Second Report to the Constitutional Court

by the

Auditor-General and the Panel of Experts

in the matter of

Black Sash Trust v Minister of Social Development and Others:

Case CCT 48/17

16 November 2017

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1 BACKGROUND

1.1 Introduction

1.1.1 This is the **second Report** ("the Report") of the Auditor-General of South Africa and the Panel of Experts ("the Panel") appointed by the Court contemplated in paragraph 12.4 of the Court Order of 17 March 2017 ("the Court Order"). The Panel was appointed by the Court in Directions dated 6 June 2017. The Report must be read with the First Report to the Court ("the First Report") filed on 15 September 2017, despite events having overtaken some of the matters raised in the First Report. This Report reflects matters ***as at 15 November 2017***.

1.1.2 This Report is structured as follows:

1 Introduction, the First Report to the Court, and a summary of key aspects
2 Recent developments
3 Evaluation and findings
4 Alternatives to the current solution
5 Recommendations
6 Conclusion
Annexures

1.1.3 A number of matters and information underlying or informing the findings, conclusions and recommendations in the main body of this Report can be found in the Annexures to this Report, and this Report must be read **in its entirety** to fully inform the reader of the reason for the recommendations made by the Panel in Part 5 of this Report.

1.1.4 In this Report, reference to the Panel includes the Auditor-General.

1.2 The Panel's First Report to the Constitutional Court

1.2.1 The First Report was filed on 15 September 2017.

1.2.2 The Court on 7 November 2017 issued Directions to SASSA to *inter alia* to –

- forthwith and fully comply with any present or future request by the Panel for access to information held by SASSA;
- provide the Panel with appropriate and sufficient details on the process or processes undertaken by SASSA to obtain the services of service providers;
- request that the Government Communication and Information System develop and implement a focused communications plan to inform current and potential beneficiaries/recipients of social grants of the implications of the transition and of the benefits of receiving their social grants via bank accounts provided by a commercial bank or financial institution of their choice;
- report to the Court, by Friday 8 December 2017, as to SASSA's plan to effect the uninterrupted payment of social grants, specifying matters such as definite roles and responsibilities, precise timelines, dependencies, desired outcomes and risk-mitigation measures, as well as SASSA's contingency plan if a seamless transition on 1 April 2018 is not realisable.

1.2.3 Some of the aspects referred to in the First Report were widely reported in the media (if only after the middle of October 2017) and discussed in a joint meeting of the Standing Committee on Public Accounts and the Portfolio Committee on Social Development (the Parliamentary Committees"), held on 24 October 2017. Not all media reports were equally accurate, however, and the fact that the First Report reflected matters as they stood **at 5 September 2017**[1] was sometimes overlooked. In the nature of things, events had already overtaken some of the aspects addressed in the First Report when these reports were published.

1.2.4 The Report contains annexures ("C", "D", "E", "F" and "G") providing details on operational matters, steps taken to evaluate the matters referred to in paragraphs 12.1 to 12.3 of the Court, access to information, a complaint submitted to the Auditor-General by CPS in respect of matters referred to in the First Report, a timeline in respect of developments in respect of the payment of social grants, and an analysis of social assistance grants currently paid to beneficiaries.

1.3 <u>Summary of key aspects of this Report</u>

1.3.1 The Panel has *inter alia* found that -

[1] Paragraph 1.1.6 of the First Report

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- SASSA (to the exclusion of other parties) is the accountable institution and legally responsible for taking a decision on the system or process to pay social grants;
- although six options had initially been identified, no proper consideration of the benefits or disadvantages, or cost implications, had taken place;
- because SASSA has decided to pursue the current approach as the only option, it has neglected to question the fundamentals of this exercise;
- the current IMC-mandated process that government institutions must form the core of the system carries the systemic risk of again being locked into a single service provider;
- the requirements in respect of cost-effectiveness, affordability and sustainability have seemingly been overlooked;
- there appears to be no justifiable need for SASSA to have a biometric recognition system to perform 1-to-many matching;
- the use of an open architecture platform is a better, more cost-effective long-term solution, if complemented by a mechanism to provide cash payments at pay points for beneficiaries who do not live within five kilometres of an ATM or POS facility; and
- any system should make provision for exceptions, e.g. for beneficiaries who are differently abled or require special assistance.

1.3.2 In summary, the Panel recommends that –

- the Court instructs SASSA to immediately provide the court with any reasons why the alternatives described in Part 4 of this Report are not feasible, and if they are feasible, to set up a system of direct payments into beneficiary bank accounts from SASSA's own corporate bank account, enabling beneficiaries to access grants through the NPS and for this process to be tested and ready to effect payments by 1 April 2018;
- the Court issues Directions for a short series of meetings to be held by stakeholders in this process, *urgently* and *in the national interest*, under the auspices of the South African Reserve Bank and the National Treasury, to consider, develop and agree on a social grant distribution framework which will provide for certain outcomes, to be implemented by SASSA and the Department of Social Development in collaboration with relevant role-players, subject to certain oversight arrangements;

- in respect of the payment of social grant beneficiaries, who do not live within five kilometres from an ATM or POS device or facility, SASSA and other relevant role players should carefully evaluate and if possible find other solutions making use of new technologies or facilities to be implemented at this point in time;
- if no such other solution contemplated in paragraph 5.3 of this Report can be found and solely in order to allow the process recommended in paragraph 5.2 sufficient time to agree on the payment of social grants at cash pay points, and after conducting an open, competitive bidding process, to appoint the successful service provider, that the Court should consider, *as an option of last resort*, to partially extend the suspension of the invalidity of the current CPS/SASSA agreement in respect of the payment of social grant beneficiaries at cash pay points only, subject to conditions;
- the Court instructs the National Treasury to investigate the conduct of SASSA employees and of officials of the Department of Social Development, in relation to all actions undertaken since 2016 to issue contracts to service providers or to give effect to the Court's Order of 17 March 2017, in order to determine whether there has been any malpractice of obstruction, and whether any person should be prosecuted in terms of section 81, 83 or section 86 of the Public Finance Management Act, 1999 (Act No. 1 of 1999), or any other relevant law; and
- the Court instructs the Department of Planning, Monitoring and Evaluation to set out the remedial actions necessary to ensure that there is an end to SASSA being a public entity without proper institutional governance, capacity and oversight (e.g. by way appointment of technical and administrative skilled management and a board of qualified expertise).

2 RECENT DEVELOPMENTS

2.1 The South African Social Security Agency ("SASSA") on 24 July 2017 issued a Request for Proposals ("RFP") to the South African Post Office ("SAPO"), following a conditional deviation from National Treasury issued on 4 July 2017[2]. SAPO submitted its response to the RFP to SASSA on 7 August 2017. SASSA communicated to the Panel their intention to issue an open tender for any

[2] SASSA RFP: 01/17/SP: Appointment of Service Provider for the provision of payment of services and systems for social assistance

services that SAPO could not provide. Bid documents were subjected to a due diligence undertaken by the CSIR, and considered by SASSA's bid evaluation committee and bid adjudication committee. On 6 October 2017, SASSA's A/CEO signed a letter to SAPO informing them that the only integrated grant payment system services had been awarded to SAPO. However, this letter was only on the evening of 18 October 2017 made available to SAPO, without SASSA providing any explanation as to the time lag between signature and delivery of that letter.

2.2 SAPO informed the Panel that SASSA had awarded only one of four parts of the system contemplated in the RFP to SAPO[3], and that it did not make sense for them to only provide the part awarded to them by SASSA. SAPO believed it could provide the full range of services required by SASSA and accordingly informed SASSA of its view. SASSA indicated to SAPO that it could not change the decision of its bid adjudication committee. On 24 and 31 October 2017, and on 1 November 2017, SASSA and SAPO appeared before the Parliamentary Committees. In an attempt to break the deadlock between SASSA and SAPO, the Parliamentary Committees requested the National Treasury to facilitate discussions between SASSA and SAPO and to review the procurement process relating to the SASSA/SAPO interaction.

2.3 On Wednesday 8 November 2017, a governmental Inter-ministerial Committee ("the IMC")[4] submitted a statement to the Parliamentary Committees[5], in which it stated that it had considered the report of the National Treasury[6] and that the National Treasury had *"confirmed[7] the hybrid model for the payment of grants"*. It further states that *"(t)he IMC has thus taken a decision to fast track* (sic) *the introduction of an integrated payment system which will be provided by Government through a partnership between SASSA and SAPO."* It acknowledges that possible additional capacity could be sourced *"from other parties"*. The statement describes the process to be followed by SASSA, SAPO and other parties as an *"intervention"*, providing that the roles of the various parties would be detailed in an *"implementation Protocol"*. It adds that *"(t)he mandate of the dedicated team will be to ensure the finalization of the cooperation agreements between SASSA and SAPO…"*, and other matters.

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[3] The RFP seems to suggest that there are nine separate modules required.
[4] An intra-governmental body without any statutory or other formal functions or powers
[5] Annexure "**A**"
[6] This presumably refers to a letter by the National Treasury of 7 November 2017 to SASSA's Acting CEO, attached as Annexure "**A**"
[7] This statement creates an incorrect impression. At paragraph 16.5, the National Treasury states that it had been resolved that "(a) hybrid model where all banks, SAPO (are) included, ***can*** play a role in distributing grants" (emphasis supplied) – i.e. one of a number of options, but not the only one.

2.4 The National Treasury, in its letter of 7 November 2017 to SASSA's Acting CEO[8], confirms that it had[9] "approved the deviation (from generally applicable supply chain management rules to procure goods and services by way of an open, competitive bidding process) *on condition that ... the* ***financial proposal from SAPO was considered*** *by* (SASSA's*) bid committees" (emphasis and* explanations supplied*)*. It further states that[10] SASSA's BEC members did not consider the CSIR's report on the due diligence it had conducted, including the CSIR's recommendation[11] that a task team be set up to look at *"...all legalities, implications and systemic challenges"* of the proposed model, given that "... *it was not clear if all the requirements for transferring the technologies, capabilities and human resources would be feasible and adhere to all legal requirements.".*

2.5 The National Treasury further indicates in its letter that[12] both the BEC and the BAC had in a number of important respects failed to do things that they should have done in the present circumstances. It *inter alia* concludes[13] that the bid specification developed by SASSA *"was biased"* and that the CSIR report *"was not used for its intended purposes"*. At a meeting held on 7 November 2017 and attended by SASSA, SAPO, the South African Reserve Bank and the National Treasury, it was *inter alia* concluded and noted that –

- SAPO will **not** be in a position to start paying grants on their own as from 1 April 2018; and
- SASSA will **not** be able to finalise all their processes to ensure that grants are paid by 1 April 2018.

2.6 The Panel has been informed that SASSA and SAPO intend to sign an agreement on 17 November 2017, and to present the outcome to the Parliamentary Committees on 21 November 2017.

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[8] Annexure "**B**"
[9] Paragraph 2.1
[10] Paragraph 3.7
[11] Paragraph 7.2
[12] Paragraphs 11 and 12
[13] Paragraph 15

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3 EVALUATION AND FINDINGS

3.1 Reporting and analysis by Panel

3.1.1 The Panel has conducted analysis on a number of aspects relevant to the payments of social grants during the current period (ending on 31 March 2018), as well as technical analysis of aspects relating to the payment process in general, such as the need for biometric verification. The results of this analysis are annexed to this Report as Annexures "H", "I", "J" and "K", and deal with matters such as an understanding of SASSA's planned grants administration and payment approaches, the Panel's understanding and views on the Implementation of SASSA's Proposed Grants Administration and Payments Approach, the Panel's comments on the South African Post Office (SAPO) bid, the Panel's view on the existing Grindrod bank accounts, the Panel's view on SASSA's proposed contingency plan, the Panel's views regarding beneficiaries accessing social grants funds through NPS channels and at pay points, financial assessments, open architecture possibilities and an analysis of social assistance grants currently paid to beneficiaries. These annexures form an integral part of this Report and inform the evaluation, findings and recommendations made by the Panel.

3.1.2 The Panel is of the view that the specification of the services and systems as set out in the Request for Proposal (RFP) that was issued to SAPO by SASSA will not result in the realisation of the approach that SASSA has planned for administration of social grants, nor in the manner understood by the Panel as explained in Annexure H. This is because - for example - there is no stipulated requirement for an interface with HANIS (Home Affairs National Identity System) for fingerprint-based identity verification or the SASSA 1-to-many match. Further, the RFP has a number of fundamental flaws, which *inter alia* include -

a. that the requirements for the Integrated Grant Payment System and the SASSA Payment Platform, are similar and it is thus not clear what each is, as evidenced by the response from SAPO to requirements for both, where reference is made to the same system for meeting the requirements for both sections of the RFP; and

b. Section E (Financial and Preference Proposal) of the terms of reference for the RFP includes Duplicate Identification (One to many searches)[14], an element that was not specified as a requirement.

[14] Fourth pullet point in row 3 of the **Key Cost Elements** column of the Table under Section 1.3 Provision of Integrated Grant Payment System on Page 48 of 52.

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c. Requirement 4.3.2.12, bullet point 4, which states that *"The required Special disbursement account should not permit any of the following transactions:* [bullet point 4] ***any other transactions***", where ***any other transactions*** could be interpreted to include cash-withdrawals and purchases through Merchant Point-of-Sale devices, which are the only transactions that ought to be permitted on the account.

3.2 SASSA's mandate

3.2.1 In terms of the South African Social Security Agency Act, 2004 (Act No. 9 of 2004) ("the SASSA Act"), it is SASSA that is accountable and legally responsible for taking a decision on the system or process to pay social grants. Although SASSA may consult other parties and consider their opinions, it is SASSA which ultimately in terms of its statutory mandate has to apply its mind and take its own decisions as to how the payment of social grants should be effected. SASSA is and remains accountable for any decision relevant to the payment of social grants.

3.2.2 The outcome of whatever process is followed by SASSA or mandated by the IMC, must be that the agreement(s) for the provision of services to be entered into, must meet the requirements of section 4(3) of the SASSA Act, which provides that the agreement must include provisions to ensure—

(a) the *effective, efficient and economical use of funds* designated for payment to beneficiaries of social security;

(b) the promotion and protection of the human dignity of applicants for and beneficiaries of social security;

(c) the protection of confidential information held by the Agency;

(d) honest, impartial, fair and equitable service delivery;

(e) mechanisms to regulate community participation and consultation; and

(f) financial penalties for non-compliance with the provisions of the agreement.

3.3 Six options for the payment of social grants

3.3.1 At the outset of the process, SASSA identified six possible options for the payment of social grants. Out of these six, SASSA chose one (referred to as "in-sourcing") in respect of which it has failed to provide the Panel with the reasons for that choice, e.g. the analysis of the benefits, disadvantages and cost effectiveness of each of the six options. This is despite repeated request for such information by the Panel. In addition, SASSA failed to provide the Panel with the business requirements that informed its choice of any of the options. This means that SASSA's point of departure, as far as the Panel could assess, is in itself highly questionable and not open to scrutiny. SASSA is not able to present cogent reasoning, evaluation or costing of why they have opted for an in-house build, operate and transfer ("BOT") approach, nor are they able to say what options they examined or the reasons why any of them were rejected. The Panel is concerned that SASSA, possibly under pressure from political principals, will make hasty decisions driven in part by the limited time remaining to replace CPS in accordance with the Court Order to get a payments system in place, and prevent another payments debacle on 1 April 2018.

3.3.2 Furthermore, SASSA could not explain to the Panel why it pursued the option in which it had identified SAPO as the preferred service provider, but then awarded SAPO only one portion of the services it had been invited to tender for. After stating that "SASSA was convinced that SAPO has the ability and capability to take over from CPS"[15], SASSA's decision to change course has been left unexplained. SASSA has also failed to explain the extraordinary delays in taking decisions, especially against the background of a very limited timescale to give effect to the Court's Order.

3.4 <u>SASSA's failure to execute its mandate adequately and Government's response</u>

3.4.1 The Panel finds that SASSA's repeated failure since 17 March 2017 to take the necessary decisions and execute the required actions to properly and timeously implement the various aspects of the Court's Order ***make a smooth transition by 1 April 2018 virtually impossible***. SASSA's senior leadership, who are responsible for driving this process, does not – with certain individuals being exceptions to this finding – seem to have the required knowledge, experience or skills, or even the will, to execute the SASSA mandate to *"ensure the efficient and effective management, administration and payment of social assistance*[16]*"*. This situation is exacerbated by the apparent exclusion of competent employees from decision-making structures within SASSA. It thus appears to the Panel that SASSA neglected the due diligence required to find and implement an optimal solution for the future payment of social grants.

