COMMISSION OF INQUIRY INTO STATE CAPTURE

EXHIBIT HH 14

ELDER MTSHIZA

JUDICIAL COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE, CORRUPTION AND FRAUD IN THE PUBLIC SECTOR INCLUDING ORGANS OF STATE

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INDEX: EXHIBIT HH 14

IN THE COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE, CORRUPTION AND FRAUD IN THE PUBLIC SECTOR INCLUDING ORGANS OF STATE ("THE COMMISSION")

AN INVESTIGATION INTO THE VREDE DAIRY PROJECT

SWORN AFFIDAVIT

I, the undersigned,

ELDER MTSHIZA

hereby declare under oath as follows:

1. I am currently employed as Programme Management Coordinator by the National Department of Agriculture Forestry and Fisheries.

2. The content of this affidavit is true and correct and falls within my own personal knowledge, unless the contrary clearly appears from the context or is otherwise stated.

3. I have previously provided an affidavit to the South African Police Services, and in relation to an investigation carried out by them and relating to the Vrede Integrated Dairy project. A copy of this affidavit is attached hereto as annexure "**EM1**", which affidavit has two annexures being "EM1" and "EM2".

4. I believe that the affidavit is relevant to the investigations of the Commission of Inquiry into Allegations of State Capture, Fraud and Corruption in the Public Sector and certain Organs of State ("the Commission") and confirm the content of that affidavit as if specifically repeated herein.

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5. This is all I wish to record at this stage.

DEPONENT

Signed and sworn before me at Pretoria this 1 day of October 2019 after the deponent declared that the deponent is familiar with the contents of this statement and regards the prescribed oath as binding on the deponent's conscience and has no objection against taking the said prescribed oath. There has been compliance with the requirements of the Regulations contained in Government Gazette R1258, dated 21 July 1972 (as amended).

COMMISSIONER OF OATHS:

FULL NAMES: A Kruger 0464910-5

CAPACITY: Captain

ADDRESS: SAPS Brooklyn
119 Duxbury rd
Hillcrest 0028

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BROOKLYN
SUPPORT SERVICES
SOUTH AFRICAN POLICE SERVICE

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I, the undersigned

Elder Mtshiza

Do state under oath and say;

1.

I am an adult female 48 years young with ID number 690818 0283 085. I am employed as a Programme Management Coordinator by the National Department of Agriculture Forestry and Fisheries with business address 20 Steve Biko road Arcadia with contact details 012 319 7380.

The statement is made to the best of my knowledge and belief with the knowledge that should it be presented as evidence, I may be prosecuted if I have stated anything that I know to be false or do not believe to be true.

2.

Owing to my position as a co-ordinator of the Comprehensive Agriculture Support Programme ("CASP") at the National Department of Agriculture Forestry and Fisheries, I have access to all records, files and information related to CASP transfers with the department. I am duly authorised to make this affidavit.

3.

As the co-ordinator of CASP my duties consists mainly of the following: functions of the transferring officer as stated in the Division of Revenue Act (DORA), administration of the conditional grant CASP and Ilima/Letsema, set norms and standards for the programme, provide oversight, monitoring and reporting on the

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programme and ensure funds are disbursed to provinces as per approved payment schedule.

4.

The CASP is a schedule 5 conditional grant aimed at supporting beneficiaries of Land Reform and other black producers who have accessed land privately and are involved in value adding enterprises. These are the funds that are raised by the national Department of Agriculture, Forestry and Fisheries and are made available by National Treasury in a given fiscal period for an Medium Term Expenditure Term. The beneficiaries of the programme are black producers which include Africans, Indians, Coloured, and Chinese as per the Pretoria judgement. The DAFF has no legislative powers to spend this schedule 5 conditional grant directly but do so through the provincial Departments of Agriculture who has a concurrent mandate on Agriculture; and as provided through DORA.

5.

Provinces have access to CASP and in terms of the Division of Revenue Act (DORA), conditions are set on what the funds can be used for. Provinces are also expected to abide by the Public Finance Management Act (PFMA) and Treasury Regulations. The DAFF has set Standard Operating Procedures (SOP) for CASP as a guideline to provinces on how the programme should be implemented, including criteria for qualification, how to implement the projects and what systems must be in place to manage the data and information for decision making.

6.

According to the SOP, the program should be needs driven by the clients who are South African citizens. The Provinces must ensure that the black farmers are developed comprehensively and the following are the support the farmer/s may receive: farmer training, mentorship and capacity building, infrastructural development, extension and advisory support, mechanism support, market and business development among others as contained in the SOP here attached as attachment EM1.

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7.

The Provinces are required to adhere to all the grant conditions in the grant framework. For approval of the CASP grant, Provinces are required to prepare a provincial business plan and present it before the National Assessment Panel ("NAP"). The NAP is a committee within the National Department of Agriculture Forestry and Fisheries and it is made up of Chief Directors, Directors and program experts from different directorates funded by the grant including myself. The panel assesses the business plan submitted by the province and evaluates the presentation from provinces at a NAP meeting. Details required per presented project vary, however every project that is being established should first have feasibility study conducted, EIA's where applicable, water rights and access to electricity before construction happens.

