



# Umnga Farmers Training Group

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## ANNEX VI FINAL NARRATIVE REPORT

### 1. Description:

1.1 Name of beneficiary of grant contract:

*Umnga Farmers Training Group*

1.2 Name and title of the Contact person:

*Mr. Johann Stassen – Project Manager*

1.3 Name of partners in the Action:

*Sisonke Agricultural Support Centre and Co-operative, Trading Name for Msefo Land Development and Agricultural Co-operative Ltd.*

1.4 Title of the Action:

*Sisonke Agricultural Support Centre and Co-operative*

1.5 Contract number:

*B2006-21.031700/FTDF/C2/05*

1.6 Start date and end date of the reporting period:

**1 January 2010 – 31 September 2012**

1.7 Target country(ies) or region(s):

*South Africa, Eastern Cape Province, Chris Hani District Municipality, Ntsika Yethu Local Municipality, KwaMzola Administrative Area, Block C, Ncora Irrigation Scheme*

**1.8 Final beneficiaries &/or target groups (if different) (including numbers of women and men):**

Final beneficiaries directly targeted were 847 Individuals as Projects members and head of household of the Ncora Irrigation Scheme, Block C, as selected from the following groups:

- Women groups
- Youth groups
- HIV/Aids affected people
- Unemployed seeking for furthering their Agricultural skills
- Emerging farmers groups

**1.9 Country(ies) in which the activities take place (if different from 1.7):**

South Africa

**2. Assessment of implementation of Action activities**

**2.1 Executive summary of the Action**

The implementation of this action involved a holistic approach of community development in order to achieve the objective of poverty alleviation through strengthening the social capital and networking needed by the disadvantaged communities of the Mzola Administrative Area. These people do live in and around the former Ncora Irrigation Scheme in the Eastern Cape Province. This scheme was a former flagship of the Apartheids regime of South Africa, which felled to pieces for many reasons, after the formulation of the new democratic South Africa, on 27 April 1994.

The logic of this development is based on the economical principles of; Primary production through creating a primary market, Contract production; grouping of commodities to obtain positive economics of scale; Value adding, Branding and marketing.

Through this action the following activities were planned to be achieved within the implementation period:

2.1.1 Orientation and capacity building of 348 beneficiaries.

2.1.2 A land use plan, production plan and individual contract producers

2.1.3 Provide the following infrastructure.

a) Recourse Centre:

- Administrative block, boardroom and ablution facilities.
- Poultry abattoir
- Egg sorting facility.
- Area for the maize mill, equipment to be fitted.
- Area for the potato washing facility, equipment to be fitted.
- Area for the wholesale and retail Cooperative shop, stock to be equipped.
- Shearing shed and wool sorting facility.

b) Production units:

- 9 x 240 layer hen units
- 4 x 500 broiler chicken production units
- 1 x livestock handling facility

2.1.4 Establish crop production units:

- 70 hectares for maize production
- 8 hectares for potatoes

2.1.5 Technical training to be provided to the following:

- All directors and managers of the project ( 28 individuals)
- Sub-contractors for egg production ( 27 producers)
- Sub-contractors for broiler production ( 20 producers)
- Livestock farmers ( 180 farmers)
- Potato producers ( 16 producers)
- Maize producers ( 30 producers)
- Arts and craft artisans ( 15 artisans)
- Maize milling operators ( 5 operators)
- Abattoir operators ( 6 Operators)
- Potato washers and packers ( 10 operators)
- Truck driver ( 1 driver)
- General laborers ( 10 workers)

2.1.6 Supply of production equipment, livestock and inputs:

- Egg production equipment, layer hens and inputs
- Broiler production equipment, broiler chickens and inputs
- Abattoir equipment
- Egg sorter equipment
- Production inputs for maize and potatoes

2.1.7 Production outputs:

- 28,800 kg of chicken meat
- 78,000 dozen of eggs
- 144,000 bags of potatoes
- 200,000 kg maize meal
- 7000 kg wool
- 15,000 kg mutton
- 55,000 kg beef

2.1.8 To achieve a self-driven sustainable project during the implementation period.

## **2.2 Activities and results**

### **Activity 1: Programme Management and Co-ordination**

#### *1.1 Establish and maintain local office*

##### *Topics/activities covered*

The local Umnga Office was restructured with regard to a new computer system, planning room and offices. All personnel for the project were appointed in place and communication systems were aligned.

