indicated above, the Provincial Department of Agriculture had assisted the co-operative develop the business plan which had then been lodged with the Department of Small Business Development in 2015.

**11.1 Observations and Findings**

The Committee observed and found the following:

11.1.1 After collating all the necessary documentation in line with the CIS application requirements, the submission was lodged to the Department of Small Business Development in 2015;

11.1.2 The co-operative, as stipulated in the CIS guidelines, had included in its application, three comparable quotations, copies of which have been submitted to the Portfolio Committee. However, when the application was processed and approved during the same year, these quotations had been put aside. Instead, the new Service Provider, that the co-operative was not aware of nor ever dealt with, had been appointed and nominated on behalf of the co-operative without its knowledge;

11.1.3 The official correspondence from the Department of Small Business Development purportedly signed by a co-operative Chairperson Mr Freddy Radebe, wherein Thuthukani Poultry Farm Primary Co-operative Limited cedes the CIS grant payment of R209 182 to the mysterious Service Provider, viz., Mbalikaratebza (Pty) Ltd, Registration Number 2014/230481/07, has strongly been refuted by the co-operative as cheating. The Service Provider domicilium address is Orchards, Pretoria, it does not have offices in Delmas where the co-operative is located. It is also unclear how the Service Provider became aware of the co-operative;

11.1.4 Members of the co-operative notified the Department of their discontent through the Project Manager, Ms Portia Malatjie whom, according to the affidavit and complaint prepared by the co-operative, a copy of which has also been shared with the Portfolio Committee, declined to entertain the co-operative objection;

11.1.5 As a result, the structure that has since been delivered by the Service Provider only in 2017, is not what the co-operative had requested from the Department for approval, a contestation reinforced by the original quotations submitted to the Department. The co-operative remonstrations have utterly been disregarded. The only time Ms Portia Malatjie came to the project site was in 2016, to do the project handover to Ms Masehau Seloga whom, according to the co-operative members, had also struggled to make sense of what had happened and to put the project in motion due to differences between the Service Provider and the co-operative;

11.1.6 When the Portfolio Committee visited the site, the structure had recently been erected. The Secretariat had informed the Service Provider of the forthcoming Committee visit and requested an audience with the company representative and Director, Mr Joseph Mabena. Instead, when contacted, he pleaded ignorance and claimed to have misread the dates and came to the site the day before, that is the 27th of March 2017;

11.1.7 Officials from the Department who had later joined the Portfolio Committee, could not answer most of the questions posed by members of the Portfolio Committee. Efforts of getting closer to a rational conclusion drawn a blank. The project is not operative and chances of it becoming operational are fairly slim unless if the Department senior management or leadership intervenes;

11.1.8 The facility lacks critical supplies necessary to run an effective broiler production i.e. water and electricity connection, making it difficult to fathom how or why the site had been selected in the first place;

11.1.9 Compared to the project that the Portfolio Committee had visited the day before, alarming inconsistencies with respect to quotations in a number of deliverables were evidently noticeable, for instance, Thembisile Poultry Primary Co-operative paid R1.11 for a day old chick while Thuthukani Poultry Farm Co-operative was charged R10 for the same. Such discrepancies, considering that the two projects are located within the same Province, were perhaps too intricate for the officials present during the oversight to articulate in a manner that made logical sense to the members of the Portfolio Committee.

**11.2 Recommendations**

11.2.1 Towards the end of 2016 the Portfolio Committee requested the Department to submit a complete list of all 400 co-operatives benefited under the Co-operative Incentive Scheme since inception in 2016, including the status of each project, impact on poverty alleviation and job creation. Such a request has still not been adhered to. It is directed that the Director General, in her capacity as the Accounting Officer of the Department, furnish the Portfolio Committee with the said report no later than 31st of May 2017;

11.2.2 The allegations levelled by members of Thuthukani Poultry Farm Co-operative Limited against the official(s) of the Department, Ms Portia Malatji, and the Service Provider, Mbalikaratebza (Pty) Ltd, are serious. If true, they are but antithesis of what this Departments seeks to accomplish. The Department has an obligation to investigate the veracity of these allegations;

11.2.3 If they are found to be genuine, the Department must institute necessary disciplinary procedure where appropriate, and discontinue any or whatever relationship it enjoys with the Service Provider before the end of Quarter One of the 2017/18 financial year, or 30 June 2017, outcomes of which must be reported back to the Portfolio Committee;

11.2.4 The Executive Management (EXCO) of the Department of Small Business Development, under the stewardship of the Accounting Officer, must urgently put in place measures i.e. develop detailed Project Plan to assist Thuthukani Poultry Farm Co-operative Limited co-operative expedite operationalisation of this project, including signing of project specific Transversal Agreement with Victor Khanye Local Municipality, particulars of which shall include, among others, appropriate site selection in consultation and agreement with the LM, access to additional funding that may be required for power, electricity connections and working capital etc, skills development and training, access to markets including compliance with certification bodies i.e. halaal, before end of Quarter One of the 2017/18 financial year or, 30 June 2017 and report back to the Portfolio Committee;

11.2.5 The Department must urgently conclude the review of the CIS to include the provision of protective clothing, working capital or stipends, to also intensify branding and marketing of an ‘independent’ Department, not a division or unit within the Department of Trade and Industry as it currently appears, advertising and awareness of the Department, its products and services which are barely known even by the recipients, creation of an interactive and up-to-date website, accessible call centre with friendly and well trained staff, installation of signage’s to all the Department funded projects and role of its agencies.

**12. COURTESY VISIT TO EHLANZENI DISTRICT MUNICIPALITY**

Following a fruitful working visit to Victor Khanye Local Municipality, the Portfolio Committee headed straight to the city of Mbombela, Ehlanzeni District Municiplaity. It was welcomed by the district leadership Chief Whip Councillor E Khumalo, the Municipal Manager Mr N Seanego and LED Manager Ms J Malepe. Following introductory and welcome remarks by the Chief Whip, the Chairperson of the Portfolio Committee made brief comments, touching on the purpose of the oversight visit, brief introduction of the Co-operatives funded by the Department and expected roles of provincial and local spheres of government in relation to these projects. She observed that the Portfolio Committee visit coincide with the period where, following the local government elections, local governments are finalising consolidation of integrated development plans which ideally, if the Department was sufficiently proactive, should have incorporated most of the projects under consideration.