3.4.2 The Panel was in a meeting held on 14 November 2017 informed by the Chairperson of the IMC, Mr Jeff Radebe (Minister in the Presidency responsible for planning, monitoring and

[15] Letter from SASSA to National Treasury dated 29 June 2017
[16] Section 3(a) of the SASSA Act

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evaluation) and Ms Mpumi Mpofu (Director-General: Planning, Monitoring and Evaluation) that a technical team had been appointed by the IMC to directly assist the current process to find and implement a workable plan to ensure compliance with Court's instructions and securing the continuation of social grant payments beyond 1 April 2018. This means that, as the Panel had recommended in the First Report, a project management team to assist the SASSA Exco and SASSA project team in managing the transition in respect of the payment of social grants has been put in place which will operate under the oversight of the IMC. Minister Radebe and the DG firmly undertook to provide whatever resources – skills, people and financial – required to ensure that there was no impediment to achieving the full payment of social grants from 1 April 2018 onwards. In addition, the Government Communication and Information Service (GCIS) has been instructed to develop and implement a communications plan to inform the general public of the process of change, and the State Law Advisers and legal practitioners in affected government departments and public entities will advise on and oversee issues of legal compliance and the drafting of agreements. A full implementation plan as well as a plan to provide for contingencies will be developed to ensure that SASSA will fully comply with the Court's Directions of 7 November 2017. Moreover, they stated that their approach was a two-phased one: short-term to do whatever is required to successfully pay all social grant beneficiaries on 1 April 2018, and medium to long-term to determine a viable option beyond that. **However, the Panel expressed its concern that there appeared to be no account taken of cost when considering the options available.**

3.5 <u>Risks emanating from the current IMC mandated process</u>

3.5.1 Judging by the meetings of the Parliamentary committees, and by the process now mandated by the IMC, it would seem that many have accepted the concept of a government-to-government collaboration whereby SAPO takes over the social grant payment services from CPS, without a proper analysis of whether there are other efficient and cost-effective options available for present purposes. The reliance on the dedicated intervention team mandated by the IMC to within a matter of days determine the best model for the social grants payment system, conclude binding agreements[17] and decide on the bid specifications for an RFP for the services that SAPO cannot render, if such services have to be procured, is optimistic, especially if the complexity of payments systems, security and logistics are considered. However, even if the option of SAPO as sole

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[17] Which must meet the requirements of section 4(3) of the SASSA Act (*see paragraph 3.6 of this Report*) and which requires the concurrence of the Minister of Social Development (section 4(2)(a) of the SASSA Act)

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service provider were implementable within the remaining time left to do so[18], SASSA in pursuing this strategy only (without also considering other options as viable alternatives) carries the systemic risk in respect of which the country ***will again be locked into a particular model*** for the payment of social grants without being aware of the potential benefits or shortcomings of other possibilities, in comparison to the model chosen. In addition, SASSA has not conducted a proper costing of the chosen SAPO model, and evaluated its cost-effectiveness, which was one of the conditions the National Treasury on 4 July 2017 stipulated when it approved a deviation from a competitive bidding process. The absence of a proper costing of the chosen model is contrary to the provisions of section 195(1)(b) of the Constitution, 1996, which provides that the public administration (which includes public entities such as SASSA and SAPO) must be governed *inter alia* by the principle of the promoting ***the efficient, economic and effective use of resources. Our initial analysis of the SAPO proposal shows that the cost to SASSA for implementing the full SAPO solution will be <u>significantly greater</u> than the current cost paid to CPS.***

3.5.2 Issues currently preventing the timeous and full implementation of the Court's Order could possibly be resolved ***were it not for the lack of sufficient time*** to develop and implement a comprehensive plan that considers all viable options, including making the best use of existing systems and technology available to government for the total transfer of payment of social grants from CPS to a new system.[19] Issuing a new RFP for an open, competitive bidding process, which could again include SAPO, would not enable SASSA within the time remaining and complexity of the requirements[20] to effectively manage and implement such additional or alternative service providers. SASSA's ***reliance on questionable and unexplained assumptions and artificial constraints has resulted in a flawed starting point*** for its process to implement the Court's Order and is likely to lead to implementation of a sub-optimal solution. It also appears that seeking an insourcing solution as the only strategy would exclude finding and using solutions that are available in the market at little or no additional capital expenditure cost to SASSA or SAPO.

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[18] Which the National Treasury and other role players, including SAPO, have concluded it cannot do – see paragraph 16.2 of Annexure "**B**"

[19] In its Second Report to the Court dated 15 September 2017, less than six weeks ago, SASSA indicated in paragraph 7.4 that it intended to pilot the new payment system "with effect from November 2017". The current SASSA plan is nowhere near this phase of implementation.

[20] Within the five months leading up to 1 April 2018, including all the required time to be spent on submission of bids, evaluation of bids, testing proof-of-concept, awarding (a) contract(s), pilot programmes and phase-in collaboration with the current service provider, to name but a few.

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3.5.3 Much is made of the government-to-government collaboration to be undertaken between SASSA and SAPO (if their differences could be settled). This option should however take into consideration the requirements in respect of cost-effectiveness affordability and sustainability (amongst others). This has seemingly ***been overlooked*** in a matter involving disbursement of a sizable portion of the national budget.

3.5.4 The Panel noted that the CSIR has qualified its due diligence report owing to limitations in time (and probably funds), which resulted in a lack of any substantive procedure testing any of SAPO's capabilities, and therefore accepts such capabilities at face value. The conclusion, unless otherwise tested, *does not provide a solid foundation,* but the Panel is faced with having to accept such conclusions. The Panel does, however, recommend that CSIR completes the full process of the due diligence or that SASSA ensures that capabilities SAPO claims it has, if they are required to distribute payments to beneficiaries, would be appropriate and adequate. In the meantime, based *inter alia* on the CSIR due diligence report on the SAPO bid, the Panel has concluded that SAPO could possibly (with appropriate subcontracting forming part of their offering as provided in their bid, and using Postbank for payment services) provide the services required for a large portion of the total solution, but the Panel has also concluded that SAPO **cannot do so cost-effectively in terms of its proposed cost structure, or within the timeframes available**. It is the Panel's view that SAPO does not have the infrastructure to provide all cash payment services and would probably have to outsource such services until their capacity is extended, as may be required. In addition, such a proposition presents a serious concentration risk to the National Payment System and is dependent on SAPO being issued with a banking license or being sponsored in settlement as well as SAPO meeting some regulatory requirements relating to the National Payment System regulation. This would again lock the state into one service provider for the payment of social grants, with all the concomitant risks should SAPO and Postbank for whatever reason fail to fully render the services required.

3.5.6 Because SASSA has decided to pursue the current BOT (build, operate and transfer) approach ***as the only option***, it has neglected to question the fundamentals of this exercise, for example whether it is necessary for all social grant beneficiaries to have their own individual SASSA cards, or whether the benefits of a biometric proof-of-life system outweigh the costs thereof, or whether social grant beneficiaries should have a choice in respect of which payment channel (e.g. cash pay point, ATM or point-of-sale) they want to make use of. All of this impacts on the ease of implementation of a comprehensive solution and on its associated costs.

3.5.7 In addition, the Panel is of the view that there is no justifiable need for SASSA to have a biometric recognition system to perform 1-to-many matching (i.e. de-duplication). The Department of Home Affairs ("DHA") performs de-duplication through 1-to-many matching by comparing fingerprints of ID applicants to those of all South African citizens as part of the ID issuing process, and therefore anyone who verifies the identity of a South African citizen against the fingerprint database of the DHA using HANIS[21], as SASSA plans to do[22], can be sufficiently guaranteed that the citizen does not have another valid identity registered with the DHA. Although it can be argued that SASSA has a need for such a system to ensure that children are not duplicated, because only identities of adults can be verified using HANIS as the DHA does not capture, store and maintain fingerprints of children except *inter alia* the birth of the child is registered late, i.e. after 30 days of occurrence. Biometric recognition of children, especially newborns and infants – the people that SASSA will be dealing with – is technically challenging, is a subject of on-going research, and is not likely to be as reliable as with adults *inter alia* because some of biometrics such as facial appearance change as the children grow and develop, and others like fingerprints cannot be captured reliably from most newborns and infants; hence the DHA does not have fingerprints and facial images of children. The benefits of biometric technology appear to be derived mostly at the grant enrolment stage (i.e. preventing duplication of beneficiaries) rather than at the grant payment stage. The Panel instead advocates for SASSA to work with the DHA to address challenges with the child duplication[23] as it is ultimately the responsibility of the DHA to ensure that documents that any citizen presents as proof of identity can be trusted. This approach will help strengthen the capacity of the DHA and would benefit the state as a whole and be much more cost-effective. The question of de-duplication is a matter which ***does not need to be resolved immediately*** for the continuation of social grant payments of 1 April 2018.

3.5.8 The Panel therefore finds that the present approach, as mandated by the IMC, in whichever permutation it manifests itself, ***will not necessarily yield an optimal or sustainable long-term solution*** for the effective, efficient and economical use of funds available for the payment of social grants, or for the effective distribution and payment of social grants to qualifying social grant beneficiaries, either in the short term or the long term. Moreover, it may result in the whole

[21] HANIS is short for Home Affairs National Identity System.
[22] Page 10 of Workstream Presentation to Inter Ministerial Committee on 13 June 2017.
[23] The use of one child by multiple parents to apply for social grants using different identities for the child.

approach having to be revisited in the future, with the possibility of incurring wasteful expenditure in the process.

3.5.9 Given the risks identified above, the Panel has considered alternatives which may provide better solutions to the current problem, discussed in Part 4 of this Report.

4 ALTERNATIVES

4.1 Any system for the payment of social grants should recognise that two types of payment are required: payment by way of financial systems using electronic payment devices such as automatic teller machines ("ATM's") or points of sale ("POS"), and payment of cash directly to beneficiaries at pay points. The cost per payment through the financial systems is a fraction of the cost of payment of cash at pay points, and for that reason, payments of cash at pay points can reasonably be restricted to areas where beneficiaries do not have access to financial services or electronic payment devices within five kilometres[24] of their permanent domiciles.

4.2 SASSA should from time to time determine the total number and location of pay points required for this purpose at that point in time[25], to ensure that pay points are not provided in specific locations simply because historically that has been the case. In addition, beneficiaries who live within five kilometres from ***any*** electronic payment device or facility should be required to make use of such a device or facility. The right of access to social assistance should not require the state to provide a variety of payment options simply because beneficiaries might find that convenient. Doing so significantly increases costs, for instance if a beneficiary has an option of going to one of three pay points, sufficient funds have to be available at all three points as there is no knowledge which one will be used. This requires having three times the amount of cash available.

4.3 Any system should make provision for exceptions, e.g. for beneficiaries who are differently abled or require special assistance.

[24] A generally accepted norm, but not a statutory requirement

[25] It would seem that the 10 000 pay points currently talked about as the required number is without sustainable scientific foundation. One such pay point is, for example, situated in the Pretoria city hall which is being used as the office of the executive mayor of the City of Tshwane, where the general public has no access.

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4.4 It is not an absolute requirement for every single beneficiary to have a SASSA-branded social grant payment bank card, as is currently the practice, including social grant beneficiaries who receive cash payments at pay points, and other beneficiaries who have private bank accounts and make use of cards issued by their banks. Removing this requirement will impact positively on the cost structure of social grant payments.

4.5 South Africa has an efficient and secure National Payment System ("NPS") with well-developed regulations and inter-operability standards. Of the approximately 15, 81 million social grant-related transactions per month, about 79% is processed though the NPS, which means that approximately 2 million social grant beneficiaries[26] receive cash payments at pay points.

4.6 Currently, part of the social grant payments are effected via a closed ***proprietary*** payment system, partially supported by a ***proprietary*** biometric verification process which will not be made available to the new service provider or to SASSA without incurring additional costs. Payments are effected by a small bank (Grindrod) issuing co-branded SASSA cards, with a total of four branches and limited client support. This results in concentration risk should the current service provider and its systems fail, and, it also increases operational risks on single payment days (generally the first day of every month) as well as restrict beneficiaries of their choice of services. The biggest disadvantage is that it is a winner takes all arrangement where lack of competition has adverse cost and quality of service implications to both SASSA and grant beneficiaries.

4.7 About 43% of beneficiaries are believed to already have their own bank accounts at a bank of their choice, even if not all beneficiaries necessarily use these bank accounts to receive their social grant payments. If SASSA could effect payment from its own bank account directly to these beneficiary bank accounts (which is an option which could be implemented in a very short period of time) and require other beneficiaries to open low-cost bank accounts (which SASSA could subsidise) for the same purpose, beneficiaries would have access to ATM's or POS devices or facilities to access their grants at the bank of their own choice or at their preferred merchants in an open system. The benefit of such a solution is that it would make use of an existing high-quality, properly regulated NPS infrastructure, with significant cost savings, as well as having benefits in respect of financial inclusion of social grant beneficiaries. This would allow for an open architecture where no single service provider would be able to dominate the payment process.

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[26] Out of a total of 11 511 936 (Source: SASSA, for the month of April 2017)

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4.8 Many banks already offer low-cost accounts, where the monthly cost of the account is capped and covers a standard set of transaction services. For purposes of this project, banks (including the Postbank) could be requested to provide low-cost accounts with standard services to social grant beneficiaries on an incremental cost recovery basis as part of their social responsibility investment and to receive Financial Services Charter credits for such a service. In addition, as national banking facilities evolve, even more grant recipients can be migrated into this payment system.

4.9 The NPS consists of clearing and settlement banks, designated clearing participants as well as card associations and related merchants that subscribe and commit to the rules as administered by PASA. Using the NPS payment channels would subject the service providers (bank, merchants etc.) to SARB and PASA oversight and effective penalties are imposed in case of abuse, or deviation to the rules. However, an exemption has been granted to the current bank that has issued co-branded SASSA cards relating to an un-interoperable portion of the payment of these benefits at present.

4.10 The benefits of such an approach would be that beneficiaries would have a choice of service provider and payment channel, in an open system (no lock-in with one service provider) where risks are spread and existing infrastructure and systems are used at cost-effective rates, providing more protection against abuse. In this arrangement, identity verification for proof of life can be done separately from the payment process, using existing state facilities, and also affording SASSA the opportunity to focus on its core functions (enrolling beneficiaries, administering grant approvals, oversight functions etc.), thereby avoiding the need to undertake a full procurement process for ensuring social grant payment services every five years. Should it at any time in the future be found that changes have to be made to the social grants payment process, SASSA will not have been locked into an arrangement.

4.11 Complementary to this proposed process, ***and after SASSA has by way of a proper audit determined the number and location of cash pay points currently needed,*** beneficiaries who live within five kilometres access to an ATM or POS facility must be encouraged or required to open bank accounts of their choice and convenience to enable them to access their grants through these facilities. This will present an opportunity where only beneficiaries who live more than five kilometres away from ***any ATM or POS device or facility*** may receive cash payments at pay points. This will also limit the number and geographical spread of cash pay points.

4.12 The detailed planning and implementation of this proposal can commence virtually immediately, to address the needs of nearly 80 % of social grants beneficiaries by 1 April 2018, ***provided all relevant role players co-operate to achieve this, and the necessary political will exists to make it succeed.*** In the Panel's opinion, this proposal would ensure "the *effective, efficient and economical use of* (state) *funds"*.

4.13 At its meeting with the Panel on 3 November 2017, SASSA after discussion and in response to questions conceded that the current approach will not ensure a full takeover from CPS on 1 April 2018. SASSA did however confirm that direct disbursements by SASSA from its own account to holders of bank accounts was practical and would resolve many issues.

4.14 In respect of the system to effect cash payments at pay points, for the remaining 20% of beneficiaries in remote locations, a possible solution is more complicated. The current arrangement for provision of services in respect of cash payments at pay points may have to continue until a more cost-effective solution (which would include the transitioning of beneficiaries who live within five kilometres access to ATM or POS facility to bank accounts) is found. The lack of current research into alternative payment methods in remote locations is due largely to SASSA's failure to fulfil its mandate and to perform its functions timeously. When asked by the Panel as to contingency planning should the present SASSA/SAPO engagement fail to produce effective results, Ms Zodwa Mvulane (SASSA's Manager for this project) was unable to indicate what SASSA's alternative/s could be.

5 RECOMMENDATIONS

5.1 The Panel recommends that the Court, exercising its supervisory jurisdiction over the implementation of the Court Order, *for the avoidance of a national crisis in respect of the payment of social grants*, instructs SASSA to immediately provide the court with any reasons why the alternative described in Part 4 of the Report is not feasible, and if it is feasible, to set up a system of direct payments into beneficiary bank accounts from SASSA's own corporate bank account, enabling

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beneficiaries to access grants through the NPS and for this process to be tested and ready to effect payments by 1 April 2018.

5.2 The Panel recommends that the Court, exercising its supervisory jurisdiction over the implementation of the Court Order, *for the avoidance of a national crisis in respect of the payment of social grants*, issue Directions for a short series of meetings to be held, *urgently* and *in the national interest*, under the auspices of the South African Reserve Bank and the National Treasury,

- where the first meeting is to be attended by SASSA, the Department of Social Development, the Department of Home Affairs, the Department of Planning, Monitoring and Evaluation, the Financial Intelligence Centre, the State Security Agency, the Information Regulator, the National Credit Regulator, the Competition Commission, the Consumer Commission and the CSIR, to consider, develop and agree on a social grant distribution framework which will provide for –
  - (a) the payment of the approximately 80% of social grant beneficiaries who currently already receive their social grant payments through the NPS, by all interested NPS participants providing low-cost banking accounts to social grant beneficiaries, chosen by the individual social grant beneficiary, at an ATM or point-of-sale chosen by that beneficiary;
  - (b) the migration or cession of a contract with retailers from CPS to either SASSA or Grindrod Bank for payment of social grants to a segment of beneficiaries who receive their social grant payments through contracted retailers that utilise biometric enabled POS devices, enabling these beneficiaries to continue to receive their social grant benefits through the channel that they currently utilise;
  - (c) the gradual migration of beneficiaries currently receiving their social grant payments at cash pay points, to the system contemplated in paragraph (a), as the development, deployment and availability of technology increases the number of social grant beneficiaries who live within five kilometres of such technological facilities or devices;
  - (d) the use of new technologies, systems of processes, such as payment via cell phones, e-wallets or money transfers;
  - (e) the regular auditing of the number and location of cash pay points to determine the need for the continued retention of such cash pay points;
  - (f) the payment of social grants in locations where a social grant recipient has no option but to receive payment from a cash pay point;

(g) a continuing and comprehensive education and information effort aimed at social grant beneficiaries and potential social grant recipients in order to explain the options and to ensure a smooth transition from the current system to the new system envisioned above;

(h) providing social grant beneficiaries with facilities and instruments to report and resolve problems with the payment of social grants expeditiously, with ease and at no cost to the beneficiary;

(i) ensuring the protection of social grant beneficiaries and recipients' personal information;

(j) preserving the dignity of social grant beneficiaries;

(k) preventing the exploitation of social grant beneficiaries by unscrupulous money-lenders or other service providers;

(l) monitoring the efficacy of the system and regularly determining its cost-effectiveness; and

(m) providing for the phase-out of the current service providers,

- and where the second meeting is to be attended by the parties who have attended the first meeting, in order to consult with the Payments Association of South Africa, the Banking Association of South Africa, the South African Retailers Payment Issues Forum, payment clearing house operators, the four main cell phone providers, and retail groups interested in providing services related to the payment of social grants, in respect of the social grant distribution framework agreed by the parties who have attended the first meeting, and its execution,

for that framework to be implemented forthwith and without reservation by SASSA and the Department of Social Development in collaboration with relevant role-players, with the implementation thereof to be overseen by the South African Reserve Bank and the National Treasury, and for the parties who have attended the first meeting to report to the Panel on agreements reached and instructions issued to SASSA , with this oversight being necessary to ensure there are no allegations of collusion among the role players in this effort to provide a national solution to an urgent problem.

