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SOUTH AFRICAN SOCIAL SECURITY AGENCY

Technical Committee for Payments of Grants and SASSA Governance

4th Report to Minister of Social Development

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Abbreviation

| | |
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| IGPS | Integrated Grants Payments System |
| ACEO | Acting Chief Executive Officer |
| CPS | Cash Paymaster Services |
| NPS | National Payment System |
| Socpen | Social Pensions System |
| SAPO | South African Post Office |
| TC | Technical Committee |
| SASSA | South African Social Security Agency |
| CFO | Chief Financial Officer |
| IT | Information Technology |
| DPSA | Department of Public Service and Administration |
| MIS | Management Information System |

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1. Introduction

The Fourth Report of the Technical Committee provides narratives on undertakings for the period 01 – 30 September 2018. This Report, similarly to the previous three, is structured along the line of the TC's experience within the SASSA institutional context and its Terms of Reference (ToR). As such, the report discusses first the embedding of the TC into SASSA and matters related to its mandate before proceeding to report to the Minister on matters related to tasks assigned to the TC.

The TC received inputs from substantive area group, executive management of SASSA and key stakeholders. During the month of September the TC solicited inputs from a number of key stakeholders including Black Sash, Hawkers Association and National Treasury. These interactions were purposed for identifying certain gaps and barriers that might prevent successful implementation of the social grant payment model.

In the context of the end of the 6th month Transition to SAPO, a further assessment was made of the extent to which the current payment system of SAPO is *integrated* in the National Payment System and the extent to which the current payment system is developmental.

2. Background

In March 2017, The Constitutional court granted an extension to allow Cash Paymaster Services (CPS) to continue distributing social grants in spite of the invalidity of the payments contract. Following SASSA's failure to implement the court order, the Constitutional court granted a further six months extension in March 2018, with the implication that CPS should not be the payment contractor to SASSA as from the beginning of October 2018. The Minister of Social Development, Ms S. Shabangu, in May 2018 established a SASSA Technical Committee (TC) to overlook the implementation of a new social grant payment contract, awarded to the South African Post Office (SAPO) in terms of the Intergovernmental Relations Framework Act, 2005 (Act no 13 of 2005).

Pursuant to the second extension in March 2018, the Minister for Social Development established a Technical Committee for Grants Payments and SASSA Governance. The Technical Committee, in accordance with its Terms of Reference (TOR), submits this Fourth Report to the Minister for Social Development.

3. Summary of Issues

3.1. Phasing Out of CPS

- The progress on phasing out CPS services revealed that only **221 599** beneficiaries were paid by CPS in the month of September 2018. The baseline for payments effected by CPS as at April 2018 indicated that there were approximately **3 160 832** cash payment beneficiaries. This number was reduced progressively over the past five months mainly through the card swap process. As at 24 September 2018, all cash beneficiaries have been migrated from CPS and the payment file of October 2018 is zero beneficiaries.
- SASSA reported that CPS was issued with a letter on 27 July 2018 notifying them of the termination of the contract and that they convened a meeting on 08 August 2018 to discuss details of the phase-out process. During which CPS and Grindrod Bank were requested to provide SASSA with a list of identity numbers of beneficiaries who still utilise the old SASSA card in the NPS. Grindrod Bank has since delivered the data.
- Baseline as at April 2018 indicated that there were approximately 8.5 million beneficiaries that were paid through the old SASSA card (to be swapped card or migrated to ACB).

3.2. Short term payment plan

3.2.1. Card Swap

- The Card Swap, as at 24 September 2018, has achieved progress of **6 651 595** beneficiaries and approximately **467 483** were still to be swapped while less than one million electronic beneficiaries still require card swap. SASSA engaged CPS

indicating that SASSA would want to detach the SASSA branded card from CPS/ Grindrod within the next three months up to the end of December 2018. CPS promised to provide a Close-Up report.