**12.1 Overview of Ehlanzeni District Municipality**

Ehlanzeni District Municipality (EDM) is one of the three district municipalities located in the north eastern part of Mpumalanga Province. EDM is bordered by Mozambique and Swaziland in the east, Gert Sibande District in the south, Mopani and Sekhukhune Districts of Limpopo in the north and Nkangala District Municipality in the west. The District Municipality makes up just over a third of the province's geographical area. The district consists of four local municipalities, namely, Bushbuckridge, City of Mbombela, Nkomazi and Thaba Chweu. Mbombela (previously Nelspruit) is the capital of Mpumalanga, situated in the City of Mbombela Local Municipality, which is also the home of the Mpumalanga Provincial Government and, as a result, is the most concentrated economic hub within the province.

**12.2 Summary of the Discussions**

The Chairperson gave a detailed background behind the Committee’s visit to the District Municipality, indicating among others that, most national and provincial Departments have co-operative programmes which are not strategically coordinated and harmonised to deal emphatically with the triple-challenge of poverty, unemployment and inequality ravaging the country. The Chief Whip, Municipal Manager and LED Manager provided a thorough briefing on the state of small businesses in the entire district. The issue(s) of technical support, commercialisation of the projects and linkages with the markets were underscored as serious impediments to the growth of sector in the district municipality. There was also an acknowledgement from discussants that there is a cavity between the DM and various other Departments, especially the Small Business Development around the issues of coordination that require further attention. The visit of the Portfolio Committee was congratulated as symbolising the foundation of a positive that will benefit not only the small business sector but the entire district through creation of jobs.

**DAY THREE: BUSHBUCKRIDGE LOCAL MUNICIPALITY**

In terms of the Portfolio Committee’s programme, day three had been set aside for visiting Xinkuhlwana Skills Development and Projects Primary Co-operative in Nkwinyamahembe village, Vurhonga Farming Co-operative in Thulamahashe, Working Together Trading and Farming Primary Co-operative in Marite village all under Bushbuckridge Local Municipality, including a courtesy visit to the Bushbuckridge Local Municipality Council. Then the afternoon visits had been earmarked for stop-off at Sidla Banyembenya Co-operative in Chuene and Intsengu Agricultural Primary Co-operative in Mbuyane under Mbombela Local Municipality.

Bushbuckridge Local Municipality is a category B municipality that forms part of the four Local Municipalities of Ehlanzeni District Municipality in the Mpumalanga Province. The Municipality covers the largest population size of 509,967 persons as per 2007 community survey statistics, which is 34 percent of the total population of the Ehlanzeni District Municipality and 14 percent of the Provincial population. It is renowned for its agricultural and tourism attractions. It was declared a presidential nodal point by the president of the republic in 2001, it is located in the north-eastern part of the Mpumalanga Province and is bounded by Kruger National Park in the east, Mbombela Local Municipality in the South and Thaba Chweu local Municipality and it covers approximately over 1 000 000 ha, after the recent Municipal Demarcation Board has expanded the locality by including part of the Kruger National Park. The Municipality currently consists of 37 wards with 37 ward and covers part of the Kruger National Park.

On arrival at Bushbuckridge Local Municipality the Portfolio Committee was received by the Municipal Manager Mr Nciza Liza. The political leadership of the LM Executive Mayor Ms Sylvia Nxumalo and the Chief Whip Mr Million Makaringe had officially been sensitised of the Portfolio Committee visit to the LM. But when the Portfolio Committee arrived they had already gone. Members expressed displeasure at the absence of the politicians in the meeting and asked the Municipal Manager to convey a message of unhappiness.  Her failure to even delegate someone to welcome the Portfolio Committee was described as rebellious, an embarrassment and humiliation to the ruling party especially in light of the fact that her whereabouts were not even known. The Municipal Manager welcomed the criticism particularly that they had been informed of the visit. He assured members to facilitate a communique to the Portfolio Committee expressing regret at her hasty departure but at the time of finalising the oversight report the Secretariat had received no correspondence from Bushbuckridge Local Municipality.

**13. VISIT TO XINKUHLWANA SKILLS DEVELOPMENT AND PROJECTS PRIMARY CO- OPERATIVE**

Xinkuhlwana Skills Development and Projects Primary Co-operative Limited (“Nkuhlu Poultry”) was registered in 2011 as a co-operative in terms of the Co-operative Act, 2005. It is a five (5) member initiative domiciled in Nkwinyamahembe village, Lillydale, under Bushbuckridge Local Municipality. It is a broiler production and chicken processing venture operated and run by five (5) founding members, three (3) fulltime and three (3) temporary workers, all women. The training on basic book-keeping and management was offered by the University of Johannesburg, albeit to only two members of the co-operative, members have also attended broiler production training offered by the Provincial Department of Agriculture. The co-operative members, however, maintained that they still require further technical training and skills capacitation. The co-operative has earned a reputation for producing quality fresh and frozen chicken. It currently processes an average of 800 birds per month. The market is the surrounding communities but plans are afoot to open a retail shop in Mbombela.

Each founder member receives a wage of R1000 per month, R700 for each employee and temporary workers are paid R5 per chicken for scalding, plucking**,** removal of the feathers and evisceration which involves the removal of the contents of the body cavity plus the feet and head. Nkuhlu Poultry is one of the CIS beneficiaries to the tune of R334 582. It was funded in 2015 through the Service Provider appointed by the Department, Mbalikaratebza (Pty) Ltd. The traditional land area where the structure is mounted belongs to Jongilanga Tribal Authority but it was acquired for R5000. The medium to long-term corporate plan is to also specialise in the embroidery of school uniform which the co-operative is doing on an adhoc basis. Agencies of the Department, SEDA and SEFA, are not participating in any way whatsoever in this project.