8.

During 30 – 31 January 2013, the Free State Department of Agriculture came to DAFF to do the presentation on Vrede Diary Project to the DAFF's National Assessment Panel as part of the CASP and Ilima/ Letsema business plan process. The delegate from Free State Agriculture was the provincial CASP coordinator Dr Masiteng accompanied by Ms Christa Klick. During the presentation they also presented that the Vrede Diary Project was approved by the Provincial Executive Council as one of the strategic projects for Mohoma Mobung Strategy. The presentation further indicated that the Province has secured a private investor Estina to partner with Free State Agriculture in ensuring that 100 black dairy producers around the Vrede area are owners of the Dairy value chain. Furthermore the province indicated that they have already completed the feasibility study and started investing equitable share in clearing the identified land donated by the municipality and construction has started.

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During the presentation a number of comments were raised by the NAP committee of DAFF to the Free State delegates which needed clarity and also to

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ensure that the province has covered all ground and are ready to implement the proposed project such as a need to determine the amount of water available in Vrede for the project and water rights, a comprehensive feasibility study and business plan. The province was requested to submit to DAFF the list of the 100 beneficiaries before end of April 2013. The panel requested the province to ensure that copies of water licenses, the feasibility study, the list of beneficiaries and the project business plan be kept safely at the province for when they may be needed.

10.

The panel supported the implementation of the Vrede Diary project as it ensured that black producers not only milk the cows, but own the value chain which included milking, processing and exporting. However only R53 million from CASP was approved in 2013/14 and the requested R22 million from Ilima/Letsema was declined as this would have limited the resources for Fetsa Tlala programme.

11.

On or about July/August 2013 the National Treasury forwarded a letter to the DAFF citing concerns of non-compliance by the Free State Department of Agriculture with the PPP due processes around the Vrede dairy project and needed information from DAFF on the project and how much CASP funding was made available. Upon receipt of this enquiry, I led a delegation comprising of the chief economist Mr Daan Du Toit, chief director Food Security Mr Sibusiso Dlamini and the Dairy expert of DAFF to Vrede.. We were received by the Head of the Department Mr Peter Thabethe, the CFO Ms Seipati Dlamini, the CASP coordinator for the province Dr Masiteng and the district manager.

12.

On arrival at the project we established that debushing, fencing, road construction, silage bank were completed and construction of the dairy structure was underway. There were about 351 Friesland cows purchased which were attended to by a Vet at a separate site from the construction site. The assessment on the required documentation indicated that the water rights were

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not in place, the amount of water available for the project was not established and the list of beneficiaries was not in place. The DAFF team requested the province to provide the copies of the feasibility study and the business plan for further analysis as these were not provided during the visit.

13.

The feasibility study was sent by the Province as requested and the chief economist and dairy expert provided their expert opinions as summarised in the back to office report marked attachment EM2 which led to the following recommendations made to the transferring officer:

i. The province must conduct a proper feasibility study;
ii. The province must develop a business plan for the project;
iii. The province must conduct a biological impact study;
iv. The province must get approval for water rights for the project;
v. The province must outline clearly who the 100 smallholder farmers are, mobilize and structure them accordingly.

14.

The instruction to the Province included the above recommendations as well as the withdrawal of the R53 million allocated from CASP in 2013/14 to the project with immediate effect. The withdrawn funds were directed to incomplete projects in the province and to smallholder farmers who were indebted to the Agriculture Credit Board to help them with their productivity to be able to service the DAFF loans.

15.

The DAFF offered to make experts available to support the province to ensure the requirements are met, which will allow DAFF to make funds available in the next financial year and ensure the realization of the dairy anchor as a first model to ensure participation of black producers in the value chain. No requests were made by the province for additional support and no funding was requested or provided from the conditional grants for the completion of project.

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Signature Deponent

I certify that the deponent has acknowledged that she knows and understand the contents thereof. The deponent's signature was placed in my presence at Pretoria on the 3 of November 2017.

Commissioner of Oath

Name: Mandla MTOLO

Address: NO 83 Steve Biko Road Pretoria

Rank: Captain

"EM-09"

agriculture,
forestry & fisheries

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

STANDARD OPERATING PROCEDURE (SOP) FRAMEWORK FOR COMPREHENSIVE AGRICULTURE SUPPORT PROGRAMME (CASP)

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PROLOGUE

The Department of Agriculture, Forestry and Fisheries (DAFF) has, during 2009 and 2010, made requests to the National Treasury to change the provincial conditional grants under its administration. DAFF administers the Comprehensive Agricultural Support Programme (CASP), Ilima/Letsema and the Land Care programme grants.