3.2.2. September 2018 payments

- SAPO serviced a total of 1030 pay points as at 15 September 2018 out of 1265 cash pay points to a total of 410 545. A payment file for **5 439 905** beneficiaries was deposited through the Postbank account cards (Total grant value **R 6,532,238,518.76**). Whilst a payment file for **10 697 690** beneficiaries was deposited through commercial bank accounts. Of the 10.6 million ACB beneficiaries, **3 267 733** beneficiaries would be paid through Grindrod Bank. CPS, during September payment cycle, were expected to pay **221 599** at cash pay-points with an exception of four regions (Free State, Gauteng, Northern Cape and Western Cape) which has decommissioned pay points.

3.3. Long term payment plan

- The TC, also in the previous report, gave an indication of the factors that will be considered in a long-term payment plan. The TC will spent considerable time in preparing a long-term plan, and provides advice on additional resources that are available.
- The TC highlighted the problems of the legacy system of Socpen. The TC also proposed the need for a business case or firm plan for the transition of SASSA. Against this background, a document is being developed that outlines considerations for a new system that has the requisite best practice functionalities, which modern social grants payment system have adopted.

3.4. Governance

- In respect of the Terms of Reference of the TC with regard to SASSA's governance arrangements, a document unpacking the governance issues and proposing a way in which to approach this critical issue was drafted and discussed in the TC.
- In line with the commitment made, the TC would be developing the Terms of Reference for the *reform of the governance structure* of SASSA. The original governance proposals for SASSA and the subsequent decisions made will be reviewed. The options explored for governance and the selected choice would talk to the institutional and organizational challenges since SASSA's establishment.
- Having reviewed the DPSA's macro-organization framework and governance proposals, and noting the need for a Board, the TC is of the view that such a structure will have significant implications, which in the short-term makes its appointment very difficult or rather challenging. These implications include the following:
 - ✓ Legal implications,
 - ✓ Financial implications,
 - ✓ Organizational implications, and
 - ✓ Communication implications
- For an appropriate governance arrangement, SASSA was established as a public entity which needs to have a governing Board. Nevertheless setting up the board, although desirable, will take time as the Minister of Social Development will have to introduce legislation into Parliament.

3.5. Stakeholder Consultations

- In order for the TC to acquire expert support and guidance, partnership and network; key stakeholders were identified. These key stakeholders have assisted in identifying factors and gaps impacting the transition process. The stakeholder interaction will allow SASSA to leverage on existing resources and expertise and not reinvent the wheel.

- With SASSA being under-resourced to develop appropriate systems or to assess offerings that might assist with the development and the implementation of this transition process. The TC has begun engaging with various key stakeholders such as FinMark and EDAPT, as well as CSIR regarding their capacity to assist in building an appropriate architecture of the system to support and sustain a future Social Grant payment system.
- The other network of Government to Government (G2G) stakeholders that the TC would establish is the interface with the Department of Home Affairs, the Department of Justice, the Department of Labour and the Department of Small Business Development to promote mutual integration of government systems. The buy-in of key G2G stakeholders such as National Treasury and South African Reserve Bank is critical. The TC has played a critical role in promoting understanding amongst these key stakeholders and encouraged working together and collaborative partnerships.

4. Recommendations

The TC makes the following recommendations to the Minister of Social Development and ACEO of SASSA for consideration:

4.1. Phasing Out of CPS

- Although all cash payment beneficiaries have been migrated through the card swap and the auto-migration, there is a need to come up with mechanism for dealing with beneficiaries who are using EPE cards, especially those who do not have mandates.

4.2. The short-term payment plan

- In the previous report of the TC, the lack or non-existence of the SLA and accountability framework between SASSA and SAPO was highlighted as a crucial area of concern. Regrettably the SLA has not been finalized and signed which has caused the lack of accountability and oversight to ensure that SAPO is able to fulfil

its mandate. The TC is once more recommending that a concerted effort must be made by SASSA executive management to expedite the signing of the SLA.

