FIRST DRAFT REPORT

OF

THE PORTFOLIO COMMITTEE ON TRANSPORT AND INFRASTRUCTURAL DEVELOPMENT

ON

THE TURNAROUND STRATEGY OF THE CENTRAL MECHANICAL DEPARTMENT (CMED)

S.C 14, 2017

Presented to Parliament in July 2017

ORDERED IN TERMS OF STANDING ORDER No. 17 THAT:

1) At the commencement of every Session, there must be as many Committees to be designated according to government portfolios as the Committee on Standing Rules and Orders may deem fit.
2) Each Select Committee must be known by the portfolio determined for it by the Committee on Standing Rules and Orders.

TERMS OF REFERENCE OF PORTFOLIO COMMITTEES STANDING ORDER No. 20

Subject to these Standing Orders, Portfolio Committees must-

a) examine expenditure administration and policy of government departments and other matters falling within their jurisdiction as Parliament may, by resolution determine;
b) consider and deal with all Bills other than a Constitutional Bill and Statutory Instruments or other matters which are referred to them by or under a resolution of the House of by the Speaker;
c) consider or deal with an Appropriation in Money Bill or any aspect of an Appropriation or Money Bill referred to them by these Standing Orders or by resolution of this House;
d) monitor, investigate, enquire into and make recommendations relating to any aspect of the legislative programme, budget, policy, or any other matters it may consider relevant to the government department falling within the category of affairs assigned to them, and may for that purpose consult and liaise with such department; and,
e) consider or deal with all international treaties, conventions and agreements relevant to it, which are from time to time negotiated, entered into or agreed upon.

1. Introduction

1.1 The Portfolio Committee on Transport and Infrastructural Development conducted an inquiry into the turnaround strategy for the Central Mechanical and Equipment Department (CMED). The enquiry was motivated by the realization that most state owned enterprises in general and CMED in particular, which were created to be self- financing cash cows for Government under the Commercialization Act of 2000, were dismally failing in this regard. As a result, instead of assisting the Government in raising revenue and delivering quality service, they were repeatedly turning to government for bailouts and thus becoming heavy liabilities on the fiscus while service delivery continued to plummet to an all- time low.

1.2 For CMED in particular, the Committee was even more concerned with the inordinate delay in the conclusion of the botched fuel deal which had cost both the organization and the country a staggering USD 2.7 million in taxpayers' funds. The fact that such a serious case had taken over 3 years to finalize was a matter of grave concern for the Committee. In addition, the Committee noted that CMED was failing to effectively perform its mandate of providing transport and equipment hire services, procurement of vehicles on behalf of Government and fuel supply for Government. The Committee thus sought to establish how the Board and Management planned to revitalize CMED going forward through its strategic plan.

2.0 Submissions by the Board: Current State of CMED

The Committee received the following submissions on the current state of CMED from the Board Members and Senior Management of CMED.

2.1 The Fuel Business Unit

- The Fuel Business Unit was still to recover the USD 2.7 million lost in the botched fuel deal. The matter was still before the courts.
- 21 service stations had been re-opened and were operational. However, the entity was finding it difficult to supply fuel consistently due to the prevailing economic challenges. This had resulted in most government departments withdrawing from CMED in terms of

fuel procurement especially in the face of stiff competition from other private suppliers such as Puma, Total and Engen.

- Attracting private partnerships in fuel importation was also proving difficult due to the prevailing cash constraints. Foreign investors were keen to invest in CMED but were being held back by uncertainty over whether they would be able to access their money from Zimbabwe.

2.2 Transport and Equipment Hire Unit

- CMED was owed USD 24 million by Government through its various user Ministries.
- CMED was still owed USD 768 000 by ZEC for vehicles procured for use during the 2013 harmonised elections.
- The department owned road construction equipment, among them, bulldozers. However, most of the equipment was now obsolete and required urgent replacement.

2.3 Easy Go Car Hire and Driver Training

- Easy Go has established itself in the driver training business and attained ISO certification in 2014.
- The Unit operates a fleet of 98 driver training vehicles comprising of 2 buses, 22 lorries and 74 light vehicles and also has the private hire arm that provides transport logistics for all major government programmes and conferences.
- The Committee was informed that this unit was performing very well.

2.4 CMED Workshops

- CMED has workshops throughout the country where reconditioning of engines and repairs to vehicles are done.
- The workshops require urgent refurbishment and retooling if CMED is to continue delivering on its mandate.