5.3 The Panel further recommends that in respect of the payment of social grant beneficiaries, who do not live within five kilometres from an ATM or POS device or facility, SASSA and other relevant role players should evaluate and if possible find other solutions making use of new technologies or facilities to be implemented at this point in time.

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5.4 The Panel further recommends that if no such other solution contemplated in paragraph 5.3 or other appropriate solution can be found and solely in order to allow the process recommended in paragraph 5.2 sufficient time to agree on the payment of social grants at cash pay points, and after conducting an open, competitive bidding process, to appoint the successful service provider, that the Court should consider, *as an option of last resort*, to partially extend the suspension of the invalidity of the current CPS/SASSA agreement *in respect of the payment of social grant beneficiaries at cash pay points only*, for a period not exceeding six months, to ensure that there is no interruption of the payment of social grants on 1 April 2018 in areas where alternative pay mechanisms are not available within five kilometres of their living facilities, provided that CPS must in respect of the period it executes the Court's instructions in this regard submit a reasonable costing requirement to the National Treasury, payable by SASSA, which will provide for actual cost recovery of the services rendered, at a price excluding any cost of investments already recovered by Net 1 on its biometric and payments technology, for services rendered during the extended period.

5.5 The Panel further recommends that the Court, exercising its supervisory jurisdiction over the implementation of the Court Order, instructs -

(a) the National Treasury to investigate the conduct of SASSA employees and of officials of the Department of Social Development, in relation to all actions undertaken since 2016 to issue contracts to service providers or to give effect to the Court Order of 17 March 2017, in order to determine whether any person should be prosecuted in terms of section 81, 83 or section 86 of the Public Finance Management Act, 1999 (Act No. 1 of 1999), or any other relevant law;

(b) all such employees and officials to fully co-operate with the National Treasury and to without undue delay submit or disclose any relevant information or information requested to the National Treasury;

(c) the Director-General: National Treasury, on affidavit, to report to the Court on the outcome of the investigation and of prosecutions, if any.

5.6 The Panel further recommends that the Court, exercising its supervisory jurisdiction over the implementation of the Court Order, given the role the IMC has assumed in this matter, instructs the Department of Planning, Monitoring and Evaluation (DPME) to investigate –

(a) and to set out the remedial actions necessary to ensure that there is an end to SASSA being a public entity without proper institutional governance, capacity and oversight (e.g. by way of appointing a technical and administrative skilled management and a board of qualified expertise);

(b) the reasons for the failure of SASSA to focus on its core function and its primary objectives, namely to ensure the efficient and effective management, administration and payment of social assistance;

(c) the need or desirability to effect changes to the SASSA Act, 2004, to provide appropriate oversight and management of SASSA; and

(d) any other matter relating to the effective functioning of SASSA,

and that the Court instructs the Director-General: DPME, to after completion of these investigations but in any event no later than within six months of the Court's instructions submit a full report with findings, conclusions and recommendations to the National Assembly of the Parliament of South Africa.

6 CONCLUSION

6.1 From the Panel's interaction with various role players, if there was a clear focus on the objective – payment to valid beneficiaries in the most cost effective, reliable and sustainable manner – it appears that the majority of beneficiaries can be paid (electronically) directly into their bank accounts within the existing system without new intermediaries, whether this be SAPO or another entity. This would require SASSA effectively using the existing financial system, including the national payment system, Bankserve etc.

6.2 There needs to be an urgent resolution to the approach taken to ensure cash payments are made.

6.3 The approach taken appears to be using the grant payment system to address the challenges SAPO is facing, at great cost and risk to the grant payment system.

6.4 SASSA is deflecting their lack of competence and decision-making through blaming other parties, including the National Treasury.

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6.5 While the Panel has evaluated all the information placed before it, and has made the above recommendations in good faith, **the responsibility to determine the viability and effectiveness, and the implementation thereof, remains that of SASSA.**

6.6 The Panel has concluded that if an appropriate system for the payment of social grants is not implemented **effectively** by 1 April 2018, such a failure would constitute a national crisis. The Panel is of the view that the approach as set out in section 4 read with the recommendations in section 5 would, *in the long run*, have the best chance of meeting the requirements of section 4(3) of the SASSA Act, thereby ensuring, *within available resources*, the progressive realisation of every person's right, if they are unable to support themselves and their dependants, to appropriate social assistance as provided for in section 27 of the Constitution of the Republic of South Africa, 1996.

Panel of Experts and Auditor-General of South Africa

Johannesburg, 16 November 2017

------------------------------------ END REPORT------------------------------------

Annexures which form an integral part of this Report follow

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Annexure "A"

Statement of the Inter Ministerial Committee (IMC) on Comprehensive Social Security

The Inter Ministerial Committee (IMC) on Comprehensive Social Security met at its ordinary meeting on Tuesday 7th November 2017, to consider progress on the implementation of the Constitutional Court orders relating to the payment of social grants. As per the recommendations of its previous IMC meeting held on 13th September 2017, considered the reports from South African Social Security Agency (SASSA), South African Post Office (SAPO) and the National Treasury on its engagement with the two entities on the same issue.

The IMC met against the backdrop of ongoing engagement between SASSA and SAPO, and received briefings on the recent meeting between the Joint Committees of SCOPA and Portfolio Committee on Social Development. The IMC noted the intervention of the parliamentary committees and noted the public anxiety that has arisen due to the delay in the finalization of the appointment of an entity to pay social grants, after the expiry of the current service provider contract at the end of March 2018.

At its meeting, the IMC considered the report of National Treasury on the review process on the engagement between SASSA and SAPO. The National Treasury confirmed the hybrid model for the payment of grants.

The IMC is of the view that government will move with the necessary speed to resolve all outstanding issues related to this matter. The IMC has thus taken a decision to fast track the introduction of an integrated payment system which will be provided by Government through a partnership between SASSA and SAPO. The approach will focus on the consolidation of the respective strengths of each entity and possible additional capacity from other parties.

The intervention includes partnership between SASSA and the following entities including SAPO, Home Affairs, State Security Agency and the establishment of a dedicated team to review and strengthen the project plan by next week Friday. The Project Plan will outline the detailed plan for execution, resource requirements, critical milestones and communication strategy. This will also include the commitment to draw in additional capacity from other organs of state as may be required. The roles and responsibilities

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of each party to the partnership will be detailed in the implementation Protocol.

The mandate of the dedicated team will be to ensure finalization of the cooperation agreements between SASSA and SAPO, the governance and contracting framework, risk assessment and mitigation, monitoring and evaluation. The dedicated team will report weekly to the IMC and will commit resources needed for execution of the project.

The IMC reaffirms its commitment to implement the Constitutional Court Orders through the deployment of all necessary resources to achieve the implementation of new system by end of March 2018. The IMC also reassure all South Africans and in particular the social grant beneficiaries that no card will expire on December 31, 2017.

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Annexure "B"

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Private Bag X115, Pretoria, 0001 - Tel: (+27 12) 315 5111

Ms P. Bengu
Acting Chief Executive Officer
SASSA
Private Bag X 55662
PRETORIA
0083

Dear Ms Bengu

REVIEW OF PROCESS - ENGAGEMENT BETWEEN SASSA AND SAPO ON THE PAYMENT OF SOCIAL GRANTS

Your letter dated 1 November 2017 as well as the directive from the Joint Committee meeting of the Portfolio Committee on Social Development and Standing Committee on Public Accounts (SCOPA) to review the engagement process between the South African Post office (SAPO) and South African Social Security Agency (SASSA) has reference.

The assessment of the engagement process is summarised as below:

Deviation letter from SASSA dated 29 June 2017

1. SASSA requested a deviation to engage SAPO in a letter dated 29 June 2017. The following facts were indicated in the letter:

   1.1. After extensive and frank examination of its internal capacity and considering the time and process required for takeover, SASSA is convinced that they would not be ready to take over the full payment function value chain immediately after 12 months extension period. SASSA resolved to engage the services of the SAPO as a Service Integrator (SI) to take over from CPS on a Build Operate and Transfer (BOT) principle. The BOT approach will facilitate the takeover by SASSA at the end of the contract with SAPO.

   1.2. The collaboration with SAPO (Government to Government) was therefore considered to be the best option to minimize SASSA's dependence on external parties to execute its constitutional mandate and guarantee the eventual in-sourcing of the payment function with SASSA. The risk of illegal sharing of beneficiary date would be minimized and therefore beneficiaries' personal information will be protected from abuse. The collaboration will ensure optimal utilization and minimize duplication of government infrastructure.

   1.3. Furthermore, the planned collaboration with SAPO is considered exceptional as they are an Organ of State that has the capacity to partner with SASSA in the delivery of social grants. The National Integrated ICT Policy White Paper which Cabinet approved during September 2016, also states that "SAPO should be tasked with the responsibility of disbursing social grants working with SASSA as the lead agency".

1.4. *There have been numerous engagements with SAPO to obtain a deeper understanding of its service offering in light of SAPO's presentation to both the Constitutional Court and SCOPA. A workshop was convened on the 17 May 2017 with all the SASSA executives' managers and the Minister of Social Development's Chief of Staff to gain further get clarity on SAPO's service offerings. Following this workshop SASSA was convinced that SAPO has the ability and capacity to take over from CPS. SAPO also indicated its willingness to collaborate on a Build Operate and Transfer arrangement.*

1.5. *SASSA would, once approval for deviation was granted, issue a terms of reference to SAPO to enable it to provide a proposal detailing how the project will be implemented and the cost implications. The terms of reference were developed by dully appointed Bid Specification Committee and approved by delegated authority in line with Supply Chain Management processes. The result of the evaluation of the proposal from SAPO would determine whether SAPO had the necessary capacity to deliver on all the aspects of the payment value chain.*

Response letter from National Treasury dated 4 July 2017

2.1 The National Treasury approved the deviation on condition that the 2017/18 procurement plan was amended to include the timelines of this project and that the financial proposal from SAPO was considered by bid committees.

2.2 SASSA was directed to conclude the scope as soon as possible to have sufficient time if necessary to develop another scope for competitive bidding.

2.3 National Treasury supported the deviation as this was the optimum method of acquiring services from a government agency.

SASSA - SAPO engagements on payment of social grants

3.1. SASSA and SAPO discussed the collaboration from May 2017.

3.2. SASSA issued a request for a proposal to SAPO on 24 July 2017 with a closing date of 7 August 2017.

3.3. Some requirements in the RFP did not provide sufficient clarity on what the bidder is being requested to provide in some areas.

3.4. The Council for Scientific and Industrial Research (CSIR) held a meeting with the SASSA Bid Evaluation Committee (BEC) on 08 September 2017 to gain a better understanding of some of the requirements in the RFP as well as the rationale behind them.

3.5. The score sheets prepared by panel members of the BEC were signed on 26 August 2017. Members of the BEC allocated scores prior to receipt of the CSIR report. It is not clear why BEC members did not wait for the due diligence report to confirm the material facts in the SAPO RFP before allocating the points.

3.6. The CSIR report was presented to the BEC on 15 September 2017.

3.7. Members of the BEC supplemented their remarks or comments on the evaluation of the tender on 16 September 2017. The addenda for most of the members indicates

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that the CSIR report corroborates their findings. The remarks in the addenda confirm that CSIR report was not considered by BEC members when allocating functionality scores or points.

3.8. Members of the BEC forfeited the benefit of confirming material facts in the SAPO RFP before allocating the scores or points.

Purpose and Objectives of Council Scientific and Industrial Research (CSIR) report

4.1. The CSIR report detailed the outcome of the due diligence performed on the proposal submitted to SASSA, by SAPO, in response to the RFP referred to in Section 1. The purpose was to provide the SASSA BEC (convened to evaluate the response by SAPO) with the understanding of the technical information contained in the response. The report indicated that the term 'due diligence' could be understood differently and therefore in the context of the report it would be used in reference to the review, interpretation and analysis of the solution proposed by SAPO. As the report was not a bid evaluation report, the outcome of the activities undertook would form part of the many inputs that the SASSA BEC would interrogate in its evaluation of the proposal provided by SAPO.

4.2. The following were SASSA's objectives that were to be achieved through this due diligence process:

a) To confirm the material facts presented in the RFP response by the Post Office.

b) To aid SASSA in reducing the risks and opportunities in the proposed solution as well as the partnership.

c) To help SASSA reduce the risk of unpleasant discoveries post-contracting.

d) To confirm that SAPO is what it appears to be in its response with regards to satisfying SASSA's current and future requirements throughout the duration of the contract.

4.3. The main undertaking of the due diligence process was to confirm the facts that were relevant in the process.

CSIR recommendations on Card Production (Pages 18 -19)

5.1. SAPO and SASSA are required to have discussions that would clarify requirements on the card personalisation as this would have an impact on the issuance process for the card. It was not clear whether SASSA preferred the embossing of beneficiary details on the surface of the card.

5.2. SAPO currently has a contract with Gemalto as a contracted vendor for production of EMV compliant Postbank cards. To support the envisaged SASSA volumes, SAPO was aware that it might have to engage with the current service provider regarding production increase or negotiate with other vendors so as to meet SASSA's requirements. This might be required mainly for the bulk enrolments, as the capacity provided by the current service provider would be enough to service the monthly continuous enrolments.

National Treasury comments on Card Production

6.1. There was no evidence that SASSA and SAPO engaged on the card production recommendations.

CSIR recommendations on Phase-Out plan

7.1 The CSIR required additional information to fully understand the client's response.

7.2. It was recommended that a task team looking at all legalities, implications and systemic challenges of the BOT model be setup. At this stage, it was not clear if all the requirements for transferring the technologies, capabilities and human resources would be feasible and adhere to all legal requirements.

National Treasury comments on phase out plan

8.1. It was identified that five members of the BEC consistently allocated 2 points out of five scores. (Two is allocated if the response falls short of achieving expected standards in a number of respects).

8.2. There was no evidence that SAPO and SASSA engaged on the phase out recommendations.

8.3. The penalization or allocation of less points to SAPO because of insufficient information was prejudice because SASSA should have prescribed the phase out plan or requested additional information during the presentation stage.

Reasons why SAPO was penalized for card production

9. The bidder did not demonstrate the capacity and capability to perform card production. It did not disclose sub-contracting arrangement on SBD6.1 form and that the proposed phase-out does not provide a detailed framework.

National Treasury comments on penalisation of SAPO for card production

10.1 It was noted that five members of the Bid Evaluation Committee allocated two out of five points. (Two points are allocated if the response falls short of achieving expected standards in a number of respects.)

10.2 In addition, one member allocated one out of five points. (One is allocated if the response significantly fails to meet the standards required.)

10.3 The penalisation or allocation of less points to SAPO because of sub-contracting arrangement is deemed unfair because the current service provider CPS does not render all the services on its own.

10.4 This is the case in many other government agencies.

10.5 The penalization or allocation of less points to SAPO without considering the recommendations of the CSIR is not justifiable.

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Bid Evaluation Committee (BEC) meetings

11.1. The BEC report does not include vital details of the meetings, e.g. names of members who attended the meetings, whether a quorum was achieved and declarations made.

11.2. The BEC members did not guarantee that valid and accountable reasons / motivations were furnished for penalizing or allocating less points to SAPO in some critical areas.

11.3. The BEC members did not ensure that scoring was fair, consistent and correctly calculated and applied. For example, the chairperson of the BEC did not allocate scores for Reconciliation under Account Management Criteria in her score sheet. It is not clear where the three in the consolidated report emanated from.

11.4. The BEC members did not recognize that capacity gaps identified during evaluation should not result in automatic disqualification of SAPO but warrant a discussion of measures to close the gaps. For example, agreeing on startup costs, outsourcing certain services in the interim or requesting capitalization from National Treasury.

11.5. The BEC members did not recognize that there is no government agency that may render all services without outsourcing certain services.

11.6. The BEC members should not have recommended the disqualification of SAPO in three areas (card-body and distribution, banking services and provision of cash payment services). In our view, they should have recommended and explored measures to close the capacity gaps or seek the intervention of the IMC to fund such measures.

Bid Adjudication Committee (BAC) meetings

12.1 The BAC members did not ensure that valid and accountable reasons / motivations were furnished for penalizing or allocating less points to SAPO in some critical areas.

12.2 The BAC members did not to ensure that scoring was fair, consistent and correctly calculated and applied.

12.3 The BAC members did not recognize that capacity gaps identified during adjudication should not result in automatic disqualification of SAPO but warrant a discussion of measures to close the gaps. For example, agreeing on startup costs, outsourcing certain services in the interim or requesting capitalization from National Treasury.

12.4 The BAC members did not recognize that no government agency may render all services without outsourcing certain services.

12.5 The BAC members should not have recommended the disqualification of SAPO on three areas; but recommend discussions to explore measures to close the capacity gaps or seek the intervention of the IMC to fund such measures.

Implication of section 217(1) of the Constitution

13.1 The principles of section 217(1) are not applicable in the identification and selection of SAPO as a supplier.

13.2 Acquiring services through negotiations is allowed in terms of the Treasury Regulations and guidelines on demand management.

13.3 Acquiring services through negotiations is also supported in terms of paragraph 3.4.3 of National Treasury practice note SCM 8 of 2007/2008.

13.4 The fairness, competitiveness and cost effectiveness principles are applicable when identifying capacity gaps and considering the financial proposal. (Analysis of Cost v Benefit).