The proposals made were aimed at achieving a standard and uniform way of implementing the CASP and Ilima/Letsema conditional grants in particular as provinces had different approaches in implementing the conditional grants. The idea was to establish a one stop development finance facility centrally and after numerous discussions the decision was taken with National Treasury to implement the principles of the one stop development finance facility through a SOP.

DAFF and National Treasury further engaged the Department of Rural Development and Land Reform (DRDLR) on the SOP and gained the DRDLR's support and commitment. The three departments further consulted provinces in a workshop held on 20 June 2012 at the Burgers Park Hotel in Pretoria, South Africa. The SOP was then approved by all stakeholders. This framework document (SOP) provides a standard working tool that can be used to document routine quality system management and technical activities. It describes the DAFF's priority policies and procedures for planning, implementing and assessing the effectiveness of the quality system.

The use of SOP by provincial departments of Agriculture would minimize variations and promote quality through consistent implementation of a process or procedure as determined by DAFF, even if there are temporary or permanent personnel changes, and can be used as part of a personnel training program, since it should provide detail work instructions.

This SOP will replace the business plans provinces are required to submit in terms of the conditional grant framework; however, provinces will still be required to have a business plan per project funded. DAFF will require the overall plan per province in terms of their spatial focus, commodities to be supported and estimated number of projects, farmers, hectares to be supported.

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DAFF, with a National Assessment Panel, will evaluate each province's SOP and provincial overall plan and approve or identify gaps that need to be addressed before the plan is recommended for funding. DAFF will only start transferring CASP funds to provinces after the National Assessment Panel adjudicates that their SOP meets the minimum specified criteria. This is normal requirements for conditional grants in the Division of Revenue Act (DORA).

The standard requirement of this SOP requires provinces to engage with the private sector when finalizing the SOP to encourage provinces to use the conditional grant (*and other provincial funding*) to leverage on private sector funding.

The SOP will have to be published in a provincial gazette before the start of the financial year as a statement of commitment from the province and open to scrutiny of the public. Biannually the SOP will need to be updated however the changes to the provincial SOP should be minimal.

PURPOSE

The purpose of this SOP is to **streamline the implementation** and management of the Comprehensive Agriculture Support Programme (CASP) conditional grant and **improve its efficacy** as well as **improve or achieve alignment with the Department of Rural Development and Land reform's Recapitalization and Development programme.**

It is also to improve the flexibility and responsiveness required in the agricultural sector, where seasonal issues have a significant impact on planning by focusing on the principles of a 'one stop development funding model'.

Lastly, but equally important it is aimed at facilitating increased access to funding by previously disadvantaged subsistence, small holder and commercial farmers and ensure a coordinated and holistic approach to funding by the department. And to develop habits that will lead to value for money in farmer support services.

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BACKGROUND

The Department of Agriculture, Forestry and Fisheries (DAFF) administers CASP, ILIMA/LETSEMA and LAND CARE conditional grants since 2004, including MAFISA. The grants and the loan scheme were created to address the funding needs of previously disadvantaged farmers involved in subsistence, smallholder and commercial activities.

Over R4 billion has been invested in these programmes since inception but government have failed to significantly improve the farming operations of this sector of farmers due to a number of challenges which include but are not limited to:

1. Lack of coordination and untimely support,
2. No integrated planning and implementation, all schemes operate in silos,
3. Double dipping by beneficiaries,
4. Lack of opportunities for leveraging and risk sharing,

This SOP will be implemented on CASP in the 2013/14 financial year and beyond and extended to include Ilima/Letsema, the Land Care programme grant and align these conditional grants with the Recapitalization and Development Programme (RADP) grants. All provinces will be required to adopt a *Standard Operating Procedure (SOP)* that governs the full range of activities and strategies currently falling under farmer support services.

SOP PERSPECTIVE

A Standard Operating Procedure (SOP) is a set of written instructions that document a routine or repetitive activity followed by an organization. The SOP is an integral part of a successful quality system in the provision of service delivery, as it provides individuals with the information to perform a job properly, and facilitate consistency in the quality and integrity of an end-result. In essence, SOPs replaces the well known vocabulary expressions such as protocols, instructions and work-sheets. SOPs detail the regularly recurring work processes that are to be conducted within an organization.

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They document in detail the way activities are to be performed to facilitate consistent performance to technical and quality systems requirements and to support Information Management Systems through safeguarding of data quality. SOPs may to a certain extend describe for instance, fundamental programmatic actions and technical actions such as analytical process for tractor maintenance, chemical and fertilizer applications, calibrating, and using equipment. SOPs are intended to be specific to the organization or facility whose activities are described and assist organization to maintain their quality control and Quality Assurance processes and ensure compliance with government regulations and prescripts.

DAFF envisage using this SOP to minimize opportunities for miscommunication and to address safety and quality concerns during project implementations. Inevitable, SOPs will be frequently used as checklists by inspectors or monitoring teams when auditing procedures and can be used as a benchmark for reconstructing project activities where no other references exist. Subsequently, proper implementation of SOPs in Provinces will capitulate to reduced work effort, improve comparability, credibility and ensure legal compliance.