4.3. Long term payment plan

- The Minister of Social Development to undertake a study tour exploring best international practice that can inform and resource the long-term Social Grant payment system. The TC will embark on a detailed study and review of the formation and functioning of SASSA, the rules and regulations that underpin its mandate and activities including the human resource structure. The TC will also begin to look into the existing policies and programs that may not be conducive and identify policy gaps and areas in need of improvement.

4.4. Governance

- The TC was established to oversee the new initiatives and on-going work of SASSA; nevertheless the TC is not well known within SASSA and SAPO and is not fully utilized to support the Agency. Therefore it is important that the TC is fully utilized to support various aspects within SASSA especially those that are under-resourced.
- As a result it is important for the Minister of Social development to note that the TC has consistently offered to assist and actively support SASSA executive management in the conceptualisation and implementation of actions and decisions towards attaining the objectives and goals of the transition process.

4.5. Stakeholder Consultations

- It is recommended that the Minister of Social Development supports the importance of mutual integration of various key government systems and to allow SASSA to leverage on existing resources and expertise and not reinvent the wheel.
- The Minister of Social Development to note the interaction of TC with identified stakeholder or strategic partners as a way of acquiring expert support and guidance to identify factors and gaps that might impact the transition process.

5. Technical Committee work done

The members of the TC, during the reporting period up to 30th September 2018, held meeting(s) and on-going communications with the Minister of Social Development, the ACEO and representatives of SASSA Executive Management.

- The TC is required to provide the road-map (provide framework for SASSA for implementation) and has begun engagement with National Treasury (NT) where views and insights were shared about the roles and responsibilities that need to exist between SASSA, DSD and NT. During the preliminary meeting held on 12 September 2018, the TC concurred with NT on the importance and appreciation to collectively collaborate and to anchor the NT into supporting the smooth transition process of SASSA. A follow-up meeting will be scheduled during the next month (November 2018), whereby relevant divisions within NT will participate and assist the transition process. These divisions will include Asset Management, Chief Procurement Office, Public Finance, Public Entity Governance and the Reserve Bank.
- In addition to the abovementioned engagement with NT, the TC has meetings lined up with the former Director-General of NT, Mr Lungisa Fuzile and the Deputy Governor of South African Reserve Bank, Mr Francois Groepe. The aim of these meeting would be to discuss a number of critical issues that are material to a successful transition process for the Social Grant payment system in the country.

5.1. Summary of Observations

The TC members visited cash pay points and SAPO branches to observe the payment process.

5.1.1. The Cash Payment Solution

- The SASSA-SAPO Cash Payment Plan is designed specifically for beneficiaries living in areas not covered by the national payment infrastructure outside the 10km radius. The cash payment process requires that SASSA should provide a list of areas designated as cash pay-points with estimated number of beneficiaries per grant type. Provide estimation on the number of beneficiaries so that SAPO can be able to order and prepare sufficient cash within its coffers. In this regard, SASSA has

not timeously provided the list of all pay-points that SAPO should service. What was common in Northern Cape, Limpopo, Eastern Cape and Kwa-Zulu Natal Regions was that, the pay dates that were changed without proper communication with beneficiaries. In certain instances, beneficiaries travelled to the pay-points and only to be told that they will be paid the following day. This has caused unnecessary travel expenses among beneficiaries having to undertake two or three trips before they access their Social Grant payments. SASSA management reported to the TC that changes in the official released payment schedule was a result of change of routes by the Fidelity Cash in-transit vans.