Memorandum of understanding between SAPO and SASSA

14.1 SASSA and SAPO signed a letter of agreement in July 2009.

14.2 SASSA agreed to contribute to the startup costs to close the capacity gaps.

14.3 The letter of agreement was challenged by Cash Paymaster Services (Pty) Ltd T/a (Paymaster). CPS launched an application in the High Court in which it sought to review the decision taken by SASSA to enter into the Letter Agreement, and interdict SASSA from entering into the proposed final agreement with SAPO to render banking or payment services, relating to social security beneficiaries, without having followed a procurement process which complies with s 217(1) of the Constitution, s 51(1)(a)(iii) of the Public Finance Management Act 1 of 1999 (the PFM Act) and the Treasury Regulations made thereunder, or with SASSA's own supply chain management policy.

14.4 The decision of the High Court was challenged by SASSA and SAPO resulting in the appeal being upheld.

Conclusion

15.1. SASSA should not have approved the disqualification of SAPO on three areas but rather seek to engage and explore options on possible ways to close the capacity gap or seek the intervention of the IMC.

15.2. The specification developed by SASSA was biased.

15.3. The CSIR report was not used for its intended purpose.

15.4. SASSA took more than 60 days to evaluate and adjudicate one proposal.

Remedial action

The meeting of the 07th November 2017 attended by SAPO, SASSA, South African Reserve Bank (SARB) and the National Treasury (NT) concluded and noted the following:

16.1. The process to finalize the matter has been delayed.

16.2. SAPO will not be in a position to start paying grants on their own as from the 01st April 2018.

16.3. SASSA will also not be able to finalize all their processes to ensure that grants are paid by 01st April 2018.

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It was therefore resolved that:

16.4 SASSA, SAPO, SARB and the NT meet with the Banking Association of South Africa and Payment Association of South Africa to seek an interim solution. (This meeting is scheduled for Friday, 10th November 2017.)

16.5 A hybrid model where all banks, SAPO included, can play a role in distributing grants. The hybrid model should include all modes of payment e.g. cash payments, electronic payments and other methods to be agreed upon.

16.6 SASSA makes arrangement with a clearing and settlement bank to utilize the national payment system infrastructure to distribute social grants.

Kind regards

DONDO MOGAJANE
DIRECTOR GENERAL
DATE: 07/11/2017.

cc Mr M Barnes
Chief Executive Officer: SAPO

Annexure "C"

OPERATIONAL MATTERS

1. The Acting CEO of SASSA on 21 August 2017 in a letter to the AG accepted the fee structure, budget and terms proposed by the AG for the remuneration of Panel members in respect of the Panel's activities, and on billing arrangements.

2. The Panel has attempted to minimise costs by making use of dial-in telephone facilities in certain instances for panel members to avoid travel costs, and has appointed a Panel engagement group to meet with certain persons or entities of interest on its behalf, together with selected individual members of the Panel, so as to minimise the need for the full Panel to attend all meetings. In addition, individual Panel members attend to administrative duties, correspondence and monitoring of the media without billing for time spent.

3. Not all parties to the present litigation were at the time of submission of the First Report on 15 September 2017 notified of the Panel having done so, and consequently only became aware thereof at a later stage. The Panel has in cooperation with the Registrar of the Court placed a mechanism in place in an attempt to prevent that situation from occurring again.

ANNEXURE "D"

STEPS TAKEN TO EVALUATE THE MATTERS REFERRED TO IN PARAGRAPHS 12.1 TO 12.3 OF THE COURT ORDER

1. The Panel assessed SASSA's "Second Report to the Constitutional Court" dated 15 September 2017, SASSA's and SAPO's presentations to the Panel and to the joint Parliamentary Standing Committee on Public Accounts and the Portfolio Committee on Social Development ("the Parliamentary Committees"), the Request for Proposals ("RFP") issued by SASSA to SAPO and SAPO's bid documents submitted in response to the RFP, the technical due diligence report submitted by the Council for Scientific and Industrial Research ("CSIR") in respect of that bid, and the memoranda submitted by SASSA's bid evaluation committee and bid adjudication committee after their consideration of the SAPO bid documents and the CSIR due diligence report. The Panel also examined the service fees paid to CPS by SASSA, CPS' management accounts and its annual financial statements from 2012 to 2016 received by the Panel after the completion of its First Report. All of this has contributed to the Panel's understanding of the extent, challenges and possibilities in respect of the payment of social grants.

2. In addition, the following meetings have been held by the AG, the Panel or Panel task groups, with other parties[1]:

Meeting	With	Date	Purpose
Panel	Black Sash Trust	6 September 2017	To assess problems experienced by beneficiaries with the payment of social grants
Panel engagement group	Grindrod Bank	26 September 2017	To assess the protection of personal information, Easypay accounts, biometric verification and other operational matters
Panel engagement	CPS	26 September 2017	To assess the protection of personal

[1] As at 16 November 2017

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Meeting	With	Date	Purpose
group			information, biometric verification and other operational matters
Panel	SASSA Exco	27 September 2017	To discuss access to information held by SASSA, to discuss progress on the SAPO engagement and other operational issues
Panel	SASSA divisions • internal audit and risk • business development • information technology	27 September 2017	To assess the operations of the divisions in respect of the payment of social grants
Panel engagement group	Information Regulator	5 October 2017	To assess the measures taken and to be taken to protect the personal information of social grants beneficiaries and recipients
Mmamolatelo Ezekiel Mathekga	SASSA ICT Department	10 October 2017	To evaluate if SASSA has mechanism in place to verify that all the biometric data of grant recipients that CPS has captured are transferred to SASSA
Panel engagement group	South African Post Office (SAPO)	17 October 2017	To understand SAPO's tender submitted to SASSA
Panel engagement group	Payments Association of South Africa (PASA)	26 October 2017	To assess the capabilities of the National Payment System

Meeting	With	Date	Purpose
Panel	SAPO	2 November 2017	To assess progress in SASSA appointing SAPO as service provider
Panel	SASSA Exco	3 November 2017	To assess progress in appointing SAPO as service provider
Panel engagement group	DG and officials of the Department of Home Affairs (DHA)	9 November 2017	To assess the capabilities of the DHA to assist SASSA with identity verification and payment matters
Panel engagement group	Minister of Social Development and delegation; representatives of Minister of Telecommunications and Postal Affairs	10 November 2017	To assess the Minister's vision for SASSA and the future of the payments process
Panel engagement group	Minister in the Presidency responsible for Planning, Monitoring and Evaluation, and the DG: Department of Planning, Monitoring and Evaluation (DPME)	13 November 2017	To assess developments in respect of the processes initiated by the IMC
Panel	National Treasury and SASSA	16 November 2017	

2.1 The Black Sash Trust at the meeting of 6 September 2017 was represented by Ms Lynette Maart: National Director), Ms Evashnee Naidu (KZN Regional Director), Ms Gina Snyman (in-house Counsel: Centre for Applied Legal Studies) and Ms Nomonde Nyembe (Attorney: Centre for Applied Legal Studies.

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2.2 Grindrod Bank at the meeting of 26 September 2017 was represented by Mr David Polkinghorne (Managing Director), Mr Andrew Turpin (Chief Operating Officer) and Mr Chris Newland (Head of Retail).

2.3 Cash Paymaster Services ("CPS") at the meeting of 26 September 2017 was represented by Mr Herman Kotzé (Chief Executive Officer and Chief Financial Officer), Mr Nanda Pillay (Managing Director: Southern Africa), Mr Nitin Soma (Senior Vice President of Information Technology), Adv Neville Melville (Independent Adjudicator to Net1) and Mr Chris Seabrooke (Chairman of the Net1 board).

2.4 For the meeting between the Panel and the SASSA Exco delegation, the delegation was on 27 September 2017 led by Ms Pearl Bhengu (Acting CEO), and attended by Mr Tsakeriwa Chauke (Chief Financial Officer), Ms Raphaahle Ramokgopa (Executive Manager: Strategy), Ms Zodwa Mvulane (Project Manager), Ms Dumisile Ndlovu (Acting Executive Manager: Corporate Services), Ms Dianne Dunkerly (Executive Manager, Grants Administration) and Ms Sindi Shoba (Executive Support unit).

2.5 The meeting between the Panel and SASSA divisions, on 27 September 2017, was attended, for SASSA, by Mr Paeka Letsatsi (Head of Communciation), Mr Armstrong Molefe (General Manager in the Office of the CEO), Mr Jabulani Makondo (General Manager: ICT infrastructure and Operations), Ms Busisiwe Mahlobogoana (Head of Legal Services), Mr Abraham Mahlangu (CIO), Ms Kgomotso Sefalaro (General Manager: Social Security Reforms) and Ms Thandi Sibanyoni (Head of Internal Audit and Risk).

2.6 The meeting between the Panel engagement group and the Information Regulator ("IR"), on 5 October 2017, was attended, for the IR, by Adv Collen Weapond, Adv Lebogang Stroom – Nzama and Prof Tana Pistorius.

2.7 Mr. Kamenthren Govender represented SASSA's ICT Department at the meeting of 10 October 2017.

2.8 At the meeting held on 17 October 2017, the delegation of the South African Post Office ("SAPO") was led by Mr Mark Barnes (Group CEO), with Ms Lindiwe Kwele, Mr Shaheen Adam and Mr Hannes van der Merwe attending.

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2.9 The Payments Association of South African ("PASA") was at the meeting of 26 October 2017 represented by its CEO, Mr Walter Volker.

2.10 At the meeting with the Banking Association of South Africa ("BASA") held on 31 October 2017, the delegation was led by Mr Khulekani Mathe (Acting MD who is also the Senior General Manager: Financial Inclusion), assisted by Ms Raksha Semnarayan (Senior General Manager: Market Conduct), Mr Yacoob Abba Omar (Senior General Manager: Strategy and Communications), Ms Nobambo Mlandu (Prudential Division), Ms Adri Grobler (Senior Specialist) and Mr Thato Chikane (Assistant).

2.11 At the meeting held with SASSA on 3 November 2017, the SASSA delegation comprised of Ms Pearl Bhengu (Acting CEO), Ms Dianne Dunkerly (Executive Manager Grants Administration), Ms Dumisile Ndlovu (Executive Manager Corporate Services), Mr Kuduku Mowa (Senior Manager: Financial Accounting), Mr Abraham Mahlangu (Chief Information Officer), Mr Isaac Dhlomo, Ms Raphaahle Ramokgopa (Executive Manager Strategy and Business Development), Ms Busisiwe Mahlobogoane (General Manager Legal Services) and Ms Zodwa Mvulane(Manager Special Projects).

2.12 At the meeting of 9 November, DHA was represented by Mr Mkuseli Apleni (Director-General) , Mr Mogane Robela and Mr Collins Rantho.

2.13 Present at the meeting with the Minister of Social Development, Ms Bathabile Dlamini, on 10 November 2017, were Ms Nelisiwe Vilakazi (Acting DG: DSD) and Adv Nkosninathi Dladla (Legal Adviser: DSD), and the Minister of Telecommunications and Postal Affairs was represented by Ms R Langa (Chief Director: Department of Telecommunications and Postal Affairs and Mr Mark Barnes (Group CEO: SAPO).

2.14 On 14 November 2017, the Panel met with Mr Jeff Radebe, Minister in the Presidency responsible for Planning, Monitoring and Evaluation, and Ms Mpumi Mpofu (DG: DPME).

2.15 SASSA's delegation for the meeting of 16 November 2017 was led by Ms Pearl Bengu (Acting CEO), assisted by Ms Zodwa Mvulane (Manager Special Projects), Ms Dumisile Ndlovu (Executive Manager Corporate Services), Ms Thandi Sibanyoni (Executive Manager Internal Audit and Risk

Management), Ms Raphaahle Ramokgopa (Executive Manager Strategy and Business Development), Ms Dianne Dunkerley (Executive Manager Grants Administration), Mr Tsakeriwa Chauke (Chief Financial Officer), Mr Abraham Mahlangu (Chief Information Officer), Ms Busisiwe Mahlobogoana (General Manager Legal Services), Mr Paseka Letsatsi (General Manager Communications) and Mr Armstrong Malope (General Manager Office of the CEO).

2.16 The National Treasury was on 16 November 2017 represented by Mr Ismail Momoniat (Acting DG), Mr Roy Havemann, Dr Mark Blecher, Ms Katherine Gibson and Ms Rose Mohlante.

Annexure "E "

ACCESS TO INFORMATION

1.1 In its First Report, the Panel noted that SASSA had repeatedly not provided access to all the documents requested, either on time or at all. At its meeting with SCOPA and the Portfolio Committee on Social Development, held on 24 October 2017, and after being challenged by members of Parliament, SASSA sought to deny that it had repeatedly failed to do so. The Panel does not wish to open a debate on this matter, but it stands by its statements in this regard in the First Report, and if so directed by the Court, will make available a register kept by the Panel Secretariat detailing all requests for information and all documents received, together with the dates of receipt.

1.2 The Panel attempted to address this problem by taking it directly up with the SASSA Exco, and in a letter dated 7 September 2017, SASSA undertook to provide the Panel with information requested and to inform the Panel "whenever a deliverable in terms of this project was met or not met, and the reasons thereof". Despite that, the Panel again had to traverse this subject at its meeting on 27 September 2017, and in a letter to SASSA dated 28 October 2017. SASSA has undertaken to promptly comply with the Panel's requests, and although the flow of information has since improved, SASSA's compliance with Panel requests remains sub-optimal. (For example: it took 63 days for SASSA to submit trend data on payments requested by the Panel on 14 August 2017). The Panel expects this situation to further improve after the Court's Directions issued to SASSA on 7 November 2017.

1.3 The Panel was particularly disappointed by SASSA's attempt on 22 September 2017 to fob off the Panel with documents relating to an agreement with SAPO for the printing of materials, instead of providing a copy of the draft agreement offered to SAPO for the provision of services related to the payment of social grants, as had been specifically requested. This resulted in the Panel having to assess documents which were for the Panel's purposes meaningless, with the concomitant waste of time (and by implication, costs).

Annexure "F"

CASH PAYMASTER SERVICES (CPS) COMPLAINT

1. CPS on 3 November 2017 sent a letter to the AG, *inter alia* complaining that the First Report had not reflected CPS' cooperation with the Panel. In the First Report, the Panel stated[1] that CPS had provided some of the information requested by the Panel, but failed to provide its audited financial statements and detailed annual management accounts in its response to the Panel's request. Instead of these documents, CPS had only provided extracts of its financial statements covering its grants payments business, and despite a further request dated 1 September 2017, CPS had at the time of writing of the Report – **5 September 2017, as was specified in the First Report**[2] - failed to provide that information. In its letter, CPS acknowledges that it only on 11 September 2017 provided its annual financial statements and its annual management accounts for the past five years to the Panel, which required substantial time and effort for analysis. CPS' iteration that "CPS provided the Panel with its annual financial statements and management accounts ... prior to the date of the report" is therefore incorrect.

2. CPS also disagrees with the Panel's statement[3], with reference to the additional agreement that had to be concluded between SASSA and CPS, expressing its concern that "CPS is able to determine what approach should be taken, in essence exercising a veto on the approach.", because –

- CPS (without motivation or proof) claims to have complied with the Courts Order "in every respect";
- the addendum concluded could only bind SASSA and CPS;
- CPS had not vetoed any approach, but had "simply conveyed its position to SASSA and the agreement reached was recorded in writing"; and
- the Panel had not at its meeting with CPS on 26 September 2017 (well after the drafting of the First Report on 5 September 2017 and its submission to the Court on 15 September 2017) engaged with CPS on the matter.

3. The Panel remains unconvinced by those reasons, especially since CPS could in the addendum have undertaken to enforce the Court Order on all third parties which provide social

[1] Paragraph 2. 2.7 of the First Report
[2] Paragraph 1.1.6 of the First Report
[3] Paragraph 3.2.3 of the First Report

grant payment services in terms of subcontracting agreements with CPS, or to whom it provides beneficiaries' personal information or to whom it provides access to such information.

4. The Panel however welcomes CPS's commitment to co-operate with the Information Regulator (IR) to ensure the protection of beneficiaries' personal information. During its meeting of 5 October with the IR, the Panel was informed that the IR would be facilitating a meeting with all entities concerned (including parties other than SASSA and CPS) to ensure the protection of beneficiaries' personal information, and the Panel satisfied itself that the matter would be appropriately addressed under the auspices of the IR.

5. CPS has at the time of writing of this Report provided the information which it had previously failed to provide to the Panel.