GUIDING PRINCIPLES

The guiding principles for providing grant funding under this SOP framework are:

i. The program must be needs-driven by the clients, flexible and easy to access, and should provide resources based on the quality of the project or farm proposals.

ii. Project or farm proposals must demonstrate economic viability and sustainability of the projects being funded; evidence of an assured market, thus encouraging a business approach and financial prudence in farming.

iii. The support will be in the form of infrastructure, production inputs, capacity building and mentorship to the targeted beneficiaries, and not in the form of cash.

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iv. The grant will not provide the entire production capital requirements but aims to enhance productivity through a launching pad approach. The projects are expected to access additional funding through financial institutions and formation of partnerships.

v. Programme beneficiaries must be passionate and committed farmers with proven technical and financial management skills; where such skills are lacking a mandatory training program should be in place for beneficiaries.

vi. The provincial departments must develop the new farms by planning for the development of these farms, assessing their needs, and setting priorities for on or off farm infrastructure development; and

vii. The provincial departments shall facilitate the new farms to leverage funding from a variety of sources, including financial institutions.

SCOPE

This SOP framework for CASP is limited to the implementation of the six pillars (cost drivers) of CASP to the targeted beneficiaries as per the criteria set below for the provision of:

i. **On-and-off Farm Infrastructure and Production Inputs**

This includes but is not limited to the maintenance and rehabilitation of soil conservation structures, on-farm roads, irrigation infrastructure, electricity, fencing, water distribution systems, farm dams, storage facilities, intensive production facilities, mechanization, farming equipment, including the acquisition of new implements and repair and maintenance of equipment.

The Department may not provide 100% funding on on-farm infrastructure, however for infrastructure to be utilized by the entire community, 100% funding will be provided, e.g. dip tanks, maize mills, veterinary clinics, fresh produce collation infrastructure, livestock auctioneering facilities, communal grazing camps, and boundary fencing of fields for rural development.

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Production inputs includes seed, fertilizer, pesticides, herbicides and fuel for crop production and animal fodder including licks, animal medicine and vaccines, and insecticides (dips) for animal production. Production inputs may be provided in the first year to a 100% level where the beneficiary cannot access a production loan but from the second year production inputs must be financed through a production loan offered by MAFISA, Land Bank's Retail Emerging Market unit or any other DFI. For subsistence farmers production inputs may be provided on a 100% level where the total production is required for household food security.

ii. Targeted training, skills development and capacity building

The Department will provide 100% funding for training and capacity building. All farmers receiving infrastructure grants will be subjected to some capacity building, either training and/or mentorship which will be based on needs assessment results. The Colleges of Agriculture must (*where possible*) be used to offer the credit bearing and non-credit bearing training on production, post harvest technologies, products quality requirements, packaging and marketing aspects; this should also include joint initiatives with the private sector, universities and SOE's that provinces may enter into partnerships with. The purpose of this is to make information about capacity building initiatives available to training and research institutions and other role players who may want to engage with the province in these initiatives. On station and on-farm demonstrations will form part of farmer training.

For other training needs (book keeping, conflict resolution, etc.), a credible service provider should be identified to provide the training required. It is encouraged that all training applications and events be organized through farmer groups or forums. This will ensure that training is provided to farmer groups rather than individual farmers for the efficient delivery of the training. At least 10% of the provincial project budget should be earmarked for training, skills development, capacity building and mentorship. All training conducted should comply with the following principles of quality training:

- All training must be preceded by comprehensive skills audit/assessment undertaken by accredited personnel.
- All training must be directed by a training plan that includes cost/benefit analysis.
- All training must address skills gaps indentified during skills audit.

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- Training programmes must be coordinated in such a way that it assists beneficiaries of agrarian and land reform to overcome obstacles to their development.
- All training interventions must be undertaken by accredited service providers.
- Detailed information of any training completed must be kept and analysed for performance improvement.
- Training must be seen as a sound investment in the development of the entire sector and economy.
- Adequate information management system to keep records of all training conducted and evidence must be in place for proper reporting.

iii. **Marketing and Business Development**

The Department will provide 100% funding or support for agro-business planning and marketing. Support will be provided in the following areas:

i. Farm business plan development;
ii. Agro-processing business plan development;
iii. Linking farmers to markets;
iv. NAMC Livestock development Programme; and
v. Marketing support (infrastructure, marketing information and marketing skills development or training).

The DAFF encourages provinces to prepare business plans looking at spatial competitiveness and link large number of farmers / entrepreneurs to markets based on the information from the business plans. At least 10 – 20% of the provincial project budget should be earmarked for Marketing and business development.

iv. **Information and Knowledge Management,**

This should include the development and use of the Agriculture Information Management System (AIMS). All provinces are required to adopt and use agricultural information management systems (AIMS) that enable them to report on the geographic coordinates of all their projects. This will make it possible for the national department to ensure that the

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agricultural projects are compatible with the agrological potential of the area where they are implemented and force them to make spatial planning central to their overall planning.