**13.1 Observations and Findings**

The Committee observed and found the following:

13.1.1 Xinkuhlwana Skills Development and Projects Primary Co-operative Limited CIS approval episode bears a striking resemblance to Thuthukani Poultry Farm Primary Co-operative Limited in that, after having collated and submitted all the necessary documentation as stipulated in the CIS guidelines, its proposal including quotations were dismissed for failing to meet the CIS requirements;

13.1.2 According to the co-operative, the original application had included four quotations as required. But all four were rejected and the official from the Department, Ms Portia Malatjie, facilitated the appointment of Mbalikaratebza (Pty) Ltd;

* + 1. The co-operative has in its possession, all the quotations that were lodged together with the application forms to the Department of Small Business Development and copies have been shared with the Portfolio Committee;
		2. The quality and features of the structure delivered to the co-operative is not what it had applied for. The structure is exactly similar to one delivered to Thuthukani Poultry Farm Primary Co-operative Limited in Delmas. It is made up corrugated sheet which can be extremely hot during summer season in an area such as Bushbuckridge;
		3. During interactions with the Portfolio Committee, the co-operative members did allude to this challenge as a grave threat to the project, acknowledging that Nkwinyamahembe village can be very hot during summer season. This is especially the case when broiler farmers use corrugated sheeting, where temperature control is more difficult. As the ambient temperature increases, the chickens find it increasingly tough to cool themselves down. As the outside temperature climbs and the room temperature continues to rise, the chickens stop moving about and eat less;
		4. According to the co-operative, during the first cycle the mortality rate was at a record high of 35 percent partly because of the heat and lack of training. As a result, the co-operative, endured devastating broiler mortality, until after the intervention of the Provincial Department of Agriculture, which advised members of the co-operative that to maintain the mortality rate to more manageable levels, the stock density must be reduced to between eight to 10 broilers per square meter, ventilate the chicken house by opening the curtains and using fan-assisted ventilation, remove feed during peak hot periods and limit handling of the birds in the middle of the day when the temperature is at its highest;
		5. Throughout that ordeal, no support from the Department nor Service Provider was forthcoming. Instead, the co-operative was told that the Project was being handed over to a new Project Manager;
		6. No feasibility study had initially been done during the commencement of the project hence the structure is juxtaposed alongside residential units, there is no running water or a borehole;
		7. Yet again, officials from the Department who had joined the delegation were not able to answer some of the most pertinent questions posed by members of the Portfolio Committee. Efforts of drawing closer to a rational conclusion were not successful;
		8. Inconsistencies with regards to the two quotations, Nkuhlu Poultry and Thuthukani Poultry, for similar specifications and deliverables, within the same Province and same Service Provider appointed by the same Department are too large to disregard, there was also no justification for this;
		9. The project is operational with massive potential for growth as long as essential support service is scaled up;

**13.2 Recommendations**

13.2.1 Xinkuhlwana Skills Development and Projects Primary Co-operative Limited is the second co-operative to express similar allegations as those raised by Thuthukani Poultry Farm Co-operative Limited against the official(s) of the Department, Ms Portia Malatji, and the Service Provider, Mbalikaratebza (Pty) Ltd, save to say that the co-operative opted to go ahead with the Service Provider despite the challenges as spelt out above. The Department has a duty to probe the validity of these statements and institute necessary disciplinary action if any wrong doing is found on or before the end of Quarter one, 30 June 2017;

13.2.2 The Department must investigate the relationship between the Service Provider, CIS beneficiaries and designated official(s) of the Department and if found improper, to immediately terminate whatever relationship or agreement with the Service Provider before the end of 30 June 2017;

13.2.3 The Executive Management (EXCO) of the Department of Small Business Development, under the stewardship of the Accounting Officer, must urgently put in place measures i.e. develop detailed Project Plan to assist Xinkuhlwana Skills Development and Projects Primary Co-operative Limited expedite operationalisation of this project, including signing of project specific Transversal Agreement with Bushbuckridge Local Municipality, particulars of which will include, among others, appropriate site selection in consultation and agreement with the LM, access to additional funding that may be required for power, electricity connections and working capital etc, skills development and training, access to markets including compliance with certification bodies before end of Quarter One of the 2017/18 financial year or, 30 June 2017 and report back to the Portfolio Committee;

13.2.4 The Department must urgently conclude the review of the CIS to incorporate the provision of protective clothing, working capital or stipends, to also intensify branding and marketing of an ‘independent’ Department, not a division or unit within the Department of Trade and Industry, advertising and awareness of the Department, its products and services which are barely known even by the recipients, creation of an interactive and up-to-date website, accessible call centre with friendly and well trained staff, installation of signage’s to all the Department funded projects and role of its agencies.

**14. VISIT TO VURHONGA FARMING CO-OPERATIVE PROJECT**

Vurhonga Farming Co-operative Limited is a women owned co-operative situated in the village of Thulamahashe, Bushbuckridge. It began as a family business, a daughter inspired by the father who has many years of farming experience. The co-operative was registered in 2013 and consist of five members all from the same village. Members own a piece land in a traditional area where they plant yellow maize, sweet potatoes and various types of groundnuts. It is one of the CIS recipients funded for a total sum of R338 312 to buy a tractor and various implements such as stays, gate, post corner, cement, wire, welded mesh and galvanised wire.

Agricultural sector plays a vital role in this village and rural areas in general, as the majority of the unemployed are there. Water also play an important role, as people who benefited from irrigation schemes were those who had done so historically -- there had been no re-direction to emerging small scale farmers. The co-operative has access to a farmland which is couple of meters away from the river stream. The project struggled to take off initially due to a sweeping drought that has gradually subsided. Besides drought, there were other factors which affected the project kick-off and sustainability which were access to land and finance, markets and participation, training and capacity development, effective co-operative management and compliance with regulations. The markets were difficult to access as a result of stringent conditions. Hence SEDA came on board to assist the co-operative enhance productivity and commercialisation of its produce in order to gain access to markets.

**14.1 Observations and Findings**

The Committee observed and found the following:

14.1.1 SEDA is an active participant in the project having appointed the Service Provider/Incubator sometime in 2014 to first develop the co-operative business plan, and thereafter provide post funding support to the co-operative;

14.1.2 According to the Incubator, which did a presentation of behalf of the co-operative, its assignment is to mentor the co-operative throughout the value chain from producing crops to commercialisation of products;

14.1.3 The funding was approved by the Department on the 25th of February 2015 to buy a New Landini Solis 45 kilowatt tractor, three disc including implements as mentioned above from Landini Tzaneen and Laduma Hardware;

14.1.4 Also, as referred to earlier, the project delayed to take off owing to unfavourable weather conditions. As a result, besides confirming the delivery of the tractor and other implements, there was not much activity taking place beside the land preparation;

14.1.5 The Provincial Department of Agriculture and extension office in particular is clearly not part of this project and this is a real threat to the project, considering that it is an agricultural project;

14.1.6 During interactive discussions with members of the co-operative and SEDA appointed Service Provider, members of the Portfolio Committee were alive to the fact that, it was not feasible for a Service Provider to master the entire agricultural value chain from land preparation right up to market entry. Hence probing questions were asked, such as the nature or know-how of the company, specialisation and experience, how was it appointed, how often does it interact with co-operatives including site visits and getting compensated for its professional services by SEDA. The Committee noted that these were some of the questions not adequately responded by the Service Provider.