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Annexure "G"

Chronology of key events

Date	Events
17 March 2017	Constitutional Court made Order for Case 48/17
31 March 2017	SASSA and CPS signed addendum to contract regarding protection of beneficiary data and prevention of Grindrod Bank and CPS to invite beneficiaries to opt in for sharing their data for marketing purposes.
18 April 2017	SASSA and SAPO met to discuss key capabilities requirements and approach required.
20 April 2017	SAPO made a presentation to SAPO on its capabilities and readiness.
4 May 2017	SAPO had a discussion with SASSA on SAPO's capabilities and approach.
17 May 2017	SASSA held workshop with SAPO workshop to gain clarity on SAPO's service offerings. Documents indicate that SAPO convinced SASSA of its capabilities to pay social grants.
29 May 2017	SASSA CFO sought guidance from National Treasury on how SAPO should be engaged to enter into a contract for payment of social grants.
6 June 2017	National Treasury advised SASSA that there should a demand management exercise to indicate whether it is economical to procure services from a government entity. The list of services to be provided should be agreed upon and serve as the basis for the specifications. SAPO was then to submit a financial proposal considered by a bid committee. SASSA was to request a deviation from National Treasury prior to commencing the procurement process for a financial proposal.
6 June 2017	Constitutional Court appointed Panel of Experts by Direction.
12 or 13 June 2017	SASSA presented its Five-Year Change Programme Plan to the Inter-Ministerial Committee on Comprehensive Social Security.
14 June 2017	SASSA's first meeting with Panel of Experts.
20 June 2017	SASSA filed its first quarterly report to the Constitutional Court.
29 June 2017	SASSA requested approval from National Treasury for deviation from competitive bidding process to procure the services of SAPO for a period of 5 years, as a service integrator to take over from CPS on a Build Operate and Transfer principle.
4 July 2017	National Treasury granted the deviation subject to updating SASSA's

	procurement plan and a financial proposal considered by bid committees.
17 July 2017	SASSA wrote to SAPO to confirm its intention to appoint SAPO as a Solution Integrator/Service Aggregator for a period of five years on a Build Operate and Transfer basis, on the basis of the conditional deviation from National Treasury. The letter also stated SASSA's intention to provide SAPO with its documented requirements to enable SAPO to indicate which services it is able to render, the timelines for those services and the costing. The letter indicated that SAPO should carry the costs of the first year of the project, and that a due diligence would be undertaken to ascertain SAPO's capabilities. Letter also referred to an instruction to the SASSA Chief Information Officer to establish a war room to ensure implementation of the project.
18 July 2017	SASSA issued first RFQ for due diligence. Response not satisfactory.
20 July 2017	SASSA finalised and approved the RFP 01/17/SP for the provision of payment services and systems for social assistance.
24 July 2017	SASSA issued RFP 01/17/SP to SAPO with closing date 7 August 2017.
4 August 2017	SASSA issued second RFQ for due diligence. Response was not satisfactory.
7 August 2017	SAPO submitted its bid in response to RFP 01/17/SP.
14 August 2017	SASSA issued third RFQ for due diligence. Response was not satisfactory.
15 August 2017	SASSA appeared before SCOPA and assured SCOPA that it would meet the deadlines it had set itself to complete the procurement process.
22 August 2017	Bid Evaluation Committee commenced evaluation of the SAPO bid.
23 August 2017	SASSA invited SAPO to make a presentation on its proposal.
24 August 2017	SASSA issued fourth RFQ for due diligence following National Treasury declining a deviation from normal tender procedures.
25 August 2017	SAPO submitted clarification of its proposal to the Bid Evaluation Committee.
31 August 2017	CSIR appointed to conduct due diligence of SAPO bid.
1 September 2017	CSIR commenced due diligence of SAPO bid.
8 September 2017	CSIR had a discussion with SASSA to clarify certain requirements in preparation for the CSIR's engagement with SAPO.
9 September 2017	CSIR engaged with SAPO on its bid.
14 September 2017	CSIR completed its due diligence report.
15 September 2017	CSIR presented its due diligence report to SASSA.

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15 September 2017	IMC briefed the media on progress with the implementation of the Court Order. The Minister of Social Development stated that among measures to be taken, SASSA would reactivate its PMG account and pay 2 million beneficiaries directly through their commercial bank accounts.
15 September 2017	SAPO filed its second quarterly report with the Constitutional Court
16 September 2017	SASSA Bid Evaluation Committee finalised its evaluation.
19 September 2017	SASSA Bid Adjudication Committee commenced its evaluation.
21 September 2017	SASSA Bid Adjudication Committee finalised its evaluation and made its recommendation to Acting CEO to award SAPO the development of the integrated payment system. The Acting CEO signed the memorandum, but did not date it, nor did she indicate whether or not she approved.
29 September 2017	SASSA prepared memorandum for Minister's concurrence to award the provisioning of an integrated payment system on certain conditions.
6 October 2017	Acting CEO signed memorandum seeking Minister's concurrence.
6 October 2017	Minister of Social Development signed the memorandum without indicating concurrence or not with the decision of the Acting CEO.
6 October 2017	Acting CEO signed the letter of award for SAPO to develop the integrated payment system.
18 October 2017	SAPO CEO received the letter of award.
20 October 2017	SAPO CEO sent written response to SASSA indicating its willingness to provide the Integrated Grant Payment Service to SASSA, subject to condition that SAPO also provides the remaining three elements of the RFP.
20 October 2017	SAPO CEO sent further correspondence to SAPO seeking clarity on the reasons it was not award the other services.
24 October 2017	SASSA and SAPO appeared before the Joint SCOPA-Portfolio Committee on Social Development.
31 October 2017	SASSA and SAPO appeared before the Joint SCOPA-Portfolio Committee on Social Development and were directed to meet to resolve the deadlock. The Director-General: National Treasury was tasked to convene the meeting.
31 October 2017	SASSA provided SAPO with reasons, in writing, why SAPO was disqualified in the three services in the bid.
1 November 2017	SASSA, SAPO and National Treasury appeared before the Joint SCOPA-Portfolio Committee on Social Development to report back on progress with resolution of the deadlock. The Joint Parliamentary Committee requested National Treasury to review the process followed by SASSA in evaluating and adjudicating SAPO's response to

	the RFP, and report back to the Committee on 8 November. The Committee requested that the IMC appears before it on 8 November.
2 November 2017	SAPO briefed the Panel on events since receipt of the letter of award.
3 November 2017	SASSA briefed the Panel on issues pertaining to SAPO award.
8 November 2017	The IMC appeared before the Joint SCOPA-Portfolio Committee on Social Development. Minister Radebe as newly appointed Chairperson of the IMC read a statement indicating that the IMC would fast track introduction of an integrated payment system through partnership between SASSA and SAPO, and additional capacity if required. A technical team would strengthen the project plan and outline detailed execution plan, critical milestones, resource requirements, and communication strategy. National Treasury did not report directly to the Parliamentary Committee – the DG's letter to the Acting CEO was distributed but not discussed. The letter indicated serious shortcomings with the process followed by SASSA in dealing with the RFP. The Parliamentary Committee agreed to give IMC opportunity to follow the process outlined in the IMC statement and report back on 21 November.
10 November 2017	Minister of Social Development briefed the Panel on the actions taken by SASSA to ensure a smooth transition on 1 April 2018.
14 November 2017	The Minister in the Presidency and the Director-General: Department of Planning, Monitoring & Evaluation briefed the Panel on the actions taken since 8 November, including the establishment of the Technical Team to support SASSA.

Annexure "H"

Technical assessments

A Understanding of SASSA's planned grants administration and payment approaches

Grants Administration Approach

1. SASSA's planned approach for the administration social grants is captured mainly in Figure 1, which was part of the presentation given by SASSA to the Panel on 14 June 2017 (slides 9) and was also part of Annexure L (presentation to Inter Ministerial Committee) of the first SASSA report to the constitutional court (pages 10). The figure shows grant administration functions which include everything that will happen from the time an application for a social grant is made to when the social grant has been granted and the new beneficiary is issued with a SASSA payment card is shown in Figure 1.

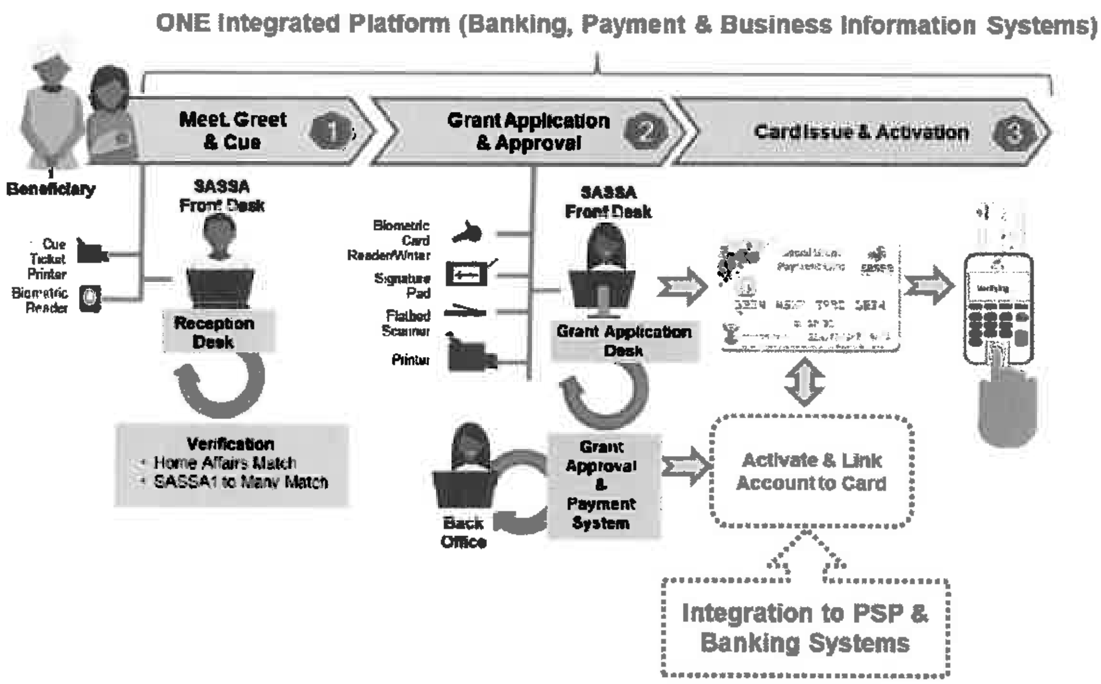

Figure 1: Planned SASSA "Integrated" grant administration and payment system.

2. What is clear in Figure 1 is that SASSA plans to have their employees be responsible for functions such as the capture of biometric data from grant applicants and also the issue of grant payment card, which will occur at a SASSA office. The process also includes an interface with HANIS (Home Affairs National Identity System) for fingerprint based identity verification, although not clearly stated; to be performed at the Reception Desk as part of verification, which will also include SASSA 1-to-many match. The SASSA 1-to-many match is the process wherein fingerprints of grant applicants (and their dependents where relevant) are compared to those of existing grant recipients and dependents to ensure that the person applying for a grant is not already a grant recipient under a different identity and the same for the dependents.

3. The Panel, except for the SASSA 1-to-many match process and the lack of detail regarding how other grant administration functions that are not related to the social grant application process (e.g. beneficiary maintenance) will be performed; does not

foresee any immediate short-comings with the proposed SASSA grant administration approach. SASSA employees capturing biometric data of grant applicants will be more cost effective than having the biometric acquisition process, which does not require specialized skills being outsourced. Especially, given that most biometric acquisition systems provide feedback to the user during the acquisition process to ensure that a biometric of a good quality is captured. Also, SASSA intends on having their employees verify their identities using biometrics to authorize certain high risk transactions on their systems through the Biometric Identity User Management system which is currently being developed[1]. The experience gained from using the system will inform the process of acquiring biometrics of grant applicants.

4. The Panel does not support the inclusion of the SASSA 1-to-many match process in the grant administration process because it is too a large degree a duplication of of a functionality that the Department of Home Affairs (DHA) already performs. The DHA compares fingerprints of ID applicants to those of all South African citizens as part of the ID issuing process, and therefore anyone who verifies the identity of a South African citizen against the fingerprint database of the DHA using HANIS, as SASSA plans to do, can be sufficiently guaranteed that the citizen does not have another valid identity registered with the DHA. Although it can be argued that SASSA has a need for such a system to ensure that children are not duplicated, because only identities of adults can be verified using HANIS as the DHA does not capture, store and maintain fingerprints of children except *inter alia* the birth of the child is registered late, i.e. after 30 days of occurrence. Biometric recognition of children, especially newborns and infants – the people that SASSA will be dealing with – is technically challenging, is a subject of on-going research, and is not likely to be as reliable as with adults *inter alia* because some of biometrics such as facial appearance change as the children grow and develop, and others like fingerprints cannot be captured reliably from most newborns and infants; hence the DHA does not have fingerprints and facial images of children. The Panel instead advocates for SASSA to work with the DHA to address challenges of a child being used to apply for social grants by different parents using the different identities for the child. This is because it is responsibility of the DHA to ensure that documents that any

[1] See paragraph 3.2.3.(c) of SASSA's first report to the Court.

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citizen presents as proof of identity can be trusted, and such a collaboration will help strengthen the capacity of the Department of Home Affairs (DHA) benefit the state as a whole and be much more cost-effective.

Grants Payment Approach

5. Aspects of SASSA's planned approach for the payment of social are captured mainly in Figure 2, which was part of the presentation given by SASSA to the Panel on 14 June 2017 (slides 10) and was also part of Annexure L (presentation to Inter-Ministerial Committee) of the first SASSA report to the Court (page 11).

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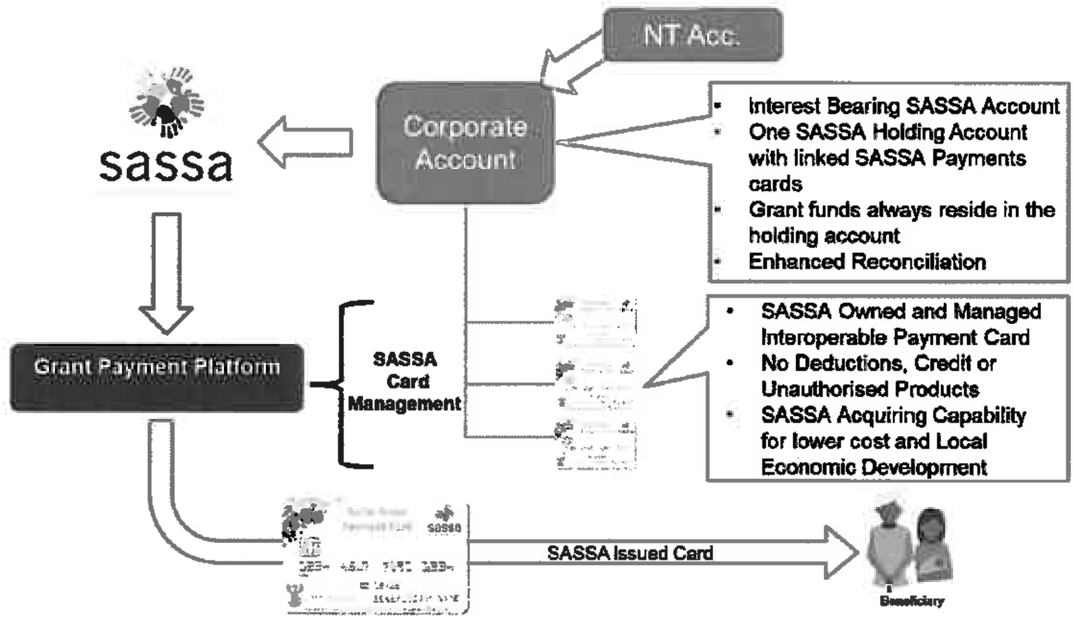

Figure 2: Banking and payments model.

6. SASSA plans to have the funds that are allocated monthly by the National Treasury (NT) for payment of social grants deposited in one cooperate into account that will be in the created in SASSA's name with one of the commercial banks, and all beneficiaries will

access their social grant monies from the SASSA account directly and will no longer have independently operated bank accounts. The beneficiaries will instead be allocated a portion of the funds in the SASSA account due to them, which can be accessed using their grant payments bank card; which will effectively be reloadable pre-paid cards.

7. The Grant Payment Platform in Figure 2 will provide a mechanism through which beneficiaries can access their allocation of funds in the SASSA account. The platform will be the system through which SASSA managed grant payment cards and it will *inter alia* -

a. be used to issue grant payment cards, which will be co-issued with the bank that will host the main SASSA account;

b. keep a record of the monies due to each beneficiary; and

c. authorise all transactions performed using the social grant payment card in the National Payment System (NPS), which include withdrawal of monies from ATMs and payments through Point of Sale (POS) devices.

d. authorise cash withdrawals at SASSA cash pay-point.

8. All the transactions performed in the NPS using the grant payment cards and authorised through Grant Payment Platform will be settled by the bank that hosts the main SASSA account using funds in the account.

9. The Panel notes that the proposed grant payment approach is realizable and would have the benefit that SASSA will receive all the interest earned on the social grant funds before they are accessed by beneficiaries, unlike in the present case. However, it is not entirely clear from the description of the process by SASSA and most of their documentation how cash payments at SASSA pay points will be handle; especially at pay-points in regions where connectivity to the Grant Payment Platform for authorisation is not possible.

10. The Panel is however, unable to take a view on whether this approach is the best solution for payment of social grants because SASSA has not been able to articulate their requirements and their rationale to the Panel.