The need for information and knowledge gathering within CASP has been obvious from the time that it has been implemented. Questions such as:

- What are the numbers of farmers that have been supported through CASP?
- What is the geographical coordinates or actual location of the farms, which province, which district and which municipality, which ward?
- What infrastructure per project whether on-or-off farm has been installed?
- What are the costs and the size of the infrastructure?
- What is the level of outputs of the farm?
- What is the type of produce?
- What is being sold and produced in quantities and in monetary value as a result of the CASP support.

These are the basis on which one can develop information about the CASP activities and be able to determine the performance of CASP. This information needs to be collected on a regular basis, such as quarterly. The reason for collecting it regularly is that it can be kept up to date and one can develop a series of variables year in and year out. These series can help develop a trend of what are the actual input costs and help monitor what have been the gains or growth of the business since the support of CASP. Information of this kind should be kept in the AIMS, mainly because it is information that should be used for strategic purposes, planning and assessment of the CASP activities.

If implemented and used properly so that it becomes embedded in processes AIMS will create and store data that will enable provinces to submit detailed analyses of programme implementation that can also show whether there is evidence of compliance with procedures and systems requirements of SOPs without adding any burden on officials. On the contrary, a properly used information management system should lessen the burden on officials and improve their efficiency. In addition, the national department will be able to use information produced through an AIMS to more effectively manage conditional grant funding. Directorates Statistics and Economic Analysis should be involved to take up this task, statisticians are trained to collate and produce necessary statistics on CASP to help update the information and keep key indicators in place and to develop trends and annual

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estimations. At least 2 – 5% of the provincial project grant should be used to set up and maintain AIMS. Any variance from this standard should be fully accounted for.

v. **Technical and Advisory Services**, and Regulatory services

The minimum requirements should be as guided by the Extension Recovery Plan (ERP) and all beneficiaries of CASP should be allocated an extension officer. The ratio should be realistic. There is a separate ring-fenced budget per province for the Extension Recovery Plan within CASP and this fund should be used as guided by the pillars of ERP.

vi. **Financial Services**

This should be achieved by establishing public private partnerships and leveraging on those partnerships for the benefit of previously disadvantaged subsistence, small holder and commercial farmers.

TARGETED BENEFICIARIES

The grant funding will be provided to smallholder and commercial previously disadvantaged farmers who are:

i. Beneficiaries of the Land Reform - restitution and redistribution (LRAD and SLAG) sub-programs;
ii. Individual black farmers who acquired land privately (*without government grant*);
iii. Share equity projects where new farmers or farm workers are acquiring shares in agricultural enterprises;
iv. Black farmers leasing commercial land on a medium-term basis i.e. 5 years and above.
v. Farmers on viable units under communal tenure system.
vi. Youth, the disabled and women in agriculture; and new agro-industries will receive priority.
vii. Wards that have been prioritized under the Comprehensive Rural Development Programme

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CRITERIA

- **Citizenship**

  Applicants should be black South Africans who are 18 years and above (Indian, Coloured, and *Chinese* included).

- **Proof of Tenure**

  To ensure that the farmers who benefit from the funding grant are the rightful owners or users of the land they are farming on, all applicants are required to attach copies of their title deeds certificates, lease contracts, PTOs or any proof of tenure.

- **Access to Services (water, electricity etc.)**

  All applicants for production inputs and production infrastructure must show proof that they have access to water to enable them to conduct farming activities (water availability). Access to services like electricity will be an added advantage.

- **Status of Farm Governance Systems**

  The nature and system of governance and administration of the business matters are considered critical for project sustainability. Hence, the application form should indicate the management structure and whether the owners are in conflict or not. Farms with co-owners in conflict will have lower chances of getting funding until the conflict is resolved.

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- **Managerial and Technical Skills**

To ensure the efficient and effective running of the farms or agro-enterprises, it is imperative that the enterprise owners and/or managers are capacitated and well skilled for the running of the enterprises. Applicants should indicate their educational levels, qualifications, experience in running the enterprises, and skills levels of different labour categories. The applications should also indicate their training needs by labour category in order to successfully operate the farms or agro-enterprises.

It is proposed that skills development and mentorship programmes be provided to clusters of farms to ensure the cost-effectiveness of the skills development programme under the grant fund.

- **The Business Plan**

The applicants shall be assisted to develop Terms of Reference and business plans for the activities for which they are seeking funding. The economists should assist with the business plans.

The business plan should clearly state the assumptions made on productivity parameters, prices, costs and benefits, growth potential and potential risks for the enterprise. A clear marketing strategy or marketing contracts should be indicated in the business plan. Cash flow projections should be based on up-to-date financial statements where possible. An exit strategy should be clearly stated. This should include employment either permanent or temporary that will be created from the funding that is provided by the Department.

The business plan shall show simple solvency ratios to avoid funding enterprises which are already insolvent. The value of assets must exceed total liabilities of the existing enterprises.