An initial local office building on site was procured, but due to the complexity of the existing greater Ncora structure, it was decided to rather postpone the use of the greater Ncora infrastructure as this project is specifically only for the beneficiaries at Block C at KwaMzola Administrative Area. A local office was identified and it was agreed that Umnga will pay a monthly rent to the Msefo land Development and Agricultural Cooperative.

##### *Reason for modification for the planned activity*

In establishing local offices and lecture facilities, it was the original plan to make use of the board room and facilities of the former Ncora Irrigation Scheme's head offices. During the first Project Steering Committee that was held on 23 March 2010, it was made clear to all members present that the target area for the implementation of this contract, will only cover the Block C part of the Scheme. Many community members who attended the meeting were from other Ncora districts, representing other Blocks of the Scheme. These members were unhappy that their areas were not covered by this initiative. Umnga and the Directors of Sisonke were advised by a representative from the Department of Agriculture to rather restrict future PSC meetings, site offices, and training venues to be within the border of Block C, the identified target area.

##### *Results of this activity*

1. The Umnga Office is well established, equipped and staffed to fulfill the implementation actions of all planned activities under the SURUDEC Grant.
2. A local site office was established within the Mzola area, and was equipped to fit the needs for the implementation of all activities under this contract.

## ***1.2 Programme planning and resource budgeting***

### ***Topics/activities covered***

The detailed programme implementation plan covered the following topics:

- Orientation of all beneficiaries regarding the extent of what were going to happen, the budget, the implementation plan and whom will benefit from the grant funding.
- The different activities that were going to take place and the logical sequence of implementation that will be followed.
- The use of the Gant Chart and how implementation of the phases will be monitored.
- The content and legal aspects of the contract on implementation with regard to the procurement procedure, payments of moneys, timesheets, traveling logs and payment procedure.
- The own contribution under this contract and the manner to which own contribution will be registered.
- The infrastructure of the resource centre and the main objective that the resource centre will fulfill.
- The different enterprise infrastructure and equipment that will be constructed after a procurement process to some contract producers.
- Procurement process to be followed for the application to become a contract producer.
- Value adding and marketing
- Director's meetings and the reporting procedure.
- The long term vision towards sustainability of the action after Umnga's withdrawal.

### ***Reason for modification for the planned activity***

There were no deviations from the original project plan at this stage.

### ***Results of this activity***

- All members of the three communities of the target area were well informed regarding the implementation plan, objectives, activities and result of the action.
- The budget, restrictions of the budget is well as the procurement processes under the budget is well known and understood by all beneficiaries.
- The methodology for implementation, phases of the project, exact benefit and production expectations is all well understood, without any unrealistic expectations between the members of the communities.

### **1.3 Stakeholder Analysis and Baseline Survey**

#### ***Topics/activities covered***

During March / April 2010, after training, a new baseline survey and stakeholder analysis was done by the 18 Directors of the 3 Cooperatives, namely the Msefo land development and Agricultural Cooperative, Famini & Chibini Agricultural Cooperative and the Damane Agricultural Cooperative.

During November 2010, a new effort was put together to do a more wide spread stakeholder analysis that would include the wider Ncora region. For this effort, the GRM International Team Leader and Programme Coordinator of SURUDEC have made available a small budget of ZAR 4000.00. This survey started in January 2011. Due to many challenges, again due to the complexity of the social structures within the greater community and internal politics in the bigger Ncora scenario, this survey was only completed during August 2011. The ZAR 4000 was never claimed by the main beneficiary.

#### ***Reason for modification for the planned activity***

There were no modification done on this planned activity

#### ***Results of this activity***

- Data base is available on all information regarding the households within the target area, covering the demographic information, socio economic status, needs and expectations, etc.
- A list of all assets regarding livestock, cropping, machinery and equipment is available.
- Indications with regard to enterprise selection information per individual are available.

### **1.4 Financial and administrative management**

#### ***Topics/activities covered***

All financial and administrative processes were put in place after the training workshop to Umnga personnel on 17 February 2010. All financial and administrative policies as prescribed by the SURUDEC / Umnga contract was followed and used for implementation and reporting actions. This includes; Procurement process for all transactions above ZAR 500.00, Financial record keeping on the PASTEL Accounting system, keeping of timesheets for Human Resource expenses, Correct filing and financial reporting according to the bi-monthly reporting system.