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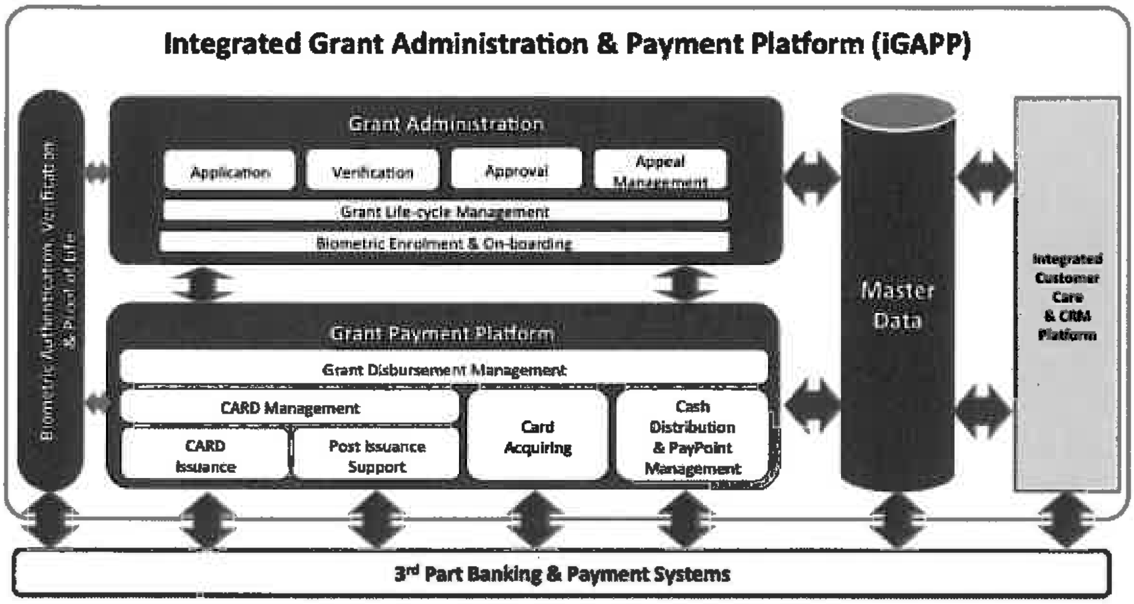
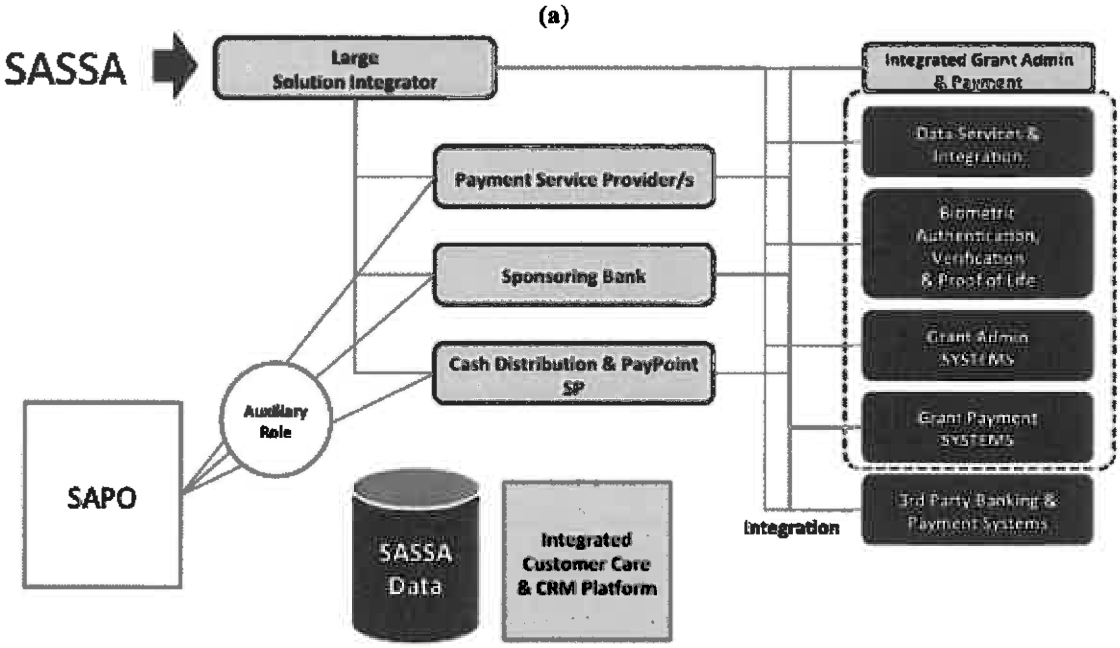
B **<u>The Panel's understanding and views on the Implementation of SASSA's Proposed Grants Administration and Payments Approach</u>**



(a)



(b)

Figure 3: (a) - Integrated grant administration and payment platform.
(b) - Large solution integrator approach.

2. Figure 3 **(b)** is the diagram that was presented by SASSA to the Panel (slide 16 of 14 June 2017 presentation) to explain approach that will be adopted for the implementation of the iGAPP and how future service providers will interface with the

system. The Panel understand from Figure 3 and the explanation provided by SASSA that there will be a large solutions integrator who will develop components of the iGAPP that do not exist and ensure the integration of these with the relavant service providers and manage the operations while SASSA up-skills and then transfer the operations to SASSA once has the requisite skills to manage the operations. The Panel further understood that -

a. SASSA will manage relationship with sponsoring Bank directly, althoght the interfaces with the bank's systems will be managed as already described.

b. SAPO could play a role, of a supporting nature, as either a payment service provider, sponsoring bank, or pay-point cash distribution service provider.

3. The role of the payment service provider was not clearly explained during the 14 June 2017 presentation that SASSA gave to the Panel. However, the interpretation in the SASSA Work-Steam Phase 1 Close-out Report (June 2017) which informed many of SASSA's plans; is that the payments service provider owns and operates the Grant Payment Platform that SASSA will link with for *inter alia* card issuing, and will provide the interface to the sponsoring bank. This is however, not the understanding shared by all at SASSA and is a point that require urgent clarification due to the implication that either understanding will have on the implementation of the system. The Grant Payment Platform is required to have the functionality for card acquiring, and SASSA would need to really need to consider if it is necessary to develop the capability of managing 'merchant' and 'Point-of Sale' system/devices that are usually operated by a combination of retailers, banks and card companies such as VISA and MasterCard which are integrated into the NPS; i.e. is this aligned with their mandate as per the SASSA Act (Act No. 9 of 2004).

4. A further engagement with SASSA by the Panel on 4 November 2017 helped refine the Panel's understanding of SASSA approach to the development of the required systems and the services that are required. The understanding of the Panel is captured in Figure 4.

5. The Panel however notes that SASSA's requirements for the iGAPP and its interface with service providers are not clear. From an IT perspective the cost of interfacing is less than seamless integration and usually causes much of the complexity and cost in system development. The Panel would recommend a clear specification of risks that are to be mitigated and benefits that are to be derived from integration. The higher the level of integration of the payment system and grant administration systems the more difficult it will prove for any service provider to transfer any system that is developed, as a whole or in parts, to SASSA.

6. Furthermore the customer care platform and separately the CRM system (could be 2 systems) has not been specifically excluded from the 'development' award but on Figure 3 seem to clearly indicated as separate capabilities. An approach that considers the customer care and CRM system design and development separately from the administration and payment system would certainly reduce initial complexity and costs and timelines to deliver but is very likely to increase the future total development and integration costs.

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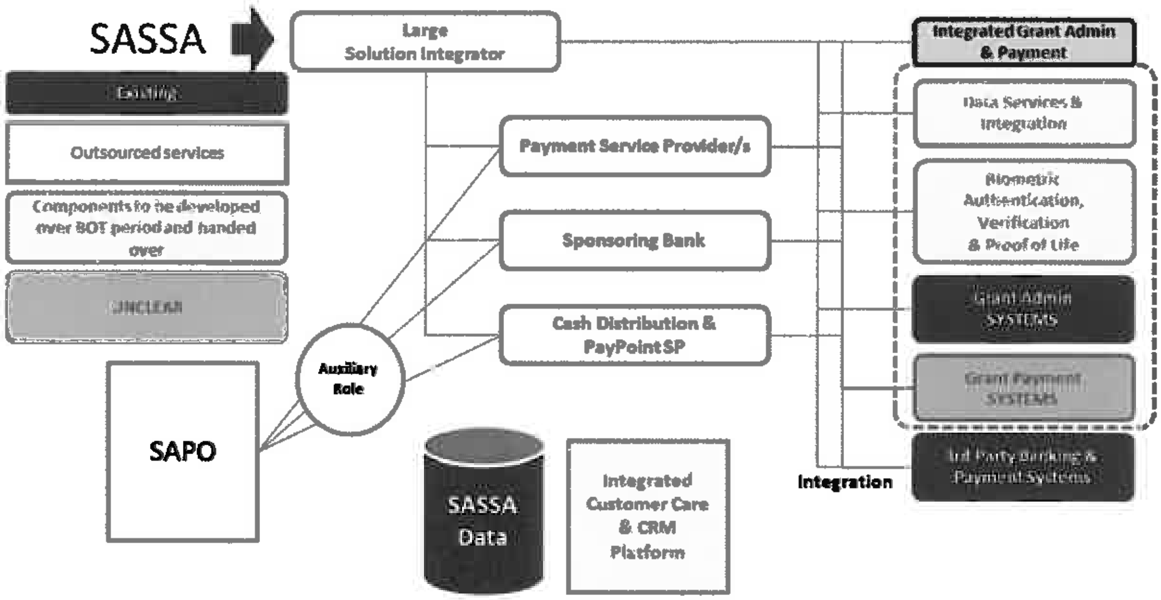

Figure 4: Large solution integrator approach, with diagram components group by categories.

1. One would note that SAPO has stated that it doesn't need to be allocated the cash distribution part of the services. SAPO did, however, did not offer to reduce its average price to SASSA which, when excluding the software development and management of the services, could be as low as R 5 per beneficiary per month. The SAPO CEO did, however, note that he/SAPO is prepared to be instructed as to price. It is not clear whether SAPO/Postbank's efficiencies would improve or whether their loss would increase if they were to accept the R 5 price per month (incl. VAT).

2. The apparent cross-subsidy between clients that withdraw via NPS (approximately 79% of beneficiaries) and those currently rely on cash distribution to pay points would be highlighted by separating these 2 element in the RFP processes. The Panel recommends to SASSA to request separate quotes for each of these elements of delivery. SASSA RFP to SAPO required it to include personnel and capturing terminals at pay points in its submission. The costs have not been separately set out and that part of the tender was not awarded by SASSA to SAPO.

3. Postbank would clearly benefit from tripling its client base and retaining the card franchise post the SASSA desired transfer of systems. If SASSA doesn't receive the required regulatory licenses the grant recipients would remain with Postbank. Although SAPO didn't claim exclusivity to this segment of clients it would probably also not claim that it does not benefit from scale and distribution capabilities as a result thereof.

4. SAPO's insistence that card issuing is part of the integrated services is a factor of linking cards to bank accounts that have to be established for every beneficiary that is issued with a new card.

D <u>View on Existing Grindrod Bank Accounts</u>

1. The Panel would also like to bring attention to the possibility that the existing bank accounts that social grant recipients have with Grindrod bank will not be closed and some, such as Easy Pay Everywhere accounts, will continue post the expiry of the current MasterCard linked accounts.

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E View on SASSA's Contingency Plan

1. The Panel understands that the Banking Association of South Africa (BASA) is committed to a lower cost bank account that could be tailored to meet most of SASSA's requirements, with possibly the exception of the requirement for social grants funds deposited by SASSA to only be made available to the beneficiary once the beneficiary has transacted on the account and for the funds to be returned to SASSA if there are no transactions on the account during a grant payment cycle.

2. The capability to withhold funds from beneficiary's bank accounts until an activity takes place in a given month would be challenging for banks. If the beneficiary is alive that amounts to 'bulking of funds' on behalf of SASSA as they are actually due to the beneficiary as SASSA wishes to retain the interest. If the beneficiary has passed away any time after the payment due date but before the next month end, there is no legal possibility for banks to reverse a funds transfer. SASSA's requirement for funds to be returned currently requires CPS to transfer funds to Net1 in order for Net1 to meet the payments requirements of beneficiaries. This practice has raised the debate of who should benefit from interest accruals. There is a cost/benefit trade-off if SASSA simply cancels social grants of beneficiaries that have passed away after a life status confirmation on the National Population Register of the Department Home Affairs and does not pursue cash retention for the few that do pass away within a month. It would require follow-up to understand the actual volume of cash returned and beneficiaries that pass away every month.

3. The Panel positively noted during two separate engagements with SASSA, that SASSA is open to making social grant payments directly into private "non-Grindrod" bank accounts that belong to beneficiaries as a contingency plan. Although a contingency plan, it is the view of the Panel that the risk of social grants not being paid on 1 April 2018 deadline would reduce dramatically for the 79% of the beneficiaries that access social grant funds through National Payment System (NPS) channels, e.g. ATMs and cash back at retailers. Therefore, if SASSA focuses on encouraging beneficiaries to open bank

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accounts with any bank of their choosing (including Postbank), preferably one close to their place of residence; and supports the offer by BASA for a standard R 5/month account for social grant recipients; then the banks would cater for card issuing requirements reducing eliminating the cost of the cards to SASSA for most of the beneficiaries (assuming SASSA does not want to co-issue, which would delay the process).

F **View Regarding Beneficiaries Accessing Social Grants Funds through NPS channels and at Pay-Point**

1. The requirement by SASSA for beneficiaries to be able to at will choose to either access their social grant funds at a SASSA pay-points or through payment channels in the NPS; contributes significantly to the cost of paying social grants. This is mainly because more money than is necessary needs to be made available at pay-points to cater for beneficiaries who may sometimes decide not to go to a SASSA pay point to get their social grant funds and instead get them from an ATM. The Panel recommends that beneficiaries must choose whether to receive social grant funds through NPS or at SASSA pay points and not both. This will help to better plan for cash requirements at pay-points and likely reduce costs.

H **The Need for Biometric Proof of Life**

1. Section 4.6 of the SASSA Terms of the Reference of the Request for Proposal (RFP) that was issued to SAPO[2] requires, inter alia, that:

   a. SAPO to supply SASSA with mobile and static biometric devices that can be used for beneficiaries' proof of life verification; and
   b. For SAPO to source services from local communities to render mobile beneficiaries' proof of life services in consultation with SASSA.

[2] Document reference no: RFP: 01/17/SP

2. "Proof of Life" is defined in the RFP as irrefutable evidence by means of biometric authentication to prove that a beneficiary3 is still alive to continue receiving the grant benefit. According to this definition and paragraph 1) grant recipients will be required to have their identities through the use of biometrics at strategic locations around the country to be determined by SASSA in-order for them to prove that they are still alive and thus eligible to continue receiving social grants. SASSA would at-least need to procure and distribute a substantial number of the biometric devices in 1.i) and put in place the necessary infrastructure for communication with the devices.

3. The panel is of the view that the approach that SASSA plans to have in place to prove that social grant recipients are alive will add to the cost to pay social grants and will result in a complex social grant payment system that will burden social grant recipients with administration; but without much benefit. This is, inter alia, because:

   a. The approach will duplicate an existing functionality that works without good reasons. The Department of Home Affairs as part of their mandate, maintains a register of who is alive and who is no longer living; a register that SASSA has direct and live access to, and currently uses to determine if grant recipients (and dependents where applicable) are still alive before allocating them social grant funds each month. SASSA has not been able provide the panel with good reasons for the need of the additional proof of life when the register that is maintained by the Department of Home Affairs already provides such proof. Further, the response by SASSA to a request by the panel to explain the need for an additional proof of life measure when the Department of Home Affairs already provides the information; indicated that initial issues that SASSA had with the information on the register that is maintained by the Department of Home Affairs have been resolved over time and there is a mechanisms in place to resolve other issues.
   b. The proposed approach cannot be used to prove the life status of most dependents of child support grant recipients, who are the majority of social grant recipients, and it is the life status of the dependent that needs to be

[3] A beneficiary is defined as the person who receives the grant according to the Social Assistance Act (Act No. 13 of 2004).

known for child support grant recipients to continue receiving a social grant. This is because existing biometric recognition system cannot be used to verify identities of very young children due to challenges with the acquisition of biometrics such as fingerprints from newborns and most infants and that children are still undergoing development and the most commonly used biometrics change as they develop, e.g. facial appearance.

4. The panel is therefore not convinced that SASSA has a legitimate need for biometric proof of life as proposed and the inclusion of this component to the grant payment and administration system should be reviewed.

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ANNEXURE "I"

FINANCIAL ASSESSMENT OF SOCIAL GRANTS DURING THE CURRENT 12-MONTH PERIOD (12.1 OF COURT ORDER

1. For the current 12-month period, the payment of social grants was carried out by CPS under the same terms and conditions as the original SASSA/CPS contract, which expired on 31 March 2017. SASSA continues to pay CPS R 14.42 + Vat per recipient paid. This fee generates close to R2 billion of revenue for CPS.

2. Over the term of the five-year contract CPS earned over R 1 billion of operating profits.[1] These profits are net of patent and license fees paid to CPS' parent company Net1, which also exceeded R 1 billion over the period. Most of CPS' other costs are incurred for the payment of cash to beneficiaries at CPS pay-points. The Panel has calculated that cash distribution from CPS pay-points cost around R 50 per beneficiary[2], whereas electronic payments to beneficiary bank accounts cost only R 0.50 per beneficiary.[3] Despite most payments being made electronically to beneficiaries, CPS' core operational activity is "a logistical business distributing 2-3 billion of cash in rural areas each month"[4].

3. Importantly, there are three additional revenue streams earned by CPS/Net1 in relation to SASSA beneficiaries:

    3.1. Interest earned on grant funds received from National Treasury

    3.2. Bank charges levied on beneficiaries for using non-CPS ATMs and other banking services, for both the SASSA card and EPE card.

    3.3. Sale of financial and insurance products to beneficiaries

4. The issue of interest was first raised with the Panel by Advocate Paul Hoffman SC, who represents the Quaker Peace Centre, a non-profit organisation. In a letter to the Panel, Advocate Hoffman expressed concerns that CPS/Net1 and Grindrod were deriving interest illegitimately from grant funds. Advocate Hoffman referred to statements made by former

[1] https://mg.co.za/article/2017-05-30-cps-made-r1-billion-profit-paying-social-grants/
[2] Based on CPS current costs and assuming 20% of beneficiaries were paid through CPS pay-points.
[3] According to Grindrod Bank, this cost comprised of interchange fees paid by the sponsoring bank to the homing bank and the EFT switching fee paid to BankservAfrica.
[4] Transcript of meeting between Panel and CPS 26 September 2017.

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Finance Minister Pravin Gordhan at a SCOPA meeting regarding the accrual of interest on funds that flow between Treasury, SASSA, CPS/Grindrod Bank and grant recipients each month.

5. As some beneficiaries do not access their grants on the beneficiary payment date, interest is earned by CPS/Net1. The Panel understands that several days prior to payment date, funds are transferred from the National Treasury (via the Department of Social Development and SASSA) to CPS' Nedbank accounts in each province. On payment date the funds are transferred to the Grindrod holding account, registered in Net1's name. Funds are retained in the holding account until the beneficiary withdraws, either through a CPS pay-point, ATM or POS device. As most beneficiaries take up to five days post payment date to withdraw their funds, interest accrues in the holding account.

6. CPS confirmed that all interest earned from its Nedbank accounts are refunded in full to SASSA during the monthly reconciliation process. However, interest accruing in its Grindrod holding account are retained, and shared between Grindrod and Net1 on a 50%:50% basis. CPS argued to the Panel that it is entitled to this interest as it incurs banking costs on behalf of beneficiaries. However, the Panel understands that some of the banking services (i.e. card issuance, the provision of pay-points etc.) are provided as part of the service level agreement (SLA) between CPS and SASSA and, accordingly, the costs of these services should be recovered from the R14.42 fee charged to SASSA. Also, many of the banking services or access to facilities that are not covered under the SLA are charged to beneficiaries according to CPS' transactions fee schedule (see below).