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- **Job Creation**

Those agricultural projects which can demonstrate the creation of and/or can sustain high employment opportunities will be given funding priority. Preference will be given to projects where the beneficiaries substantially contribute their own labour.

Where farmers are hiring labourers, they should be confirmed to be compliant with the labour laws, particularly in terms of farm-worker wages.

- **Own Contribution**

The grant is premised on the notion that the majority of beneficiaries are resource poor farmers, mostly the youth and women who might not have any tangible own contribution apart from their sweat equity. For this category of farmers, the funding grant once approved, will be counted as own contribution by the applicants, enabling them to leverage for loan applications with financial institution and linking them with strategic partners. In considering projects, farmers' initiative, investment already made, and commitment to full time farming will be considered favourably.

MINIMUM BASIC SYSTEMS REQUIREMENTS OF THIS SOP

Provinces are expected to customize their SOPs to their needs but ensure that the following forms the core of the SOP:

1. **Planning schedule** – SOPs should be drawn up as a consultative process and therefore must include a schedule of the process of developing, updating and/or reviewing the SOP.

2. **Application protocols** - provinces should clearly identify the protocols and procedures around applications for farmer support during the year. A standard application form will be provided by DAFF and minimum procedures and information that must be captured

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during the application process. Provinces will announce the support provided through local media and outline the process to be followed; the SOPs will state the frequency of these announcements.

3. **Project allocation committees** –The application for support should be done at the local level (*local Agriculture department office*) and be adjudicated by a structured, representative committees at local, district and provincial level. At least two separate committees must evaluate these applications; an internal departmental committee (a bureaucratic committee) will evaluate whether an application meet the set criteria and will be required to provide reasons to non-successful applicants and to advise those applicants how they could access support or assist them to be able to access funding in the next round.

   In the case of applications that meet the criteria, the committee must provide necessary support to the applicants to prepare a submission / business plan to the next committee e.g. a Provincial Allocation Committee. The Provincial Allocation Committee will be open to public participation and must have private sector (commodity group) representation, representation from DRDLR, farmer organizations, MAFISA intermediaries etc. The membership of this committee, and its terms of reference, must be geared towards finding ways to bring people together who can add value to the projects, leverage resources and expertise and connect new and existing projects to facilities and markets. This committee will work as a collective and advise on the value and type of support that should be given to projects.

   Provinces are encouraged to invite the Economic Development Department and the Department of Trade and Industry to attend committee meetings so that applicants can access incentives that they qualify for. The local CASP coordinators must provide the secretariat for these committees. Provinces will have to clearly indicate the number of times these committees will seat during the year to process applications.

4. **Framework of farmer support** – DAFF will provide definitions on categories of farmers and the support that will be provided to different categories of farmers. DAFF will also provide norms and standards for infrastructure development, livestock development and

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crop production. This will ensure consistency of quality across provinces and will be the only tool that will be used to determine value for money.

5. **Basic systems requirements** – central to the success of the SOP approach and a monitoring system that is facilitative rather than burdensome are systems that enable provinces to submit handwritten project reports from the field via cell phones to a central (electronic) repository. Systems must be in place to convert the data in the handwritten reports into digital data in database that can be analyzed electronically. These are critical building blocks upon which comprehensive monitoring and support systems can be implemented.

6. **Farmer register** – all CASP beneficiaries must be entered into a farmer register. Provinces must have systems in place to enter all farmers receiving support from the province on the national farmer register. Provinces will not be permitted to provide support to farmers if they are not first listed on the farmer register. The process of updating the register should be linked to their AIMS.

7. **Procurement reporting** – The provincial SOPs must include a system/database for evaluating the value for money of goods and services procured during the year. Provinces must maintain an updated database of all contracts and goods procured by the department. At any time during the year the province must be able to use this database to produce a report that shows all goods procured, the unit price of the goods, the farmer on whose behalf the goods were procured and the contractor through whom the goods were procured. Provinces will be required to reconcile their goods and serviced budget with this information at least once a quarter.

8. **Reporting and monitoring schedule** – provinces will provide monthly financial reports, quarterly financial and non-financial reports including the quarterly procurement reports and the annual evaluation report as stipulated in the Division of Revenue Act. DAFF will provide the reporting template.

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TRIGGERS FOR WITHHOLDING OF CONDITIONAL GRANT FUNDS

During the financial year transfers of the grant will be on condition of compliance with the minimum financial and non-financial reporting requirements as well as the compliance to the Division of Revenue Act.

This document proposes a number of instruments the national department can use to control the behavior of provinces; however these will only be effective if the national department uses these instruments to ensure there are consequences of non-compliance. DAFF schedule payments of the grant in such a way that there is sufficient time to evaluate reports before deciding whether withholding of funds is required. Any of the following will be the potential trigger points for withholding the funds to a province:

1. ***Withholding of first transfer***:
   - SOP not approved by DAFF and/or National Assessment Panel;
   - SOP not published in provincial gazette;
   - SOP missing critical elements;
   - AIMS not implemented, or implemented but not used.