#### ***Reason for modification for the planned activity***

No modification was done on this activity

**Results of this activity**

The project management team of the Umnga Farmers Training Group as well as that of the Sisonke Cooperative management group was well equipped and skilled regarding the implementation, monitoring, procurement, expenditure and record keeping procedures under the grant contract.

**1.5 Programme monitoring and reporting (finance and activities)**

***Topics/activities covered***

The monitoring and assessment of the programme was a continuous process. All PSC actions and Project Site meetings were recorded in minutes. Daily activity sheets are being recoded and are being used as a reporting tool. All financial systems according the project policy were instated by the Financial and Administrative department.

***Reason for modification for the planned activity***

No modification was done on this activity

**Results of this activity**

Umnga has successfully submitted financial and activity reports for the following bi-monthly periods:

1. January and February 2010
2. March and April 2010
3. May and June 2010
4. July and August 2010
5. September and October 2010
6. November and December 2010
7. January and February 2011
8. March and April 2011
9. May and June 2011
10. July and August 2011
11. September and October 2011
12. November and December 2011
13. January and February 2012
14. March and April 2012
15. May and June 2012
16. July, August and September 2012

} 9 months extended period in 2012.

## **1.6 Evaluation**

### ***Topics/activities covered***

The evaluation of the implementation of the project was a continuous process and was done according to the project Gant Chart and the budget.

The evaluation and monitoring of the cashflow budget was the most important aspect of evaluation, as the project implementation had actually come to a standstill, due to the delay from the EU / SURUDEC Management in the payment of the second tranche.

Although the delay of tranche payments were not identified as one of the risks to negatively influence the project, the delay in the payment of the second tranche payment that was experienced, had the following negative impact on the implementation and especially on the relationship between the parties. Application form the 2<sup>nd</sup> tranche payment was submitted on 20 April 2011 and payment was eventually received on 1 August 2011. This delay of 3- months was in fact the beginning of the end to achieve all outcomes of the project.

- a) All constructions to the Resource Centre regarding the Maize Mill, Potato sorting and Livestock handling facilities had to be cancelled and put on ice since Friday, 8 July 2011. The builders' contracts had to be cancelled on short notice and the building team withdrew from further employment.
- b) Land preparation for the planting of cash crops had to be done during July 2011, and the identified contractor also had to be cancelled at a cost, not budget for. The successful outcome of the cash crop units was crucial towards the success of the project and formed the core of the own financial contributions.
- c) The poultry abattoir could not be completed in time. The procurement agreement with the suppliers of water filters also had to be cancelled which was a real embarrassment to the beneficiary.
- d) An arrangement was made to take an existing shearing shed over from the Department of Agriculture as from 1 July 2011. All negotiations with the livestock owners had to be postponed which had a very negative reflection and disappointment to the broader Ncora community on their evaluation and perspective on the capacity of both Umnga and the Directors of the Sisonke Cooperative. (Poor and uneducated Community members, do not understand these type of explanations)
- e) The broiler chicken production units ran out of food as from Friday, 15 July 2011, resulting in mortalities and low production. The second tranche payment was received only on 1 August 2011.
- f) Umnga Farmers Group from goodwill and trust that the payments would have been done before 1 July 2011, exhausted own funding to provide in building materials during June 2011. This resulted into bad debts with First National Bank, which had a negative impact towards our own financial credibility and -record.

g) Written application for urgent budget changes was submitted on 25 August 2011, but written approval towards this spending was only received from SURUDEC on 3 April 2012. ( 7 months later)

Although it was the objective of the European Commission to built prosperous and self-sufficient communities through these type of Grant Funded project, in reality, The Umnga Farmers Group could not bear this type of risk that occurred purely out of poor administration from the side of the EU / SURUDEC /Office of the Premier, resulting and not achieving a sustainable project implementation.

Extension on the implementation of the programme was granted for a further period of 9-months, but this had to be done on own risk and with no additional financial contributions, and as mentioned, could only proceed under the new budget approval as from 3 April 2012.

### ***Reason for modification for the planned activity***

The main reason for modification of the evaluation activity came due to the unexpected delay experienced after the second tranche payment funding was desperately needed at a critical production stage of implementation. The whole project had to be re-evaluated and all production activities had to be re-scheduled and re-planned to result in the smallest possible negative impact on the project.

### ***Results of this activity***

- The implementation of the budget had to be re-considered and budget changes had to be motivated.
- The implementation of all activities had to be re-scheduled.

