NATIONAL COUNCIL OF PROVINCES
QUESTION FOR ORAL REPLY
QUESTION NUMBER: 207 [CO473E]
DATE OF PUBLICATION: 21 OCTOBER 2016

★207. Mr C J de Beer (Northern Cape: ANC) to ask the Minister of Finance:

Whether the development agencies in the provinces are effective in growing provincial economies, creating jobs and supporting small, medium and macro enterprises; if not, why not; if so, what are the relevant details?

CO473E

REPLY:

Provinces have 19 economic development agencies in total and these include 9 development finance institutions. These entities are expected to stimulate provincial economies through a range of activities such as business financing through loans, trade and investment promotion, special economic zones, commercial and industrial property development, export promotion, and both financial and non-financial support to Small, Medium and Macro Enterprises (SMMEs).

The 2015/16 annual reports performance indicators show that these agencies collectively contributed to provincial economies through the following:

a. Facilitation of about 57 366 job opportunities.
b. Skills development initiatives benefiting 9 133 people.
c. 4 048 SMMEs supported.
d. 5 964 farmer support.
e. Funding to 1 449 SMMEs.
f. Over R440 million loans disbursed to SMMEs.
g. Attraction of 53 new investments valued at R106.9 billion in provinces which contributed to approximately 35 190 jobs created.

Challenges and reforms

The National Treasury is currently undertaking a review of the provincial development finance institutions with the view of coming up with a uniform Development Finance System (DFS) for the country which was approved by Cabinet in August 2014. Provincial Development Finance Institutions (PDFI**)** review findings covering four critical issues.

Firstly, the legislation mandate does not explicitly articulate the role of the PDFIs, as well as duplication of activities with mother departments.

Secondly, many PDFIs rely on government to sustain operations as findings highlight that many agencies use grant funding to cover operational costs. Therefore, the potential towards economic growth contribution will be affected by the inability to raise own-revenue to fully fund development initiatives. In aggregate about 49 per cent of total revenue emanates from government transfers; however, 13 of the development agencies receive revenue mainly from government.

Thirdly, finding an approach to improve the effectiveness of the development of Provincial Development Financial Institutions (PDFIs) has been a challenge as a result of the activities performed by institutions which have been reviewed.

Lastly, in most cases it appears that the risk management system is not customized for the needs of the institution but only for operational purposes. Consequently, the project teams in consultation with relevant stakeholders are scheduled to meet during November 2016 to finalize the DFI norms and standards in order to ensure effective functioning of the South African Development Finance System. Furthermore, provinces such as KwaZulu-Natal, Eastern Cape and North West have embarked on exercises to review and rationalize public entities focusing mainly on the relevance of their mandates and sustainability.