- In the July Report, the TC raised concerns about manual cash payments at the pay-points. The TC has not been updated on how reconciliations on manual payments are worked out. The biometric solution that has online and offline capabilities that SAPO has developed was piloted in August 2018 but has not been fully operationalized. Over and above, the cash payment has not been fully systematized and automated and remains manual, labour intensive and not professional, such that officials have to contact each other on daily basis through phones and whatsapp messages to manage payment. Given SAPO circumstances and a three months-time frame to offer cash payment services before CPS contract was cancelled, the TC concede that SAPO did not have enough time to plan for cash payment, but the TC is equally dissatisfied that the practice that is currently at play might chronically continue to the disrepute of SASSA and SAPO. The TC cannot at this stage indicate whether the cash payment plan, as it is currently operated, is a contingency plan or a complete and sustainable cash payment plan.
- Whilst money is made available in the beneficiaries' accounts from the first day of the month, SASSA and SAPO have deliberately scheduled to kick-off cash payment at least five to eight days after the first day of the month in attempt to off-load clogging on the IGPS without considering the needs of the beneficiaries.
- SASSA and SAPO intend to introduce staggering of payments sometimes in March 2019. The TC has also cautioned SASSA to consider beneficiaries standing monthly

financial commitments and debit orders when implementing staggered payment and the inconveniences that this will cause to beneficiaries who receive multiple grants.

- At this stage, the TC is not absolutely certain as to whether the decision to stagger payment has been largely motivated by the concern of the retail industry as opposed to being primarily motivated by the needs and convenience of the Social Grant beneficiaries. Consequently, the TC recommends that a proper objective assessment regarding the impact of this decision on the lives of the beneficiaries must be undertaken prior to the implementation date of March 2019

5.1.2. Phasing Out of Cash Paymaster Services

- The October payment extraction file has indicated that all cash beneficiaries serviced by CPS have been migrated to SAPO and to ACB.
- In July 2018, SASSA wrote a letter to CPS informing them of the termination of the contract between SASSA and CPS. SASSA has further informed CPS that there will be no deposit of grants on beneficiaries who have not yet swapped their card to the new SASSA-SAPO card. The TC views the termination of the CPS contract as a remarkable milestone in the history of SASSA. The contract between SASSA and CPS was in the public domain and infamous for its constitutional invalidity, unauthorized electricity and airtime deductions and life cover policies –which the majority of beneficiaries vehemently disputed and queried.
- CPS has also written to the Governor of the South African Reserve Bank requesting a special increased fee for transactions on the NPS in the rural areas.
- The positive spin-off of a successful card swapping process has resulted in certain locations in the country where CPS has paid one or two beneficiaries. It is obvious that with the dwindling number of clients, CPS might not continue with operations in all pay-points, but more likely to create pocket areas and continue to pay beneficiaries using the Net1 outlets opened in the townships.

- CPS and Grindrod's approach to the South African Reserve Bank and its request to be able to transact on the new SASSA card and increase transactional fees in rural areas is viewed as desperate tactics to claw on beneficiaries once more with high costs to the beneficiaries. Grindrod is more likely to continue operating with primary focus on amassing huge numbers of SASSA beneficiaries. The TC is of the view that CPS participation in the payment of Social Grants using the NPS through its green card might continue to confuse beneficiaries on the ground with a strong likelihood that some beneficiaries will opt to make use of the Grindrod card again because SAPO starts cash payments at least seven days after money has been deposited into the account.

5.1.3. Observations during the September Payment Cycle

- In the month of September, members of the TC visited three Regions; Gauteng, Northern Cape and KwaZulu-Natal. There are few cases that the TC would like SASSA and SAPO to explore further and determine whether there are possibilities of conceptualizing and piloting certain alternative payment platforms.
- The first case is that of Salt Lake pay-point in Northern Cape. The pay point is 35km away from Douglastown where there is a Post Office and NPS infrastructure. The pay point is in a farm/salt mine and the majority of SASSA beneficiaries are employees and former employees in the mine. About 220 beneficiaries are paid in this pay-point and prefer to be paid cash on the farm than to go to town where a return trip is R140 by either bus or taxi. The owner of the farm is a Post Office agent and the postal services are right inside the farm. SAPO needs to provide infrastructure in a form of computer systems and be punctual on delivery of cash and give instruction on how cash should be secured.