**14.2 Recommendations**

14.2.1 The project is still at an infancy stage, the Department must develop early warning tools and continuously assess progress of the project through, among others, SEDA as it has currently been doing, local economic development (LED) units of the Bushbuckridge local municipality and Ehlanzeni district municipality, Provincial Departments of Economic Development, Agriculture and Rural Development;

14.2.2 In its forthcoming visit to Free State Province the Portfolio Committee would like to be furnished with a detailed list of projects under SEDA support, mentoring and supervision for sampling and inspection to monitor alignment of its mandate with the Department. As things are, there is a serious likelihood that SEDA is actually outsourcing its mandate to dubious and unqualified external Service Providers and Consultancies with little or no monitoring if such a service delivery model is still appropriate following the creation of a stand-alone Department to augment small businesses;

**15. VISIT TO WORKING TOGETHER TRADING AND FARMING CO-OPERATIVE PROJECT**

Working Together Trading and Farming Primary Co-operative Limited is a confectionery project, a concept of which was first mooted by the Chairperson of the co-operative, Ms Kholofelo Madalane, in 2010. The project was formalised in 2012 through registration with Companies and Intellectual Property Commission (CIPC) as a co-operative largely to access state support. It was founded by five members all from Marite village, Bushbuckridge local municipality. In line with the CIS guidelines the co-operative collated and submitted all the documentation to then the Department of Trade and Industry sometime in 2014, which was later approved in October 2014. Description and deliverables approved included but not limited to, dough mixer spiral, bread cutter and stand, bread pans, crest lids, five tier vegetable rack, scale portion, electric double door prover and bread cooling trolley to name the few.

**15.1 Observations and Findings**

The Committee observed and found the following:

15.1.1 The application and supporting documentation were prepared and submitted while the CIS was still and fully under the Department of Trade and Industry;

15.1.2 According to the co-operative Chairperson, out of the three quotations submitted the Department of Trade and Industry appointed Arctica Refrigeration and Catering Equipment Mpumalanga CC, and all equipment was delivered according the original specification lodged together with the application forms;

15.1.3 The Department of Trade and Industry had approved R243 894 to procure brand new equipment. Hamju Construction and Projects CC was paid the sum of R24 000 for wiring, while Eskom was paid R48 000 for three phase installation, out of the co-operative’s own savings as these were not catered for by the CIS grant;

15.1.4 At the time of lodging the application, the co-operative had not yet secured an operational space. However, later managed to secure a rental space under the ownership of Mr Adam Silinda with a rental agreement of R1500 per month;

15.1.5 After funding, there was no further support from the Department of Trade and Industry. According to the Chairperson of the co-operative, the Department of Small Business Development only started making contact with the co-operative a week before the visit of the Portfolio Committee;

15.1.6 Also, according to the LED Officer from Ehlanzeni District Municipality who was present throughout the visit to the DM, the project is not known either by the local or district municipality;

15.1.7 When the Portfolio Committee visited the premises it was alarmed by the terrible state of equipment, two-year-old equipment that looked obsolescent, old, quite filthy and greasy, with little or no signs that it was being used;

15.1.8 The Portfolio Committee was only received by one member, whom the Committee was informed, is the Treasurer of the co-operative. The whereabouts of the other members could not be established despite having been informed of the Portfolio Committee visit;

15.1.9 The business is apparently operational, baking at least three hundred loaves of bread per night which are sold to the community. It is not breaking even nor realising savings;

15.1.10 The Chairperson of the co-operative, who had later been interviewed telephonically, now leaves in Pretoria, Gauteng. She is keen on seeing the project growing, including intervention of the LM and DM to secure a reliable space, the delivery bakkie, working capital for ingredients, training, uniform and promotional material.

**15.2 Recommendations**

15.2.1 Establishing the potential and viability of this project proved difficult as there was lot of informational void not known by the Treasurer who received the Portfolio Committee. Also, lack of commitment and assurance demonstrated by members of the co-operative, only one showed up, makes it rather an awkward and difficult adventure to recommend an additional financial support from the Department;

15.2.2 Since incorporation in 2012, the co-operative has changed hands, few members have resigned and new ones appointed. As a result, the name itself of the co-operative, is not aligned to the core business of the co-operative, which is confectionery and bakery. However, this is one of the very few if not isolated projects that the Portfolio Committee has visited, and discovered that part of the seed funding not provided for in the CIS grant, actually came from the member’s own savings. This should not be taken lightly but instead be applauded;

15.2.3 The Portfolio Committee is cognisant of the fact that this project may not necessarily be part of the 400 co-operatives funded by the Department of Small Business Development since inception in 2014, status of which will be presented to the Portfolio Committee by the Director General on or before the 31st of May 2017. Hence, the Committee is of the view and recommendation that it be referred to SEDA local branch in Nelspruit and be subjected through SEDA assessment process to examine the possibility of resuscitating it, including formulation of a credible business case, prior making any financial or commercial obligations.

**DAY FOUR: MBOMBELA AND NKOMAZI LOCAL MUNICIPALITIES**

Day four of the oversight visit had, according to the Committee’s programme, earmarked for visits in Mananga village, Mbuzini under Nkomazi Local Municipality to two projects, Imvuno Farmers Agricultural Co-operative and Vulamehlo Crop and Livestock Co-operative as well as courtesy visit to the Nkomazi Local Municipality Council. Owing to time constraints the day before, the Portfolio Committee had struggled to finalise its programme timeously. Therefore, as part of the time saving plan and to avoid disrupting the Portfolio Committee programme, a decision was thus taken to split the Committee into two teams, one to call at Sidla Banyembenya Co-operative project in Chuene and the other one to Intsengu Agricultural Primary Co-operative project in Mbuyane, and both groups to later converge in Nkomazi Local Municipality.

**16. VISIT TO SIDLA BANYEMBENYA CO-OPERATIVE PROJECT**

Sidla Banyembenya Co-operative Limited is located in stand number 59 of Chweni Trust, White River under Mbombela Local Municipality. It is a five-member co-operative project initiated in 2007 but incorporated as an entity in 2013. The co-operative aims to produce various perishables and non-perishables commodities to market to local communities and those involved in the national school nutrition programme. The provincial Department of Agriculture, out of realising the commitment of members, advised members to formalise themselves into an entity so as to take advantage of government incentives. On paper, the co-operative is one of the CIS recipients for a total sum of R350 000 to acquire, among others, fencing material, generator pump, irrigation system, preparation of land and gardening equipment. The funding was approved on the 15th of February 2016 and only in May 2016 that the Chairperson of the co-operative received a call from a person who described himself as a Service Provider to come and erect fencing.