### ***1.7. Handover and exit***

The handover of the SURUDEC implemented Project, had to be done on 31 December 2011. Due to the difficulties experienced, the beneficiary had to get approval for extension of the project for another period of 9-months.

## **Activity 2 Institutional Development**

### ***2.1. Training Needs Assessment and Asset Mapping***

#### ***Topics/activities covered***

From the training needs and asset mapping activity, done the following training needs were identified and addressed:

- Cooperative Management training to all directors of the three Agricultural Cooperatives.
- Institutional training to all Directors of the three Cooperatives
- Project planning and implementation procedures to be understood by all Directors, within the context of the contract and business plan of the SURUDEC contract.

- 46 Contract producers to be training in a Learnership. National Certificate in Plant Production, NQF 1.
- 60 Contract producers to be trained in a Learnership, National Certificate in Animal Production, NQF 1.
- 27 members in total of the 9 households doing contract production of eggs ( 3-members per household)
- 16 members in total of the 4 households doing contract production of broiler chicks ( 4-members per household)
- 5 x maize milling operators
- 6 x abattoir operators
- 10 x potato washers and packers

***Reason for modification for the planned activity***

- The outcomes of real skills transfer through means of presenting long term Learnership training was found to be much more effective than that of short skills courses.
- The budget did not provide for learnership training and additional funding had to be sourced from the Agri-SETA.
- Learnership training from the Agri-SETA also provided for the payment of monthly stipends to learners, which contributed to the whole poverty elevation process during the implementation of the project.
- After a delay for the training of the livestock farmers and the fact that additional funding for a learnership training of 60 members of the livestock enterprises were not approved, these project members had to be trained under the planned short skills courses provided for in the budget.
- The Directors of Sisonke proposed that the proceeding with the implementation of an Arts and Craft production centre will only benefit a small group of individuals of the community and that the funding should rather be used to contribute to the establishment of a wholesale and retail shop that will benefit the whole of the community.

***Results of this activity***

- The 18 Directors of the 3- cooperatives were well equipped and trained in institutional development, Cooperative management, book and record keeping as well as the implementation procedures under this programme.
- 45 Crop farmers successfully completed a full learnership on plant Production.
- 27 members taking part in the 9 egg contract production units were fully skilled and were producing eggs according to the expected rate and quality.
- 16 members taking part in the 4 Broiler contract production units were trained and were taking part in production.
- The budget for the supply of equipment to and Arts& Craft factory were re-allocated in the budget to the benefit of the greater community in the supply of necessities and production inputs under the Wholesale and Retail shop.

## ***2.2. Institutional development and capacity building training***

### ***Topics/activities covered***

The institutional development and capacity building training process was not be seen as a once of activity to be invoiced and paid off. It was also done as an on-going process of day-to-day mentoring and training that was part of the Umnga implementation activity.

An official workshop was offered to all 18 Directors of the three Cooperatives, as from 15 March 2010, until 25 March 2010, for the duration of 10 days. After this workshop, the Directors all had to practically contribute to an assignment whereby they did a social study between all the members inside their respective Co-operative districts, The result was that Umnga has captured this information in a database reflecting all individual farmers, head of household, human resource assets and capabilities within the study and beneficial area.

*The Institutional development course focused on the following content:*

1. Introduction to Business Management
  - How should I manage my business?
    - \* Objectives of the business
    - \* Plan to achieve your objectives
    - \* Implement plans that have been drawn up
    - \* Control activities according to plan(s)
    - \* The fields of decision making
    - \* The external environment
2. Institutional Arrangements
  - \* Introduction - Setting up a business
  - \* The sole proprietorship
  - \* The partnership
  - \* The company
  - \* The close corporation
  - \* The business trust
  - \* The co-operative
  - \* Characteristics of co-operatives
  - \* Co-operative principals
  - \* Comparison between co-operatives and companies
  - \* Buying and selling
  - \* Mark ups and pricing
  - \* Co-operatives in production
3. Running a Co-operative
4. Co-operative record keeping systems
5. Financial/Admin Record Keeping Systems for co-operatives
6. The Receiver of Revenue
7. The auditors
8. You and your bank
9. How to run a directors/shareholders meeting
10. Learn about committees

***Reason for modification for the planned activity***

No modification was done on this activity

***Results of this activity***

- All members of the Sisonke Board were well equipped and skilled to participate in to the implementation of the project.