7. The Panel notes that under the SLA with SASSA, CPS is obliged to refund all unclaimed grant funds with interest, and this requirement applies regardless of the banking fees incurred by CPS:

> *"The Contractor must, as part of the reconciliation process, refund SASSA all un-Paid pre-funded Grant amounts, with actual interest earned thereon, within four (4) business days after the SOCPEN cut-off date."*[5]

8. The value of interest earned by Net1/CPS under the SASSA contract is not directly observable as the Net1 listed company reports consolidated interest revenue for all its divisions. In its

[5] Clause 9.1.6

Annual Financial Statements, CPS does not disclose interest income from grant funds separately, but states the following with regards to its exposure to interest income:

> *"The exposure to interest rate risk is high due to the cash received from the South African government that the group holds pending the disbursement to recipient cardholders of social welfare grants"*[6]

9. This disclosure of interest rate risk reflects the impact that a change in the South African repo rate has on CPS' interest income. CPS stated to the Panel that up to 80% of grant funds are claimed within the first four days following payment day. CPS disclosed to the Panel that Net1 SA earned R 49.9 million of interest for the year ended 30 June 2017 from its Grindrod holding account.[7]

10. In addition to earning interest income on grant funds, Net1/CPS earns significant income from bank fees charged to SASSA beneficiaries. The following fees (inclusive of Vat) are charged by CPS to SASSA beneficiaries for withdrawals using ATMs of any bank other than a Net1 ATM:

Facility	Fee	% of withdrawal amount
Cash withdrawal - R50	R6.36	12.7%
Cash withdrawal - R100	R6.79	6.8%
Cash withdrawal - R200	R7.65	3.8%
Cash withdrawal - R500	R10.23	2.0%
Cash withdrawal - R700	R11.95	1.7%
Cash withdrawal - R1000	R14.54	1.5%
Cash withdrawal - R1200	R16.26	1.4%
Cash withdrawal - R1500	R18.84	1.3%
Cash withdrawal - R1700	R20.56	1.2%
Cash withdrawal - R2000	R23.15	1.2%

Source: CPS Transaction Fees schedule

11. For R 50 withdrawals, the R 6.36 fee equates to 12.7% of the amount withdrawn. The Panel understands that many beneficiaries withdraw the total amount of the grant at once (around R1,600); for this level of withdrawal, the fee is between 1.2% and 1.3% of the amount withdrawn. There are also fees levied on other ATM services such as balance inquiries, cancelled transactions, invalid Pin and insufficient fund notifications. All bank charges are

[6] CPS Annual Financial Statements for the year ended 30 June 2016, note 29.
[7] Letter to Panel 26-10-2017, page 5

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levied by Grindrod (i.e. deducted from beneficiary bank balances), and the revenue from these charges are passed on to CPS. CPS confirmed that it earned R1 billion in fee revenue from SASSA cardholders for the provision of National Payment System (NPS) ATM infrastructure and the provision of Net1 ATM services for the year ended 30 June 2017.[8] This was in addition to the revenue earned under the SASSA contract. The majority of fee revenue was derived from transactions carried out on ATMs connected to the NPS that are not owned or operated by Net1.

12. CPS argues that these fees are "charged in accordance with the various fees determined by the SARB" and cover the costs of ATM interchange fees. The Panel is unable to determine the profit CPS derives from bank fees after taking account of ATM interchange fees; the Panel has requested this information from CPS. The Panel analysed Net1 financial disclosures to the US Securities and Exchange Commission, which shows revenue and operating profit for Net1's South African transaction processing division. This division comprises of the SASSA contract, the provision of ATM infrastructure (both Net1 and NPS ATMs) and transaction processing for retailers, utilities and banks (EasyPay).[9] The reported operating profits of this division are significantly higher than the operating profits disclosed in CPS' management accounts for the SASSA contract only. Although much of the difference may be accounted for by the profits of the EasyPay business, the Panel remains concerned that Net1 may be earning significant operating profits from bank fees charged to SASSA beneficiaries. The most recent ATM Interchange Fee structure provided by PASA show that an issuer bank pays R 3.48 and 0.53% of the withdrawn amount for the use of NPS infrastructure.[10] For a R 1500 withdrawal this equates to an interchange fee of around R 13 inclusive of VAT, which compares to the R 18.84 CPS charges to beneficiaries for this amount of withdrawal.

13. The Net1 financial disclosures also show that the financial inclusion and applied technologies division derived R 3.2 billion of revenue and R 787 million of operating profit for the year ended 30 June 2017. This division includes revenue and profits from the provision of short-term loans, the sales of electricity and airtime and the sale of insurance products.[11] It is not possible to determine the portion of the revenue and profits of this division that is derived from SASSA beneficiaries as there are other components within this division that relate to the

[8] Letter to Panel 08-11-2017, page 2. This excludes fee revenue derived from EPE cardholders.
[9] Net 1 UEPS Technologies. Inc, Form 10-K US Securities and Exchange Commission and Letter to Panel 26-10-2017.
[10] Email to the Panel 15 November 2017 showing SARB guidelines on Interchange fees.
[11] Net 1 UEPS Technologies. Inc, Form 10-K US Securities and Exchange Commission for the year ended 30 June 2017, page F-57.

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maintenance of smart cards and the sales of hardware and software. Nonetheless, the Panel is concerned that Net1 derives significant financial benefit from SASSA beneficiaries for services unrelated to its core transaction processing business. On this matter, the Panel received a submission from Advocate Hoffman (shortly before the submission of this report to the Court), which expressed concern regarding the lending practices of Net1. The Panel's assessment of Advocate Hoffman's submission will be included in our next report to the Court.

FINANCIAL ASSESSMENT OF SASSA'S PROCUREMENT PROCESS AND SAPO's PROPOSAL

14. As explained in the Panel's First Report, SASSA has not embarked a competitive bidding process for procuring a service provider or a payments systems integrator. Rather, SASSA's efforts to date has been to invite SAPO (exclusively) to submit a proposal to Build, Operate and Transfer an Integrated Grants Payment System. By only inviting SAPO to submit a proposal, SASSA has undermined the competitive advantages of an open tender, and increased the likelihood of an uncompetitive price.

15. The current price paid by SASSA to CPS is R14.42 + Vat. The Panel believes future service providers should be able to execute grant payment services on behalf of SASSA at a lower price, for three reasons:

15.1. Firstly, the CPS price was based on a much higher percentage of beneficiaries receiving grants at cash pay points rather than electronically through the NPS. The trend towards payments via the NPS is likely to continue and will contribute to a reduction in the average costs per grant payment.

15.2. Secondly, the CPS price includes a significant quantum of licensing and patent costs payable to Net1 for proprietary biometric and card technology. The requirements under SASSA's RFP include using non-proprietary technology, which should eliminate the need to pay licensing and patent costs.

15.3. Thirdly, entities such as SAPO should be able to make use of existing fixed cost infrastructure for the delivery of cash payments and eliminate many of the existing cash pay points.

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16. Contrary to the Panel's expectation of a reduction to the current price, SAPO proposed a markedly higher price of R 21.50 + Vat - a 49% increase from current levels. In addition, SAPO is proposing 6% per annum increases from this base price for years 2 to 5. By year 5, the proposed price will be R 28.77 + Vat – a 100% increase from current levels.[12] SAPO argued to the Panel that its offering to beneficiaries is superior than CPS' current service offering as it includes a certain number of free cash withdraws at ATMs. Nonetheless, the Panel believes these proposed price increases are opportunistic and made only possible by the lack of competing bids. These prices, if agreed to, would result in an additional R 2 billion of annual operating costs to SASSA by year 5.

17. PASA told the Panel that much cheaper alternatives (than the current provider) exist for the payment of social grants. If other potential service providers making greater use of the NPS were able to submit proposals, then SAPO's proposal would be deemed uncompetitive.

18. There is also significant concern about SAPO's operating cost estimates as disclosed in its financial proposal, which are used to justify its proposed prices. To put its cost estimates in context, CPS's current annual operating costs are approximately R 1.8 billion, of which, R 400 million is for licensing and patent fees paid to Net1. SAPO's projected operating costs are R 2.8 billion in year 1, increasing to R 3.7 billion in year 5. Most of SAPO's projected costs appear to be capital costs, i.e. they relate to the acquisition of new Postbank ATMs, cash pay point infrastructure, SAPO branch infrastructure and POS devices, as well as the associated operating costs of this new infrastructure. SAPO's proposal does not consider the option of acquiring existing cash point infrastructure from CPS at significantly lower cost.

19. An important aspect of SAPO's proposal is that it does not take account of SASSA's plan to pay 2 million beneficiaries (i.e. those with commercial bank accounts) directly from SASSA's own bank account. SAPO was not aware of this development when it submitted its proposal. SASSA's plan for direct payments will have significant cost consequences for any service provider as cash distribution costs will need to be recovered from fewer beneficiary payment volumes. SAPO indicated to the Panel that it would have to reconsider its proposed pricing (i.e. charge even higher than R 21.50 + Vat) if beneficiaries with commercial bank accounts were paid directly by SASSA. A renegotiation of the price will further delay the formal appointment of SAPO and push out the implementation of a new payments system to well past 1 April 2018.

[12] SAPO presentation to the Panel 17 October 2017

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20. For the remainder of the current financial year ending 31 March 2018, SASSA plans to implement a phase-in phase-out procedure, which involves testing the new service provider's payment processes concurrently with phasing out of the existing service provider. To this end, SASSA is seeking an additional R960 million from National Treasury to fund its phase-in phase-out procedure.[13] As stated above, SASSA plans to pay 2 million beneficiaries directly before the end of the current financial year, meaning that CPS will no longer be paying these beneficiaries from January 2018. In its letter to National Treasury SASSA stated the following with regards to the contract fee payable to CPS:

> *"The Court extended the contract with CPS on the same terms and conditions. This effectively means that whatever SASSA does, be it taking over some functions from CPS or phasing in a new service provider, should not have an impact on the CPS's terms and conditions as per the extended contract. SASSA will therefore have to continue to pay CPS transaction costs for the [2.0] million beneficiaries who will be paid directly by SASSA. No saving will therefore be realised from this for the duration of the CPS contract".*[14]

21. Contrary to SASSA's statement to National Treasury, the Panel believes that savings are realisable from paying the 2 million beneficiaries directly. SASSA's contract with CPS states that the Firm Price payable by SASSA to CPS means *"an all-inclusive fee of R 16.44 per Recipient paid by the Contractor"*.[15] Accordingly, if SASSA plans to pay these beneficiaries directly, it does not need to pay CPS the Firm Price for the same beneficiaries, meaning that savings should be realisable. This undermines SASSA's motivation for extra funding from National Treasury. Further, given the delay in procuring a new service provider, it is highly unlikely that the phase-in phase-out procedure will be implemented in the current financial year. As of the time of writing, the Panel has yet to receive SASSA's detailed Phase-in Phase-out project plan.

22. In its letter to National Treasury, SASSA indicated that direct payments to beneficiaries will cost only R1 per transaction, which is the SARB fee for EFT transactions.[16] Given this significant cost saving, it is not clear why SASSA is limiting this payment method to only 2 million beneficiaries, and not extending this method to all existing beneficiaries that do not use CPS cash payment

[13] SASSA's letter to National Treasury dated 28 September and the accompanying memorandum requesting additional funding to accommodate its Phase-in / Phase-out process
[14] Paragraph 6.1.4
[15] Clause 2.1.12
[16] Paragraph 6.1.4

facilities. Currently, all beneficiaries have transactional bank accounts with Grindrod bank, which can accommodate direct payments from SASSA.

Annexure "J"

Open Architecture Possibilities for the payment of Social Grants – a Summary

This document was compiled by the Panel based on its deliberations and interaction with various stakeholders.

Context

- South Africa has a world-class, efficient and secure National Payment System (NPS) with well-developed regulations and inter-operability standards.
- August 2017 statistics: 10,64 million Grant Beneficiaries, receiving R12,48b.
- There are around 15,81 million Social Grant related transactions per month, of which the NPS handles about 79%.
- There are around 2 million SG recipients that still depend on cash payments – most are at a significant distance from the nearest bank/ATM/POS (Point of Sale)
- About 95% of the population live within 15 km of a bank, 80% within 5 km
- Roughly 42% of SG recipients already has a bank account with a commercial bank

Risk Analysis – Current Closed System through CPS and Grindrod Bank

Closed System	Risks and Issues
Proprietary payment system and biometric cardholder verification linked to payment system	• Lacks interoperability, entrenches lock-in to a service provider • SASSA pays for a dedicated SASSA payment system • Proof of life verification linked to the payment system is not effective – only a small percentage is biometric based, the rest are PIN based
Single issuer / account holding bank	• Uses only one bank's account type, customer support, infrastructure and channel options (i.e. branches, mobile, other) • Supplier lock-in • Long queues at specific ATMs/branches • Concentration of risk in one bank • Recipients are charged for using ATMs of other banks • Limits financial inclusion to one bank

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SASSA controls, regulates, directs and monitors the whole system	• Increased cost to SASSA and the state.

Key features – Open System

An Open System for SG payments opens up the payment system to all commercial banks through the National Payment System. SAPO can still play a significant role. This solution appears to be cost-effective to the State, it will strengthen SASSA's focus on its core mechanisms in the SG system, it will strengthen DHA's role and systems, and it will likely increase financial inclusion.

Open System	**Focus and Benefits**
SASSA focuses on its primary mandate	• SASSA vets and manages take-on and exit of recipients • SASSA to cooperate with DHA regarding a system for verification of children linked to an adult beneficiary • Owns and manages a "payroll system" for beneficiaries • Operates own Call Centre for Social Grant beneficiaries • No single "vendor lock-in" while the system can evolve over time • SASSA pays only for unique and subsided services at banks • There is a process for repatriation of payments upon death • **To be verified** – lower admin and overhead costs • Easily consider/implement staggered payments to avoid load on the banking system as well as long queues with same-day payments. • Once the money is in the account, it is up to the beneficiary to decide how to spend it.
NT, SARB and PASA	• Benefit of enabling increased inclusion • Agree on specifications for a subsided/co-branded banking product • Ensure adherence to banking/payments regulatory requirements
Multiple Issuing / Account holding banks, including Grindrod and PostBank	• Beneficiary's **choice of bank** – closest or personal preference. Maximum benefit from commercial bank geographical footprints. • Beneficiary can also choose the means of receiving the SG – options can be added as banking systems evolve.

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	• Banks can offer standard products, eg the R5 savings account • SARB can engage with the banks regarding whether deductions are allowed on these accounts, and the banks can flag deductions. • Account reporting can be negotiated with banks within banking regulations and POPI requirements. • Beneficiary can also opt for a normal account and choose to have deductions • Wide distribution of card issuing – bank's own / co-branded • Beneficiary has direct access to local bank's call centre for account related issues. Local language option should be available. Service level agreements to be agreed with SASSA. • Full access to all NPS channels – ATM, POS, call centre, mobile, ... • Automatic access to future payment innovations, including potential biometrics through ATMs / mobile • Optional future inclusion of EMVCo biometric standard in cards • Protection of Recipients through PASA rules and compliance enforcement • All banks can fairly compete on cost/service delivery for SG customer base • Add to Financial Sector Charter targets
"Proof of life" is separated from transaction authentication	• Proof of life remains the domain of DHA • Strengthen the DHA National Population Register and National Identity System rather than duplicating it at SASSA, including multiple channels for recording deaths and verification of children • Optimise the use of the features of the DHA Smart ID cards • Leverage the existing verification system against the National Population Register at banks, POS devices, SASSA offices. Intervals and frequency can be specified before payment to a beneficiary is released • Limited extension of infrastructure and connectivity is needed for biometric verification (if this is actually required regularly)
2 Million remote SG recipients in rural areas	• Transition them to become bank customers • Banks incentivised to enable effective ways of transacting – mobile,

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	POS, remote / mobile ATMs

Risks and potential unintended consequences that need to be investigated and managed:

- There is huge transition risk to the beneficiaries with current accounts at Grindrod bank. The Section 26A deductions, where they exist, need to be carefully migrated to either SASSA or preferably replaced by debit orders on the bank accounts, without penalty or loss of benefits to the beneficiaries, but with their consent.
- Similarly, any migration from Grindrod accounts to other banks would have to be handled carefully to avoid risk to financial services providers with debit orders, such as for funeral policies.
- Potential short-term increase in payments to beneficiaries that are already deceased.
- Due to the pure volumes – queues at commercial banks for opening up new bank accounts.

Suggested transition from closed to open system

Timelines for the various processes need to be verified with the key stakeholders but a full transition could potentially be concluded in 10 months.

Process
1. SASSA, SARB – indicate minimum low-cost bank account features and subsidy level
2. Banks to develop a co-branded account and cards with BASA, PASA, VC, MC inputs
3. Develop a Transition Plan from CPS to Open System – SASSA to agree on a plan with CPS, Grindrod, SARB, BASA inputs
4. Account transition - Phased in through some logical, systematic strategy. Grant recipient registration at banks across the country – issue of new banking cards
5. Remote areas / cash pay-outs, explore multi-pronged strategies including local banks, Post Office, retailers
6. Regular proof of life verification – review whether this is an absolute requirement that should be linked to the payment system – SASSA explore with DHA, banks to extend this service and set standards

Annexure "K"

Implementation of the payment of social grants

Introduction

1. Paragraph 12.1 of the Court Order instructs the Panel to "evaluate the implementation of payment of social grants during the 12-month period." The Panel received information from SASSA on the implementation of payment of social grants. SASSA submitted reports from the SASSA Contact Centre for the period April 2017 up to and including September 2017. The Panel also drew on the Fact Sheets published each month on the SASSA website, on the number and categories of social grants paid. SASSA provided trend information in response to a request from the Panel. However, not all the information had been submitted at the time of drafting this report, as SASSA was awaiting data from Cash Paymaster Services (CPS). The Panel received information from CPS on the current payments, including information on payment channels, and enquiries and disputes lodged with CPS by grant beneficiaries.