**16.1 Observations and Findings**

The Committee observed and found the following:

* + 1. The Committee was impressed by commitment shown by members of the co-operative members and the manner in which they articulated themselves in terms of the vision with the project;
		2. The location of the project is extremely secluded, the gravel thoroughfare leading to the project site is very bad. It took the Portfolio Committee two attempts to reach the site after having tried the previous day without success due to tremendously bad terrain;
		3. When the Committee finally reached the site, contrary to an approved quotation, it discovered that there is fading maize plantation due to perhaps to poor management of tillage, poor soil fertility and lack of guidance;
		4. Records from the Department of Small Business Development (the Department) indicate that Sidla Banyembenya Co-operative was approved for R 350 000. The Service Provider is Agridevco (Pty) Ltd, domiciled in Witbank, Mpumalanga. Members of the co-operative do not know much about the process leading up to application and approval. They never participated in identifying a Service Provider nor participated in the process of soliciting quotations;
		5. The project is fenced with a five barbed wire system which is very inefficient for the type of project and its location; and
		6. Members of a co-operative are not aware of how much was approved;
	1. **Recommendations**
		1. The Portfolio Committee hereby wish to accentuate a similar recommendation as above that the Department has a responsibility to broaden its understanding of all the projects under its support, identify gaps that require intervention in the form of additional funding and infrastructure, technical assistance, skill development, training and those that require signing of transversal agreements in an effort to leveraging soft and hard infrastructure that is so desperately needed by the co-operatives;
		2. The Department also need to provide adequate support to the projects, both financial and non-financial, lead an integrated process of nurturing co-operatives from inception phase to spearheading market access intervention programmes particularly in light of the 30 percent procurement policy from small businesses as announced by the President during the 2015 state of the nation address (SONA). The Department’s concentration appears to be exclusively on addressing the demand side yet its Achilles heel is proving to be its lack of foresight in dealing adequately with supply side capacity;
		3. There is a need for a comprehensive engagement between the Department and Ehlanzeni District Municipality, Mbombela Local Municipality, as well as various Departments of interest to its mandate with a view to validation of project specific transversal agreements, such as, strategic utilisation of its shared economic infrastructure facility (SEIF).

**17. VISIT TO INTSENGU AGRICULTURAL PRIMARY CO-OPERATIVE PROJECT**

Founded and registered as a co-operative in 2012, Intsengu Agricultural Primary Co-operative Limited is domiciled in a reserve called Gutshwa, KaBokweni in Mbombela local municipality. It is founded by six members, some of whom are beneficiaries of Mbuyane Trust Farm land claim. Like many other land reform projects, the post-transfer support is proving a major hiccup for beneficiaries who are seldom offered any tangible support but instead left in limbo by the government and other state agencies. Accordingly, a portion of the land is being leased to the other users for various commercial activities, including to Intsengu Agricultural Primary Co-operativewhich plans to farm tomatoes, and possibly later, create a light manufacturing plant to process tomatoes into various by-products, semi-finished and finished. The co-operative received financial support from the Department to acquire a tractor, Massey Ferguson model and three furrows from Malelane Garage Group for R335 222.

**17.1 Observations and Findings**

The Committee observed and found the following:

17.1.1 Intsengu Agricultural Project is still a fairly new project. While the tractor and implements had already been delivered as far back as 2016, not much had been done on the farm;

17.1.2 The tractor will, among others, do the land preparation, transport, raking, lifting bins and clearing old and non-viable species on the farm;

17.1.3 The immediate focus will be on cash crops that can be sold locally, and the first hectare of tomatoes under irrigation will be planted;

17.1.4Water is pumped from a lower reservoir to a higher reservoir by a pump that provides 20 kilowatt of useful mechanical power;

**17.2 Recommendations**

17.2.1 To meet the fiduciary duty of prudence, the Portfolio Committee recommendations ought to be well-informed, reasonable and attainable. Owing to informational inadequacy at the Portfolio Committee disposal, determining feasibility of this project proved problematic. The delivery of a tractor considered by the Department as an absolute deliverable to the project, is in fact quite the opposite. The Portfolio Committee is on record having requested the status report of all the projects funded by the Department, contents of which must provide an honest perspective of project(s) progress, slippage and risks that may impede a successful completion of the projects including project(s) delivery dates;

17.2.2 A similar recommendation made by the Portfolio Committee above is that the Department has a responsibility to broaden its understanding of all the projects under its support, identify gaps that require intervention in the form of additional funding and infrastructure, technical assistance, skill development, training and those that require signing of transversal agreements in an effort to leveraging soft and hard infrastructure that is so desperately needed by the co-operatives. A detailed status report to be presented by the Director General on or before the 31st of May 2017 will hopefully consist of this project, only then would the Portfolio Committee be empowered to articulate its position and make a well-versed recommendation.

**18. VISIT TO IMVUNO FARMERS AGRICULTURAL CO-OPERATIVE PROJECT**

Imvuno Farmers Agricultural Co-operative (“Imvuno”) is a five-member owned co-operative resident in KaMaqekeza village under Nkomazi Local Municipality. While the project may have commenced earlier but the co-operative was registered on the 24th of January 2013. According to the Department records, Imvuno is documented as one of the CIS beneficiaries for a sum of R346 300 to acquire Hydrogol light, Arkal Disc Filterbred Dual light and Stream Line. The transaction is assumed to have been handled by the Service Provider, namely, Inkomazi Import and Export on behalf of the co-operative way back in August 2015.

When the Portfolio Committee visited the co-operative, and with extension the project, none of the members of the co-operative were present. In fact, the Portfolio Committee learnt, sadly, of the passing away of the two founding members, leaving the co-operative with only three founding members and rendering it noncompliant with its founding constitution and the nature of business formed as a Primary Agricultural Co-operative with limited liability in terms of the provisions of the Co-operatives Act, 2005 (Act 14 of 2005). Also, when the actual site was visited, there was nothing to show. The co-operative representative during this leg of the visit, Mr Victor Mahlalela whom, for some strange reasons, did not even know legitimate members of the co-operative, pointed out to the Portfolio Committee that the co-operative has not had or received any form of support from the Department of Small Business Development. Instead, the co-operative had only been given or donated water pump engine by the Provincial Department of Agriculture which has not been used owing to drought, and it is being kept safely.