2. ***Withholding of transfers any time during the year:***
   - non submission of reports or submission of reports with missing information;
   - providing support for commodities that are not suited to the area;
   - reports show support provided without following required processes;
   - lack of adequately maintained records about applications processes, especially records of decisions about projects not supported;
   - project coordinators report procedures not followed correctly;
   - procurement reports show that value for money is not being sought;
   - poor expenditure with unsatisfactory representation;
   - AIMS not used to submit reports.

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agriculture,
forestry & fisheries

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

BACK TO OFFICE REPORT

FREE STATE VREDE INTEGRATED DAIRY PROJECT

1 Background

The Department of Agriculture, Forestry and Fisheries undertook a technical visit to the Free State Vrede integrated dairy project on the 13 August 2013. The purpose of the visit was to garner enough facts to be able to respond to concerns raised by National Treasury.

DAFF team was made of the delegated transferring national officer, the CD: Food Security, the dairy specialist and the economist. The team was welcomed in Vrede by the HOD, the CFO, the CASP coordinator and the district manager. The project is funded by the Free State Department of Agriculture and Rural Development (FSDARD) and is estimated to cost approximately R525 million. The project was presented by the province's CASP coordinator to the DAFF's National Assessment Panel at a meeting held on 30 – 31 January 2013 as part of the CASP and Ilima/Letsema business plans. Requested was R53 million from CASP and R22 million from Ilima/Letsema. The NAP approved R53 million from CASP and requested that R22 million from Ilima/Letsema be used for production of maize and beans. The approval was made on the following basis:

i. The project has been approved by the province's Executive Council as one of the strategic projects for Mohoma Mobung strategy;
ii. The province has secured a private investor for the project and the market;
iii. 100 smallholder farmers will benefit from the project;
iv. The province has already conducted a feasibility study for the project and construction work has started.

It must be mentioned that the NAP look at high level business plans and the province responds to questions raised by the panel which are aimed at ensuring that the province has covered all ground and are ready to implement the proposed projects. The receiving officers of the conditional grants are expected to comply with the Division of Revenue Act (DORA), the PFMA and all treasury regulations when implementing projects funded by these conditional grants.

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DAFF has also developed a Standard Operating Procedure for CASP which guides the provinces on how to identify projects, how to implement and what systems must be in place to manage the data and information for decision making. The guiding principle in the SOP states that:

i. The program must be needs-driven by the clients, flexible and easy to access, and should provide resources based on the quality of the project or farm proposals.

ii. Project or farm proposals must demonstrate economic viability and sustainability of the projects being funded; evidence of an assured market, thus encouraging a business approach and financial prudence in farming.

iii. The support will be in the form of infrastructure, production inputs, capacity building and mentorship to the targeted beneficiaries, and not in the form of cash.

iv. The grant will not provide the entire production capital requirements but aims to enhance productivity through a launching pad approach. The projects are expected to access additional funding through financial institutions and formation of partnerships.

v. Programme beneficiaries must be passionate and committed farmers with proven technical and financial management skills; where such skills are lacking a mandatory training program should be in place for beneficiaries.

vi. The provincial departments must develop the new farms by planning for the development of these farms, assessing their needs, and setting priorities for on or off farm infrastructure development; and

vii. The provincial departments shall facilitate the new farms to leverage funding from a variety of sources, including financial institutions.

The SOP further outlines the criteria for accessing the grant as follows:

- **Citizenship**
  Applicants should be black South Africans who are 18 years and above (Indian, Coloured, and *Chinese* included).

- **Proof of Tenure**
  To ensure that the farmers who benefit from the funding grant are the rightful owners or users of the land they are farming on, all applicants are required to attach copies of their title deeds certificates, lease contracts, PTOs or any proof of tenure.

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- **Access to Services (water, electricity etc.)**
  All applicants for production inputs and production infrastructure must show proof that they have access to water to enable them to conduct farming activities (water availability). Access to services like electricity will be an added advantage.

- **Status of Farm Governance Systems**
  The nature and system of governance and administration of the business matters are considered critical for project sustainability. Hence, the application form should indicate the management structure and whether the owners are in conflict or not. Farms with co-owners in conflict will have lower chances of getting funding until the conflict is resolved.

- **Managerial and Technical Skills**
  To ensure the efficient and effective running of the farms or agro-enterprises, it is imperative that the enterprise owners and/or managers are capacitated and well skilled for the running of the enterprises. Applicants should indicate their educational levels, qualifications, experience in running the enterprises, and skills levels of different labour categories. The applications should also indicate their training needs by labour category in order to successfully operate the farms or agro-enterprises.

  It is proposed that skills development and mentorship programmes be provided to clusters of farms to ensure the cost-effectiveness of the skills development programme under the grant fund.

- **The Business Plan**
  The applicants shall be assisted to develop Terms of Reference and business plans for the activities for which they are seeking funding. The economists should assist with the business plans.