***2.3. Business development – Sisonke Centralized Services Cooperative******Topics/activities covered***

The business development activity for the Sisonke Centralized Services Cooperative focused on the following aspects:

1. Business management training
2. Financial management training
3. Design and implementation of an administrative procedure
  - a. Good received voucher
  - b. Grading system for produce delivered.
  - c. Produce code and valuing system
  - d. Credit note too producer
  - e. Invoice system on behalf of the producer
  - f. Recording of the contract producer loan administration
  - g. Order vouchers from contract producers
  - h. Branding and marketing system
  - i. Delivery notes and invoices for production inputs delivered to contract producer
  - j. Order vouchers for cash purchases from input suppliers
  - k. Value adding system and stock register
  - l. Point of sale
  - m. Banking and recording of cash income
  - n. Debtors control
  - o. Creditors Control
  - p. Financial statements via PASTEL Accounting

The system is driven through a computerized point of sale programme and capturing of financial date on PASTEL accounting. An internet setup between the Umnga Financial Department and the Sisonke Administration is controlling all activities. The Sisonke enterprise budget and cash flow control was managed by Umnga.

4. Appointment of a staff component to manage all administrative and physical actions was done as follows:
  - a. General Centre manager
  - b. Financial Manager
  - c. Administration and Finance Clerk
  - d. Operations supervisor
  - e. 2 x Egg sorters
  - f. 6 x Abattoir operators

5. Quality control and management of the whole system is monitored and evaluated by Umnga.

***Reason for modification for the planned activity***

No modification was done to this planned activity.

***Results of this activity***

A well structured system for business implementation is in place for the operation and management of the Sisonke Centralized Services Cooperative

***2.4. Business Development for out- grower Cooperatives***

***Topics/activities covered***

The following action steps were taken and implemented regarding the business development for the out-grower Cooperatives:

- a) Training of contract producers on the working and logic behind the system
- b) Production loan contracts and undertakings to participate in the contract production of eggs and broiler chicks were signed.
- c) Infrastructure and equipment were quantified and valued in a production loan system.
- d) Daily production record sheets are being monitored
- e) Individual contract producer's delivery note books were issued.
- f) The grading and value adding system together with the quantifying of products delivered system were implemented.
- g) Daily monitoring of technical production issues are being done.
- h) Technical training on Egg and Broiler Production was done.

***Reason for modification for the planned activity***

No modification was done to this planned activity

***Results of this activity***

- All participants are well skilled and equipped to participate as outgrower producers.
- Loan contracts and budgets are in place.
- Participants through signature agree to the terms and conditions, infrastructure and equipment received and loan repayment terms and conditions.
- Contract production is going according to plan.
- All produce is received according to a systematic grading and valuation system, understandable to all parties
- The administration procedure is simple, and practical implementable.
- Records of all production and value adding are available to monitor the whole system.

## **2.5. Capacity building and institutional mentoring**

### ***Topics/activities covered***

The mentoring of the capacity building and institutional training programme was done on a daily basis through the following means:

- Umnga has placed a full time technical manager on site to monitor the implementation of the production units by means of technical advice and monitoring of daily production sheets.
- Trained personnel from Sisonke Coop see to the correct administrative procedure in receiving produce and are also being double checked by the contract producer him/her-self to monitor the correct grading, valuing and registration of products delivered.

### ***Reason for modification for the planned activity***

No modification was done to this planned activity

### ***Results of this activity***

- The contract production of the first commodities, eggs and broiler chickens are being done systematically and according to a set standard rate.
- A self-controlling / panelizing system ensure that contract producers follow the procedures and participate to the delivery of products in time.
- A full time technical manager sees to the continuous capacity building and mentoring of daily activities.

## **Activity 3 Centralised Cooperative Services**

### **3.1. Establishment of a management unit**

#### ***Topics/activities covered***

- a) According to the planned organogram for a management unit for the Centralised Cooperative service, the follow staff has been appointed.
  1. General Centre Manager
  2. Financial manager
  3. Administrative / Financial Clerk
  4. Centre Supervisor
  5. Egg packing clerk 1.
  6. Egg packing clerk 2
  7. Abattoir Operators x 6
- b) This management unit was equipped with an administrative policy and working procedure to be followed.