Payment of social grants

2. **Based on the information available to the Panel, the payment of social grants since the First Panel report has proceeded without major disruption.** The Panel is aware of one incident reported in the media regarding problems with payments in some parts of the country where beneficiaries were unable to collect their grants from some ATMs and accredited merchants on 1 November 2017. SASSA informed the Panel that the technical glitch had been resolved on the same day, and that beneficiaries were able to access their grants.

3. SASSA paid over 17 million grants per month since February 2017 (Table 1) to over 10 million beneficiaries. Statistics from Cash Paymaster Services for August 2017 indicate that there were 10 642 654 unique beneficiaries receiving social grants for that month. The value of the grants paid in August 2017 was more than R12.4 billion.

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4. The number of grants paid increased by 197 033 between February 2017 and September 2017, representing an increase of 1.2%. Unless there are policy changes, for example, widening the net of individuals eligible for social grants, or a concerted drive by SASSA and the Department of Social Development to register as many eligible people, especially children who are currently not receiving social grants, the number of social grants paid is not likely to increase significantly. **In designing the grant payment system for the post-April 1 2018 era, SASSA will need to give consideration to any anticipated policy changes that could affect the number of social grants to be paid each month.**

Table 1: Number of social grants paid February to September 2017

Month	Number of social grants paid	Change over previous month
February 2017	17 191 121	-
March 2017	17 200 525	9 404
April 2017	17 229 386	28 861
May 2017	17 241 409	12 023
June 2017	17 329 363	87 954
July 2017	17 330 034	671
August 2017	17 360 464	30 430
September 2017	17 388 154	27 690
Change from February 2017 to September 2017		**197 033 (1.2%)**

Source: SASSA September Fact Sheet Issues 8 and 9. Totals include Grant-in-Aid.

5. Gauteng, Limpopo, Western Cape and Mpumalanga accounted for most of the increases in the number of social grants paid. (Table 2) and the largest increases were in the number of Child Support Grants and Old Age Grants (Table 3).

Table 2: Grants paid per province February to September 2017

	February 2017	September	Change

		2017	
Eastern Cape	2 753 941	2 770 191	16 250
Free State	988 319	1 002 230	13 911
Gauteng	2 507 102	2 570 208	63 106
KwaZulu-Natal	3 889 110	3 886 594	-2 516
Limpopo	2 422 513	2 454 975	32 462
Mpumalanga	1 437 801	1 458 733	20 932
Northern Cape	465 876	472 891	7 015
North West	1 208 128	1 222 856	14 728
Western Cape	1 518 331	1 549 476	31 145
Total	**17 191 121**	**17 388 154**	**197 033**

Source: SASSA Fact Sheets February 2017 and September 2017

Table 3: Grant types paid February and September 2017

	February 2017	September 2017	Change
Old Age Grant	3 295 710	3 357 551	61 841
War Veterans Grant	180	156	-24
Disability Grant	1 067 402	1 072 780	5 378
Grant-in-Aid	161 989	179 019	17 030
Care Dependency Grant	145 089	146 429	1 340
Foster Care Grant	428 568	474 410	45 842
Child Support Grant	12 092 183	12 157 809	65 626
Total	**17 191 121**	**17 388 154**	**197 033**

Source: SASSA Fact Sheets February 2017 and September 2017

Payment channels

6. Social grant beneficiaries have the flexibility to access their social grants through ATMs, retailers or merchants, and cash pay points. According to information provided by

CPS Table 4), more than half (57%) of beneficiaries utilise ATMs to access their grants, 19% collect their grants through CPS cash pay points, and the remaining 24% used merchants and retailers.[1] **It is worth noting that the use of biometrics is restricted to about 28% of social grant beneficiaries.**

7. There are differences between beneficiaries of Old Age Grants and beneficiaries receiving other grants, in their preferences for the different payment channels. Old Age Grant beneficiaries are more likely to use cash pay points than are beneficiaries of other grants (Table 5: **33% of Old Age Grant beneficiaries use cash pay points compared to 12% of other grant beneficiaries**). That said, **Old Age Grant beneficiaries are not averse to using ATMs** - 43% accessed their grants through ATMs in August 2017.

Table 4: Number of beneficiaries per payment channel (August 2017)

Channel	Number of unique beneficiaries	Percentage (%)
ATM (Biometric CVM)	774 470	7%
ATM (PIN CVM)	5 343 521	50%
CPS (Biometric CVM)	1 984 727	19%
Merchant Acquiring (Biometric CVM)	218 985	2%
Retail (PIN CVM)	2 320 951	22%
TOTAL	**10 642 654**	**100%**

Source: Cash Paymaster Services

Table 5: Payment channels per beneficiary category (August 2017)

Channel	Beneficiaries receiving Old Age	Beneficiaries receiving other

[1] The information provided by CPS on payment channels from January 2017 to August 2017 shows that the percentages have been relatively constant, with about 20% of beneficiaries using CPS cash pay points each month.

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	Grants		grants	
	Number of unique beneficiaries	Percentage	Number of unique beneficiaries	Percentage
ATM (Biometric CVM)	266 324	8%	508 146	7%
ATM (PIN CVM)	1 179 711	35%	4 163 810	57%
CPS (Biometric CVM)	1 107 944	33%	876 783	12%
Merchant Acquiring (Biometric CVM)	136 020	4%	82 965	1%
Retail (PIN CVM)	639 353	19%	1 681 598	23%
TOTAL	**3 329 352**	**100%**	**7 313 302**	**100%**

Source: Cash Paymaster Services

Beneficiary bank accounts

8. According to the information provided by CPS, there are 10.6 million beneficiaries with Grinrod bank accounts, just over 37,000 beneficiaries with commercial bank accounts, and 1.9 million beneficiaries with EasyPay Everywhere (EPE) bank accounts (Table 6).

9. Prior to July 2013, social grant beneficiaries had a choice to be paid into their own commercial bank accounts, and in April 2012, there were over 4.5 million beneficiaries paid through commercial bank accounts (Table 6). With the bulk enrolment process in July 2013, **all** social grant beneficiaries were issued with a MasterCard SASSA branded card linked to a Grinrod bank account, as SASSA required beneficiaries to receive their grants via these Grinrod bank accounts. For those beneficiaries who opted to be paid through their own commercial bank accounts, the grants are transferred from their Grinrod bank accounts to their own commercial bank accounts. These beneficiaries are all counted under "Grinrod bank account", and so **the actual number of beneficiaries with commercial bank accounts other than Grinrod bank is not immediately obvious**.

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Table 6: Type of bank account by beneficiaries April 2012-September 2017

	Grinrod bank accounts	Commercial bank accounts	Easy Pay Everywhere (EPE) accounts
April 2012	4 533 116	4 593 052	-
April 2013	5 763 733	3 866 476	-
July 2013	9 505 377	48 741	-
April 2014	9 701 634	38 465	-
April 2015	10 138 381	38 373	-
April 2016	10 395 181	37 190	975 894
March 2017	10 542 602	36 119	1 809 778
September 2017	10 671 512	35 704	1 952 229

Source: Cash Paymaster Services

10. In her address at the media briefing of Inter-Ministerial Committee on Comprehensive Social Security (IMC) on 15 September 2017, the Minister of Social Development stated that SASSA was in consultation with the National Treasury to re-establish the link with Bankserv to enable direct payments from SASSA to commercial bank accounts of about 2 million beneficiaries, and that CPS would be providing the details of these beneficiaries by end September 2017.[2] SASSA informed the Panel that CPS has provided the information, and that there are about 400,000 beneficiaries with commercial bank accounts. This group of beneficiaries and EPE account holders will constitute the 2 million beneficiaries to be used as a test for direct payments by SASSA into commercial bank accounts.[3]

11. The number of Easy Pay Everywhere (EPE) bank accounts used by social grant recipients has increased rapidly, from six in May 2015 to nearly 2 million by September 2017. The (EPE) accounts are current accounts underwritten by Grinrod Bank, and are opened by beneficiaries seeking loans. The "Green Card" debit card can be used to purchase

[2] Minister of Social Development media briefing of the Inter-Ministerial Committee on Comprehensive Social Security, 15 September 2017.
[3] Interaction between SASSA Executive and Panel, 16 November 2017.

airtime and electricity. Beneficiaries who open EPE accounts give permission for their social grants to be transferred to the EPE accounts. Although the EPE accounts are presented as a financial product that is convenient for beneficiaries and low cost, they are a major source of complaints by beneficiaries about deductions. SASSA has warned beneficiaries who continue to use their EPE cards for accessing their grants that they are not protected by SASSA should anything happen to their social grants.[4] The difficulty for beneficiaries is that they have to close their EPE accounts if they wish to use their SASSA cards, and this involves considerable effort to do so. **The transition to the new payment system and service provider should take into consideration how beneficiaries with EPE accounts will be treated post-1 April 2018, as the Green Cards issued have an expiry date of 2023. SASSA will also need to make a concerted and sustained effort to inform beneficiaries about the difference between a SASSA card and the Green Card.**

Enquiries, complaints and disputes

12. **SASSA does not have an integrated system that provides it with accurate and reliable information on all enquiries and complaints received, and how they have been resolved.** Social grant beneficiaries make enquiries and lodge complaints through the SASSA Call Centre and the Net1 Call Centre. Enquiries and complaints are also made through the Presidential Hotline and the Department of Social Development. The information technology systems of each of these channels do not 'speak to each other' and reporting is not standardised (SASSA and CPS do not use the same categories in their call centre reports).

<u>SASSA Contact Centre</u>

13. The Panel analysed the information contained the monthly reports of the SASSA Contact Centre reports April 2017 to September 2017. **The quality of the SASSA Contact Centre reports is poor.**

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[4] Mpumalanga News, 3 November 2017, "SASSA warns beneficiaries about the dangers of green cards".

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- The reports are a monthly update of a standard document, and in several instances the data in the report was incorrectly labelled (for example, data in a July report labelled as "February"), and dispute data in the June report showing May data.

- The reports for the six months identified the same problems or challenges experienced by the SASSA Contact Centre, but it is not known whether senior management and the Executive Manager have noted these recurring problems as the reports received by the Panel were not signed off by the relevant senior officials.

14. According to the SASSA Contact Centre reports, the following number of calls received through the SASSA line between April and September 2017:

	April 2017	May 2017	June 2017	July 2017	August 2017	Septembe r 2017
Calls entering system	26 845	30 016	Not stated	30 504	32 985	26 463
Calls distributed to different languages	22 568	23 703	23 569	25 767	27 211	22 600
Calls answered (as % of calls entered)	Not legible on graph	Not legible on graph	17 843	18 216 (60%)	20 710 (63%)	17 712 (67%)
Calls abandoned (as % of calls entered)	Not legible on graph	Not legible on graph	9 368	11 264 (40%)	11 370 (35%)	7 964 (30%)

Source: SASSA Contact Centre Reports, April to September 2017

15. Enquiries fall into three broad categories, namely, those relating to grant applications; enquiries relating to the maintenance issues, for example, card challenges and eligibility reviews; and complaints about short payments of grants. It should be noted that SASSA also receives enquiries via email and walk-in at local offices, but these are relatively fewer compared to telephone enquiries. The telephone (toll free number) is the primary mechanism for social grant recipients to contact SASSA. **As recent as May/June 2017, free**

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calls could only be made from a Telkom line, thus placing an financial cost on grant recipients who only have cellular phones.

16. The nature of the enquiries has not changed substantially over the six-month period. **The reports do however note that there have been many enquiries about the expiry of the SASSA card in December 2017,** and recommended that SASSA embark on a communication campaign to inform social grant beneficiaries about the validity of the SASSA after 31 December 2017. SASSA issued a media release on 16 October 2017, informing beneficiaries that the SASSA card would operate without difficulty beyond 31 December 2017. The Inter-Ministerial Committee is aware of the importance of communication with grant beneficiaries to allay concerns and provide certainty, and has tasked the Government Communication and Information System (GCIS) to lead the development of a communication plan.[5]

17. The percentage of abandoned calls is worrisome, with an average of 35% calls abandoned over the period July to September. The SASSA Contact Centre reports identified staff shortages and low staff morale as challenges to providing an effective and efficient service. The reports also identified the lack of sufficient capacity to respond to callers in Tshivenda. The report for July 2017 expressed concern that the Genesys telephony system generated inaccurate statistics on the wallboard due to configuration setting problems. It is not clear from subsequent SASSA Contact Centre reports whether the problem has been resolved.

18. SASSA reports do not provide information on the number of calls that are resolved satisfactorily while the client is on the line. It reports on Customer Care Application (CCA) statistics that captures enquiries that require further action. According to the SASSA Contact Centre Reports, on average, 93% of enquiries are closed within 5 days. The remaining enquiries are referred to CPS as they relate to payments, or they are enquiries that require more time for SASSA to resolve.

Net1 Call Centre

[5] Briefing to the Panel by the Minister in the Presidency and Director-General: Department of Planning, Monitoring & Evaluation, 14 November 2017.

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19. Cash Paymaster Services submitted the following information to the Panel on the calls received by the Net1 call centre between May and September 2017:

Table 7: Calls received by Net1 Call Centre May to September 2017

	May 2017	June 2017	July 2017	August 2017	September 2017
Total calls answered	52 876	60 836	71 878	76 775	64 925
Queries resolved on the line	46 712 (88.3%)	54 939 (90.3%)	66 293 (92.2%)	71 241 (92.8%)	60 014 (92.4%)
Calls dropped	3 772	3 968	4 307	Not stated	Not stated

Source: Cash Paymaster Services

20. The number of calls the Net1 call centre receives is considerably higher than calls to SASSA, and fewer calls are dropped. CPS informed the Panel that the average waiting time for SASSA cardholders was 4 minutes, 6 seconds, and for Easy Pay Everywhere (EPE) the average waiting time was 2 minutes and 57 seconds. According to CPS, the calls relate primarily to requests for bank statements, queries regarding transactions on the account without a dispute lodged, and requests to reset pin numbers. Some of these calls may be from social grant recipients who were referred by SASSA.

Disputes logged

21. Queries not resolved immediately are logged for further action. Most of the calls logged were requests for closing EPE accounts, followed by complaints about Net1 Manje (Moneyline air time and electricity) (Table 8). The Net1 call centre also deals with funeral policy disputes, EFT disputes and ATM disputes that are not part of Net1 financial services.

Table 8: Types of calls (disputes) logged May to September 2017

	Total calls logged	Funeral disputes	EFT disputes	Manje disputes	ATM disputes	EPE accounts closed

May 2017	**6 155**	162	353	2 105	337	3 198
June 2017	**5 897**	165	517	2 003	330	2 882
July 2017	**5 585**	186	682	1 963	350	2 404
August 2017	**5 534**	162	733	1 751	181	2 609
September 2017	**4 911**	165	567	1 309	284	2 492

Source: Cash Paymaster Services

22. CPS advised the following with regard to dispute resolution (Table 9).

Table 9: Disputes resolved May to September 2017

	Funeral disputes	EFT disputes	Manje disputes	ATM disputes
May 2017	173	367	567	412
June 2017	170	533	693	405
July 2017	303	796	655	330
August 2017	122	826	1 088	368
September 2017	115	781	1 258	416

Source: Cash Paymaster Services

23. The Net1 Group appointed Advocate Neville Melville as the Financial Services Independent Adjudicator with effect from 1 June 2017. The purpose of the Independent Adjudicator is to provide an additional level of insurance to the Group's complaints management process, and advise the Group on how the process can be optimised; provide advice or non-binding opinions on how particular complaints should be addressed; and on the request of social grant beneficiaries review the outcome of complaints dealt with under the Group's complaints management process. To ensure independence, the Independent Adjudicator reports only to the Net1 Group Board and Chairman.[6] The Independent

[6] Presentation by Advocate Melville to the Panel on 15 September 2017

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Adjudicator's mandate is limited to complaints relating to Net1 and its subsidiaries, and it does not deal with complaints about SASSA.

24. The Independent Adjudicator has developed charters for the Net1 subsidiaries, namely, Moneyline Financial Services, Cash Paymaster Service, Smart Life Products, and EasyPay Everywhere, and drafted Complaints Management Procedures to be followed by these subsidiaries. The Panel received a report from the Independent Adjudicator on its activities in September and October 2017, and will provide a detailed assessment of the information provided, as well as any new information that the Independent Adjudicator may provide, in the next report of the Panel.

25. SASSA maintains statistics on cases referred to CPS for resolution, but there appears to be a delay in updating the SASSA statistics as SASSA is dependent on receiving the information from CPS, and has to update the SASSA statistics manually. According to SASSA's report, the number of disputes resolved by CPS is lower than the numbers provided by CPS, and this may be a reflection of the manual system used by SASSA to send cases to CPS and update CPS responses to the cases. One of the concerns the Panel raised in its First Report was the relatively large number of cases awaiting affidavits. There has been a reduction in the number of disputes where CPS is awaiting affidavits (Table 10). The Panel notes that according to SASSA's reports, none of the cases resolved between April and September 2017 were resolved without refunds to the beneficiaries, and the reasons for this will be explored with SASSA and CPS.

Table 10: Status of disputes referred to CPS

	Total disputes logged	Awaiting affidavits	Under investigation (Manje)	Under investigation (Others)	Resolved (non-refunds)	Resolved (refunds)
April 2017	2 356	1 302	388	624	42	0
May 2017	2 957	1 012	1 065	0	28	0
June 2017	No data	No data	No data	No data	No data	No data
July 2017	3 181	681	1 208	0	74	0
August	2 925	583	1 147	0	21	0

2017						
September 2017	2 419	438	833	0	38	0

Source: SASSA Contact Centre Reports

26. SASSA provided information on enquiries/complaints referred to it by the Presidential Hotline. In its September 2017 Contact Centre report, SASSA noted a decline in the rate at which it resolved cases from the Presidential Hotline, from 89.9% in May 2017 to 86.3% in September 2017. **SASSA however, has not provided information on the nature of the enquiries and complaints received from the Presidential Hotline, and it is therefore difficult for the Panel to make any useful analysis of the information.**