**18.1 Observations and Findings**

The Committee observed and found the following:

18.1.1 The co-operative was incorporated in 2013, funded by the Department in August 2015, two of the co-operative members died in 2015 and one of them may have died in January 2015, implying that the co-operative may have been funded way after the members have passed on;

18.1.2 The land which the Portfolio Committee had visited is owned by one of the deceased, Ms Sibongile Mnthombi Mahlalela who, together with Sizane Dinah Khoza, are two of the members that have since passed on;

`18.1.3 The connection between the deliverables i.e. Hydrogol light (not a hydrogol drip line used for drip irrigation), Arkal Disc Filter bred Dual light (Arkal Disc Filter is used for irrigation purposes and engineered for efficient operation year after year with minimum maintenance) and Stream Line vis-à-vis site requirements, could not be established in fact bewildering considering this to be an agricultural project;

18.1.4 In the absence of the co-operative members the Portfolio Committee could not establish where the goods had been delivered, who had inspected them and signed the delivery note or any form of authentication that indeed the goods had been provided. As a result, no one knows where the goods are;

18.1.5 In response, an official from the Department Mr Petrus Mathonsi was adamant that “goods had been procured and supplied while members were still alive and they probably had signed them off”;

18.1.6 Mr Mathonsi had further informed the Portfolio Committee that contrary to the Department records showing Inkomazi Import and Export as the Service Provider, Patel Hardware had in fact been utilised as the Service Provider. The Patel Hardware (Pty) Ltd domicilium citandi et executandi is LOUIS TRICHARDT, Limpopo Province;

18.1.7 Oddly, ‘Inkomazi Import and Export’ ostensibly an incorrect Service Provider, does not exist but, ‘Nkomazi Import and Export Agencies’ does, domicilium citandi et executandi is Tonga, Malelane, same neighbourhood visited by the Portfolio Committee, and is conveniently under the proprietorship of the three Patel brothers;

**18.2 Recommendations**

18.2.1 Due to inadequacy of valid information at the Portfolio Committee disposal it is regrettably not at liberty to conclude if or not there is any incident of maladministration, fraud or corruption in this matter. However, a strong and unambiguous recommendation is made to the Department to immediately institute an investigation to establish facts, exactly what had transpired on this project and report its findings to the Portfolio Committee on or before the 31st of May 2017;

18.2.2 Moreover, through the Accounting Officer, the Department is further instructed to submit to the Portfolio Committee all material evidence as stipulated in the CIS guidelines so as to empower the Committee to conduct its own probe in an effort to reach an informed conclusion and recommendation, which would comprise, among others, business plan, bank statement, financial projections, three quotations, ID copies, curriculum vitaes of the founding members and original tax certificate for Imvuno Farmers Agricultural Co-operative Limited, Registration Number 2013/001916/24 before the week ending 19 May 2017;

18.2.3 Further to 18.2.2 above, evidence must include all minutes of the meeting(s) of the Adjudication Committee wherein the co-operative application was considered and approved for CIS grant.

**19. VISIT TO VULAMEHLO CROP AND LIVESTOCK CO-OPERATIVE PROJECT**

Vulamehlo Crop and Livestock Co-operative Limited is a family run project founded by six members from the villages of KwaLugedlane and Mangweni, Nkomazi Local Municipality. It is a multi-purpose co-operative registered in 2012 with only one member who has since resigned. The co-operative is one of the CIS grant beneficiaries for a sum total of R325 944 through various Service Providers, namely, Obaro Besigheidbeleggings (MGK), Sizabantu, and Ezigro Seedlings which has since been deregistered, to acquire various utensils, equipments, implements and inputs such as welded mesh, metal posts, galvanised posts, gates, mpvs pipes, diesel water pump and seedlings to name the few. The actual site visited or shown to the Portfolio Committee in Mangweni is hundred meters away from Imvuno Farmers Agricultural Co-operative Limited. Members of the Portfolio Committee found it somewhat peculiar that members of the two co-operatives do not know each other.

**19.1 Observations and Findings**

The Committee observed and found the following:

19.1.1 The Portfolio Committee was briefed that the co-operative was founded by members of the family but only one member, the Chairperson, showed up during the visit;

19.1.2 The co-operative is one of the SEDA beneficiaries aided with the development of the business plan before being lodged to the Department for financial assistance;

19.1.3 The Committee was taken to a site in Mangweni village, which is being leased from the owner, with maize plantation. Not much stock was on site due to the fear of theft but on the Committee’s departure out of the village, the stock could be verified;

19.1.4 Not all of it was delivered partly as a consequent of famine, also as a result of minor disagreements between the co-operative and the Service Providers whom the co-operative argued, after having been paid by the Department, did not deliver according to the quotations and others have not delivered at all, while others like Ezigro Seedlings (Pty) Ltd, have subsequently been deregistered, in other words, ceased to exist;

19.1.5 Again, there were lot of double-checking from members that were not responded to satisfactorily. But generally, the Committee was content and encouraged by the work ethic and commitment displayed by the Chairperson of the co-operative. Her homestead, where most of the material is kept, was certainly an operational site;

19.1.6 Similarly, the local municipality was not aware of this project.

**19.2 Recommendations**

19.2.1 The Portfolio Committee is of the opinion that the Department has a responsibility to follow up on this project and gather all the data, information, evidence and bottlenecks to a successful implementation of the project with a view to hastening support to the co-operative;

19.2.2 Likewise with other projects, the Department has a duty to widen its understanding of all the projects under its support, identify problematic areas that require intervention in the form of additional funding and infrastructure, technical assistance, skill development, training and those that require signing of transversal agreements in an effort to leveraging soft and hard infrastructure needed by the co-operatives;

19.2.3 An exhaustive status report to be presented by the Director General on or before the 31st of May 2017 will expectantly entail nitty-gritties of this and other projects, only then would the Portfolio Committee be in a position to make substantive recommendations.

**DAY FIVE: CHIEF ALBERT LUTHULI MUNICIPALITY**

**20. VISIT TO UMSENGA FARMING CO-OPERATIVE PROJECT**

The last project to be visited was Umsenga Farming Co-operative Limited in Barberton, under Chief Albert Luthuli Local Municipality. Umsenga Farming Co-operative Limited is a family owned venture founded by five members. It benefited from the CIS programme for the amount of R310 000 to purchase 22 Brahman Heifers at R4 750 each, field fence, CCA posts, wire, cement and labour. It is currently a complete agricultural project with no commercial prospects until after sixty months owing to evolution or progression characterising cattle breeding production. The Brahman breed is well known for its hardiness, adaptability, calving ease, hardiness, heat tolerance, resistance to parasite-borne diseases and legendary hybrid vigour. According to the Brahman Cattle’s Breeder Society of Southern Africa “the contribution Brahmans have made towards the South African stud and commercial industry can be described as remarkable.  The distinctive appearance of the Brahman during the subsequent decade sets them apart from any other traditional beef breed” making it one of the most sought after breed in Southern Africa and beyond.