The TC understands that SAPO has more than 500 agents. The TC recommends that SASSA and SAPO begin to thoroughly conceptualize and pilot the possibility of bringing

SAPO agents to pay beneficiaries in rural areas as a form of replacing cash pay-point mechanisms.

- The second case that the TC recommends for testing is the Smitsmine in Northern Cape. The pay point is located in the shop premises; the store is rented from the owner. The owner of the shop, who is a South African woman, runs the store with his son. The store is equipped with a Capitec PoS device. The shop paid out approximately R10 000 to approximately ten beneficiaries on the 1st of September using the PoS device.

The shop pays regular customers who are all farmworkers. Once the transactions have been made, money is directly deposited into the Capitec bank account. These transactions ‘cash withdrawal’ are at no cost to the beneficiary and to the shop. If a beneficiary has not exhausted funds from the SASSA card, the beneficiary can come back later and make another withdrawal, still at no cost.

- This type of case study could be built into the Alternative PayPoint Model which SASSA has already approved in conceptual terms.
- The TC recommends that SASSA should commence the pilot of using South African store owners with point of sale devices as pay points.
- The TC further recommends that SASSA and SAPO should activate engagements with SAPO agents and come up with a solution that will see agents paying grants on behalf of SAPO especially in areas where NPS infrastructure is beyond 10km from the pay-points.

6. Technical Committee Assessment

6.1. Phasing Out of CPS

- CPS has been successfully phased out through card swap for all cash beneficiaries. The migration of electronic beneficiaries is envisaged to be finished within three

months. However, there is a need to come up with a strategy of migrating EPE cardholders especially those without annexure C.

6.2. The short-term Payment Plan

- The Cash Payment Plan did not go without hurdles. Cash beneficiaries' experience at cash pay-points left a lot to be desired, as a result of prolonged waiting period and change of dates without proper communication. There is a need for improvement in the development of payment schedule and the communication of payment dates to beneficiaries and SASSA officials at local level.
- The TC would like to emphasise the need to review the decommissioning of pay-points (including pay-points already decommissioned) because of the resultant negative effects that will be tabled in the final report of the rapid assessment study conducted in conjunction with DSD and the University of Johannesburg.
- The case studies that are being conducted in the regions would test-bed the effectiveness of the transition. The overall outcome of this process shall establish the impact from the organization and clients' perspective, as well as the impact in the retail and banking environment on how the decommissioning of pay-points has affected their day-to-day activities. The objective of the study is to establish the consequences of the decommissioning and identify those pay-points that need reopening.

6.3. Long-term payment plan

- The TC has begun to give consideration to the development of a long-term plan that seeks to ensure the appropriateness of the IGPS system and the safekeeping of beneficiaries' personal information.

6.4. Governance

- The TC also, in response to the Panel of Experts report, considered the matter of the financial modeling and presented these at a high level to the ACEO to encourage the ACEO and CFO attend to the matter to avoid longer-term financial exposure and or runaway costs should SASSA pay SAPO for the payment services and fund infrastructure for which SAPO should be held legally liable.

- The TC has begun to investigate SASSA's current governance arrangements and evaluate it against best practice, in order to make recommendations for an appropriate governance arrangement for SASSA.

6.5. Stakeholder Consultations

- The TC has adopted an institutional approach to protect the process since there was no clear interface between the executive management of SASSA and SAPO. Key stakeholders were identified and relations established, with the aim of leveraging on existing resources and expertise and not reinvent the wheel.

7. Conclusion

It should be noted that communication and engagement are key pillars, including getting feedback on what has been done. The TC continues to engage all relevant stakeholders to obtain inputs and suggestions in order to ensure the development of an efficient and cost-effective long-term Social Grant payment system.