  The business plan should clearly state the assumptions made on productivity parameters, prices, costs and benefits, growth potential and potential risks for the enterprise. A clear marketing strategy or marketing contracts should be indicated in the business plan. Cash flow projections should be based on up-to-date financial statements where possible. An exit strategy should be clearly stated.

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This should include employment either permanent or temporary that will be created from the funding that is provided by the Department.

The business plan shall show simple solvency ratios to avoid funding enterprises which are already insolvent. The value of assets must exceed total liabilities of the existing enterprises.

- Job Creation

Those agricultural projects which can demonstrate the creation of and/or can sustain high employment opportunities will be given funding priority. Preference will be given to projects where the beneficiaries substantially contribute their own labour.

Where farmers are hiring labourers, they should be confirmed to be compliant with the labour laws, particularly in terms of farm-worker wages.

- Own Contribution

The grant is premised on the notion that the majority of beneficiaries are resource poor farmers, mostly the youth and women who might not have any tangible own contribution apart from their sweat equity. For this category of farmers, the funding grant once approved, will be counted as own contribution by the applicants, enabling them to leverage for loan applications with financial institution and linking them with strategic partners. In considering projects, farmers' initiative, investment already made, and commitment to full time farming will be considered favourably.

2 Deliberation

At our visit in Vrede, we met the dairy project manager who has been imported from India who outlined what infrastructure will be developed and how the dairy and the envisaged processing plant will function. The road had been constructed, the silage banks build and the 'cow hotel' was still under construction. About 351 friesland cows had been bought which were attended to by a Vet from India. The team asked for a copy of the business plan which was not made available and the province promised to send a copy by mail.

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The province submitted a copy of the Memorandum of Understanding signed with Estina, the private investor and a copy of the feasibility study conducted. The business plan was not made available and the following analysis has been made from the feasibility study:

i. Large parts of the feasibility study cover standard theoretical information with no details on the project itself. For example: the document covers alternative approaches of doing things, what to look for when planning, etc. without a final statement on how things will be done, where they will be sourced and at what cost.
ii. The study does not make any comments on the total water needed and ability to provide it. This is an aspect that needs to be verified by specialists such as engineers specialising in this field for both the fresh water and surface water. No documentation of the water rights has been provided.
iii. The document does not make any comment on the involvement of smallholder farmers, their location, who they are, their current productivity and infrastructural requirements. Nothing is mentioned on how their production will be managed to meet specific requirements, pricing, collecting, etc.
iv. The conception rate of 60 % is low and is not in line with the high milk production assumption in the business plan. The number of cows needed for mating at a 60 % conception rate will be in the order of 830 (e. g. 500/60*100). This will result in a very high percentage of dry cows. The normal acceptable rate for dry cows in the herd is in the order of 20 %.
v. The general economic assumptions (p. 56 of 63) need further clarification. The amounts for some cases could well be challenged, while others could be part of a double counting in the broader perspective.
vi. The assumption of 45 litres milk per cow per day is too good to be true. Some of the leading milk producers in the country with a long build-up of quality dairy herds recorded in the order of 30 litres milk per cow per day. The implication could well be that the estimated profits for the business be reduced to 60 % of what is recorded currently.
vii. There is no mention of the biological impact of the project and no documentation to this effect has been provided.
viii. The market approach is not clarified – probably this would have been covered in full in the business plan, but the business plan is not available.

3 Conclusions

i. The assumption of 45 litres of milk per cow per day is highly unrealistic.
ii. More detail is required to verify the economic feasibility of the project.

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iii. Figures mentioned for the economy wide impact is not conclusive, rather on the optimistic side and some might be subject to double counting.
iv. There is no evidence to support the inclusion of smallholder farmers in the project.
v. The professional technical support required to make the plan work (animal scientists – dairy, animal nutritionists, pasture scientists, irrigation and infrastructure engineers) were not involved in the project as many of the comments above would have been responded to. These experts must first sign off on the business plan before any expenditure on a project of this magnitude is made. These professionals are available in government departments between DAFF and the province.

The project is a well thought through anchor for the area which has the potential to create jobs and improve the livelihood of vulnerable households in Vrede and surrounding towns.

4. Recommendations

i. The province must conduct a proper feasibility study;
ii. The province must develop a business plan for the project;
iii. The province must conduct a biological impact study;
iv. The province must get approval for water rights for the project;
v. The province must outline clearly who the 100 smallholder farmers are, mobilize and structure them accordingly.
vi. The R53 million allocated from CASP in 2013/14 be withdrawn from the project and be directed to incomplete projects in the province and to smallholder farmers who are indebted to the ACB to help them with their productivity such that their loans could be serviced. The basis for the approval is false.

5. Attachments

i. A copy of the feasibility study
ii. A copy of the MOU
iii. A copy of the letter to the province on funds withheld
iv. A copy of the letter from HOD Free State
v. A copy of the letter from National Treasury and Provincial Treasury

Report compiled by: Ms. Elder Mtshiza

Delegated transferring national officer

Date: 4 September 2013.

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