**20.1 Observations and Findings**

The Committee observed and found the following:

20.1.1 The Portfolio Committee was informed that the co-operative was founded by members of the family and all the members were present throughout the debriefing;

20.1.2 SEDA supports the project via the incubator, which among others, helped developed the business plan for submission to the Department, identification of the most suitable breed, advice with vaccinations and facilitated the dehorning of the calves;

20.1.3 According to the co-operative members, the Provincial Department of Agriculture is playing a vital role in making sure that cattle get vaccinated and is kept up to good health;

20.1.4 This is one of the fewest municipalities that the Portfolio Committee has been to where the Councillor of the ward is playing a visible role having spearheaded discussions with Eskom that led to electricity connections;

20.1.5 The Committee members were pleased to see the flock of cattle, the fencing and water reticulation propelled by an electricity engine;

20.1.6 The compound was impeccable, spotless and well looked after with co-operative members familiarity with the cattle breeding particularly the visualisation of where the project should be in five to ten years’ time very inspirational;

20.1.7 As alluded to earlier the project is genuinely agricultural with years of crossbreeding and no prospects of commercialisation until after year five. This brings into question mandate overlays which the Department of Small Business Development and the Portfolio Committee have been heavily immersed in of late largely to get it done in the approved manner.

**21. CONCLUSION**

In conclusion, having visited all thirteen projects and five local municipalities, the Portfolio Committee on Small Business Development hereunder wish to register the following observations and recommendations for consideration by the Department: -

* 1. **Summary of Key Observations**
		1. The majority of the co-operatives funded by the Department and ultimately visited by the Portfolio Committee in the Province of Mpumalanga are broiler production projects. All projects have neither been introduced nor known by the local and provincial governments and therefore incapable of attracting auxiliary infrastructural support largely as a consequent that they do not appear on the integrated development plans of the local governments. Furthermore, there has been no endeavour from the Department to cluster broiler production co-operatives together to realise economies of scale and strategically utilise its Shared Economic Infrastructure Facility (SEIF) to establish, among others, abattoirs, cold rooms, fresh produce markets and light manufacturing concerns;
		2. The demand for broiler production in the region of Mpumalanga, with almost identical specifications, such as, broiler house, concrete floor, water tank, manifold system, full package curtain system, automatic bell drinkers, chick trays, founts, foot bath, thermometer, tube feeders, day old chicks and bio sprayers to mention just the few is enormous. However, the Department failed to proactively embark on a process of bulk buying and negotiating of favourable contracts with cost-effective Service Providers. Consequently, price differentials within the same province and sometimes same Service Providers are alarming, once more, main legatees are Service Providers;
		3. Despite excessive demand as demonstrated by the number of birds sold to local communities on a weekly and monthly basis, uncertainty over lack of guaranteed, sustainable and viable market for the co-operatives is a real threat. The Department has a dedicated unit entrusted with this responsibility. Nevertheless, throughout the oversight visit, none of the officials entrusted with this responsibility were available. This is despite all the co-operative projects that the Portfolio Committee has visited in the past have consistently raised the question of market access as a major obstacle.The Portfolio Committee notes that the Department’s focus appears to be exclusively on addressing the demand side of the market yet its Achilles heel is proving to be its lack of foresight in dealing adequately with supply side capacity;
		4. All projects were not subjected to feasibility studies. There is also no evidence that when projects are funded, the Department and its beneficiaries bother to go through spatial development plans of the local governments just to ascertain if the site selections are in accordance to the local governments framework. Most of these projects as a result are positioned alongside residential homesteads making it difficult to comprehend how or why the site had been selected from the beginning;
		5. All the projects visited by the Portfolio Committee have propensity to absorb a large number of unemployed graduates from TVET colleges and Universities to help them sharpen their skills, provide practical and on the job training, including imparting of technical support to the co-operatives on a wide variety of areas such as basic bookkeeping;
		6. Contrary to other projects that the Committee had visited, for instance, in Limpopo Province, none of the projects in Mpumalanga have backing of Expanded Public Works Programme (EPWP) which could be used to offset wages and stipends of the members of a co-operative probably because of the absence of a joint approach by the Department of Small Business Development and its counterparts;
		7. Irregularity on how CIS applications are handled and processed is the basis for concern. Elimination of co-operative(s) applications including quotations without concrete motives is worrying. So is the appointment of Service Providers without co-operatives consent, or pressuring co-operatives into accepting Service Providers of the Department’s choice without following due process subjugates the CIS intents and purpose and, flies in the face of what this Department was created to accomplish;
		8. The role of Provincial Departments, most importantly the Department of Agriculture and Social Development, is unusually omitted in all the projects the Portfolio Committee visited. Ironically, it was co-operatives themselves that strongly elevated the pivotal role played by the Provincial Departments, most notably Agriculture;
		9. Whereas Provincial SEDA role in at least three projects, was incredible. The agency is an active participant in some of the projects having appointed the Service Providers or incubators to develop the co-operative business plans and provision of post funding support to the co-operatives. Despite reservations with respect to expertise and know-how demonstrated by some of the consultants, the Portfolio Committee welcomed SEDA intervention as a stride towards the right direction;
		10. Pursuant to 21.1.4 above, operating premises or sites availability tends to throw co-operatives into a state of frenzy and despondency. This is one of the areas cautiously identified for reflection by the government in the New Growth Path. The challenge of dealing with unscrupulous landlords can be fairly strenuous for small businesses, the exploitation that some of the co-operatives are subjected to is terrifying and in fact demand that the Department, in collaboration with COGTA, provincial and local government, develop a carefully crafted strategy to deal with this issue.
	2. **Summary of Key Recommendations**
		1. The Department has a responsibility to broaden its understanding of all the projects under its support, identify gaps that require intervention in the form of additional funding, infrastructure, technical assistance, skill development, training and those that require signing of transversal agreements in an effort to leveraging soft and hard infrastructure dreadfully needed by the co-operatives. As a result, towards the end of 2016 the Portfolio Committee requested the Department to submit a complete list of all 400 recipients of the Co-operative Incentive Scheme since inception in 2014, including the status of each project, impact on poverty alleviation and job creation. Such a request has still not been adhered to. It is directed that the Director General, in her capacity as the Accounting Officer of the Department, furnish and present this report to the Portfolio Committee no later than the 31st of May 2017;
		2. On market access, the Department needs to provide adequate support to the projects, both financial and non-financial, lead an integrated process of nurturing co-operatives from inception phase to spearheading market access intervention programmes particularly in light of the 30 percent procurement policy from small businesses as announced by the President during the 2015 state of the nation address (SONA). The Portfolio Committee would like to recommend that a Market Access Unit within the Department urgently develops a detailed and realistic Market Access Strategy on or before 30 June 2017, contents of which will include plans to scale up support to all the projects previously visited by the Portfolio Committee, and to finalise the Wholesale and Retail Black Economic Empowerment Charter which in terms of the Portfolio Committee Budget Review and Recommendation Report (BRRR) is due for completion during Quarter one of 2017/18 financial year;
		3. On leveraging soft and hard infrastructure the Department must ensure that all projects are known to the local and provincial governments and incorporated into the Integrated Development Plans (IDPs) and Provincial Growth Development Plans (PGDPs), expedite validation of project specific transversal agreements where required, aggressively promote its products and services most importantly the Shared Economic Infrastructure Facility (SEIF) which could be utilised to establish abattoirs, depots, fresh produce markets and light manufacturing industries;
		4. The review of the Co-operative Incentive Scheme must be concluded without delay and as previously recommended, it has to include among others, the provision of protective clothing, working capital or stipends, to also intensify branding and marketing of an ‘independent’ Department, not a division or unit within the Department of Trade and Industry as it currently appears, intensify advertising and awareness of the Department, its products and services which are barely known even by the recipients, creation of an interactive and up-to-date website, accessible call centre with friendly and well trained staff and fitting of signage’s to all the Department funded projects Lastly, the Portfolio Committee further recommends the review of the funding model for co-operatives to align support services to deal with affordable access to finance, infrastructure, technical and business management skills, markets and measures to reduce bureaucratic red tape;
		5. The allegations levelled by members of Thuthukani Poultry Farm Co-operative Limited and Xinkuhlwana Skills Development and Projects Primary Co-operative Limited against the official(s) of the Department, Ms Portia Malatji, and the Service Provider, Mbalikaratebza (Pty) Ltd, are serious. If true, they are but antithesis of what this Departments seeks to accomplish. The Department has an obligation to investigate the veracity of these allegations;
		6. If found genuine, the Department must institute necessary disciplinary procedure where appropriate, and discontinue its relationship with the Service Provider concerned. It must report its findings to the Portfolio Committee on or before 30 June 2017;
		7. That said, the above recommendation does not preclude the Portfolio Committee from embarking on its own investigative procedure. The onus is on the Portfolio Committee, pursuant to its constitutional responsibility to carry out its own inquiry in order to take an appropriate remedial action. The Portfolio Committee notes that to meet its fiduciary duty of prudence, its recommendations ought to be well-informed, reasonable and attainable. Owing to informational inadequacy at its disposal, determining feasibility for some of the projects visited, and/or detecting whether maladministration, fraud or corruption had occurred, were inconclusive.