3.0 Key Strategies to Improve Operational and Financial Performance

In order to enable CMED to effectively achieve its mandate in 2017 and beyond, the following strategic initiatives would be undertaken:

3.1 Actively pursuing public- private partnerships in the importation of 20 million litres of fuel in order to ensure that the 21 service stations are fully operational. The long-term objective was to open fully operational service stations throughout the country.

3.2 Engaging the RBZ and the Ministry of Finance to assure potential investors of a hassle- free return on investment.

3.3 Actively pursuing the recovery of the USD 2.7 million lost through the botched fuel deal through legal channels and regaining confidence in the organization by ensuring that anyone found guilty is brought to book without fear or favour.

3.4 Continued engagement with Government over payment of the USD 24 million debt, including set- offs against CMED's tax obligations.

3.5 Recovering outstanding debts through a vigorous debt collection exercise by 31 December, 2017.

3.6 Insisting on advance payment for repairs and servicing of motor vehicles and road construction services in order to generate revenue.

3.7 Mobilising funds for recapitalization of vehicles and equipment through mortgage loans by the end of 2017.

3.8 Streamlining the organization in line with the current operating environment.

3.9 Enhancing the corporate governance index through openness and transparency.

4.0 Committee's Observations

4.1 The Committee observed, with satisfaction, that despite being owed a huge amount of money by Government, the current Board has proactively resolved to pursue other revenue generating initiatives such as vehicle service and repairs for private organisations instead of just government institutions, car and equipment hire.

4.2 The engagement of the Central Bank and the Ministry of Finance needed to be expedited if CMED was to guarantee safe investment and policy consistency to foreign investors who are desirous to partner the organization in fuel importation.

4.3 The Committee noted with concern that the matter of the botched fuel deal was taking too long to conclude. In addition, the fact that some of the officials involved in the fuel scam were still very much an integral part of the company's structures did not augur well for the integrity and credibility of the organization and was likely to put off potential investors.

4.4 While the Committee acknowledged the prevailing budgetary constraints, the payment of the debt owed to CMED by Government using set offs meant that no cash was accruing to CMED to fund strategic operational issues.

5.0 Recommendations

5.1 The Reserve Bank of Zimbabwe and the Ministry of Finance and Economic Development must be urgently engaged before the end of September 2017, to guarantee protection of investors willing to partner CMED in fuel importation.

5.2 Government must, as much as possible and within the limits of the prevailing resource constraints, stagger payment of the debt to CMED per quarter to ensure that the organization is liquid enough to fund critical operations.

5.3 The Ministry of Transport and Infrastructural Development must grant CMED a stake, like other indigenous companies, in major infrastructural development projects such as the dualisation of the Beitbridge- Chirundu highway.

5.4 The Committee reiterates its clarion call for the 'Fuelgate Scandal' to be urgently concluded and for the culprits to be brought to book. It would have been prudent for all those fingered in the matter to be suspended from duty pending finalization of the case.

5.5 In view of the competitive nature of the fuel industry, CMED must benchmark itself against private suppliers such as Puma and Total and adopt best practices from the same if their operations are to be sustainable.

5.6 As a commercial entity, CMED must actively pursue strategic alliances with successful players in the industry if it is to remain viable by end of September 2017.

5.7 The employment contracts of CMED top official must not be open ended, it should be limited at most to five years and must be renewed based on performance.

5.8 The ZEC Electoral body who are responsible for conducting elections in 2018, should expeditiously liquidate their $768 000 debt with CMED in order to open further lines of assistance from CMED.

5.9 A Forensic audit is required on fuel business unit before any funds to the tune of USD24 million can be injected into the unit.

5.10 Modernize and computerize the equipment in the CMED workshops in order to address the issue of rudimental and antiquated pieces of machinery by end of December 2017.

5.0 Conclusion

5.1 The Committee remains convinced that the CMED provides a viable means of consistent revenue generation to the government and people of Zimbabwe. The proactive initiatives taken by the organization in a bid to remain viable such as Easy Go car hire and driving school, have proven to be strategic masterstrokes which must be applauded. However, the Committee remains unconvinced that sufficient structural and organizational controls have been put in place to prevent the recurrence of revenue leakages exemplified by the yet to be concluded fuel scam. These internal controls need to be urgently instituted if the current leadership is to succeed in increasing the corporate governance index as envisaged in their strategic plan and successfully attracting both local and foreign investors.