As a consequence, the Director General, in her capacity as the Accounting Officer for the Department of Small Business Development, is thus instructed to furnish the Portfolio Committee with all material evidence as specified in the Co-operative Incentive Scheme Guidelines so as to empower the Portfolio Committee to conduct its own preliminary probe in an effort to reaching an informed conclusion and recommendations. The information being requested, is presumed to be readily available, shall comprise among others, business plans, bank statements, financial projections, three quotations of each entity, ID copies, curriculum vitaes of the founding members, original tax certificates and minutes of all the meeting(s) of the Adjudication Committee wherein the co-operative applications were considered and approved for CIS grants. All records for the following co-operatives must reach the Portfolio Committee Secretariat on or before the week ending 19 May 2017: -

* Imvuno Farmers Agricultural Co-operative Limited, Registration Number 2013/001916/24;
* Thuthukani Poultry Farm Co-operative Limited, Registration Number 2012/015524/24;
* Xinkuhlwana Skills Development and Projects Primary Co-operative Limited, Registration Number 2011/007703/24;
* Vulamehlo Crop and Livestock Co-operative Limited, Registration Number 2012/021524/24 and;
* Sidla Banyembenya Co-operative Limited, Registration Number 2013/015879/24.

22.2.8 The Portfolio Committee is expressly concerned with developments in Mokgwaneng. The visit did not seem to have yielded any positive results due to lot of information being withheld by all parties concerned. The Portfolio Committee is of the opinion that an urgent and in-depth engagement with Small Enterprise Finance Agency (SEFA) Accounting Authority, Accounting Officer as well as the Director General of the Department must be scheduled as a matter of urgency to discharge this and other issues that concerns the Portfolio Committee.

The Portfolio Committee finds it incredible that, at face value, underprivileged members of the co-operatives appear to have been strong-armed into taking SEFA loans to acquire equipment and components that could have been acquired through the Department Shared Economic Infrastructure Facility (SEIF) and/or the CIS grant. The Portfolio Committee consider this a serious lapse of judgement which must be dealt with decisively. The Portfolio Committee need to be comprehensively briefed and updated on how SEFA fund its projects. As above, an urgent meeting with all stakeholders concerned is essential to afford everyone an opportunity to enlighten the Portfolio Committee concerning what exactly transpired in this project, and jointly craft a mechanism of recapitalising these co-operatives;

20.2.9 In preparation for this meeting, the Portfolio Committee would additionally request from SEFA to be furnished with all the necessary documentation i.e. minutes of the adjudication/evaluation/investment committee meetings, minutes of the meetings between/among the co-operatives, SEFA and Super Grand, Super Grand subsidiary which finalised contracts with SEFA and same division that SEFA would have performed due diligence on, applicable SEFA investment protocols or guidelines and all other factual material to assist the Portfolio Committee conduct its oversight responsibility and recommend a well-informed intervention;

22.2.10 In relation to the Incubator Support Programme and technical support of the Department, the Portfolio Committee would like to be provided with guidelines or information as regards:

* The guidelines or criteria for funding an Incubator, including details of entities that have since been appointed to provide such technical support to survivalist, small, micro, medium and co-operative enterprises;
* Impact assessment monitoring and evaluation tool of these entities/incubators and;
* Punitive measures for non-performance by the Department officials who are entrusted with the responsibility to monitor performance of incubators and Service Providers;

Report to be considered.