***Reason for modification for the planned activity***

No modification was done to this planned activity

***Results of this activity***

- Well structured management unit is in place.
- All staff members do have signed contracts of appointment
- All staff members are part of the organogram and do have specific job description to fulfill their duties /tasks.
- Communication systems are in place for internal communication as well as communication with Umnga as controlling agent.
- The management structure are accepted and supported by the greater Cooperative and member structure.

**3.2. Business planning centralised services*****Topics/activities covered***

The technical implementation and management understanding of the business plan for the Sisonke Resource Centre was well covered through the centralised service business plan and structure. It was necessary however to take the implementation of this very slow and step by step for the understanding and diffusion process to take place.

The management team members were suddenly taken out of their normal day to day way of living and being appointed in a job description with responsibilities and tasks to fulfill against certain production indicators. This was certainly not an easy task!

The business planning of the centralised services covered the following:

- Design of an organogram with a management and staff component to fulfill the technical and administrative management of the Centre.
- Job descriptions for each post and position on the Resource Centre
- Administrative procedures regarding:
  - o Personnel management and a code of conduct
  - o The handling of stock in and out.
  - o Grading and value adding of products
  - o Stock register and stock control
  - o Financial recording of all administrative doings
  - o Meetings regarding reporting and communication procedures
  - o Standard working procedure regarding management operations within the Centre.

***Reason for modification for the planned activity***

No modification was done to this planned activity

### **Results of this activity**

A well structured Management Structure for the Centralised Sisonke Agricultural Support centre and Cooperative is in place and all members of the management unit do have a structure and standing operation procedure to follow.

### **3.3. Business planning out-grower cooperatives**

#### ***Topics/activities covered***

There were 3 outgrower cooperatives to accommodate during the implementation of the project. It must be understood that due to the very small margins within the production process, the small scale of operation, and the greater picture regarding the need between hundreds of prospective beneficiaries, the business plan for the out-grower co-operatives were very difficult to negotiate and implement.

The following management structures were put in place for each co-operative:

- The management component for each co-operative is based on a Board of 6 Directors, that fulfill the following portfolios'
  - o Chairperson
  - o Treasurer
  - o Secretary
  - o 3 additional Directors
- Each Co-operative do have its own bank account and operates separately of the centralised resource centre.
- Each Co-operative is responsible for the production management of its members and do receive a commission of 3% on the total value of products delivered to the resource centre.
- Each Co-operative have been allocated some production units as follows:
  - o Msefo land development and Agricultural Co-operative. (This is the main legal entity and also the primary co-operative that trades as the Sisonke Support centre.)
    - 1 x Broiler production unit
    - 3 x Egg production units
    - Livestock members:
      - Mutton and wool production
      - Beef production
  - o Famini & Chibini Agricultural Co-operative.
    - 1 x Broiler production unit
    - 3 x Egg production units
    - Livestock members:
      - Mutton and wool production
      - Beef production

- Damane Agricultural Co-operative.
  - 2 x Broiler production unit
  - 3 x Egg production units
  - Livestock members:
    - Mutton and wool production
    - Beef production

***Reason for modification for the planned activity***

No modification was done to this planned activity

***Results of this activity***

- A structure and basis for Primary Co-operative participation was established.
- The management component of each co-operative do have an understanding as to where the fit into the production chain.
- The value of products as well as the expected commission structures is well understood.
- All members of the management structures are contribution to the project.

**3.4 (a) Enterprise development and management – abattoir**

***Topics/activities covered***

The management and operation of the abattoir is an internal function of the Sisonke Resource Centre. The following is relevant:

- The General Manger is the overhead responsible person for all activities of the abattoir operations and maintenance.
- The Centre Supervisor is responsible for the implementation and following of all procedures regarding:
  - Personnel matters
  - Attendance registers
  - Punctuality and time management
  - Occupational Health and Safety matters
  - Hygienic standards and abattoir operating procedures
  - Slaughtering process
  - Quality control
  - Packing
  - Maintenance of the cold chain
  - Stock taking and control
  - Dispense of stock
  - Administrative procedure.

***Reason for modification for the planned activity***

No modification was done to this planned activity

### **Results of this activity**

A well structured policy and operation procedure for the abattoir is in place with a staff component that operates within the discipline and supervision of a standing working procedure.

#### **3.4 (b) Enterprise development and management – maize milling**

##### ***Topics/activities covered***

Due to certain budget constraints, an application for an external loan was submitted to the Industrial Development Corporation (IDC) for a loan to supplement the implementation of the maize mill. The logic behind this was to expand the milling operation in order to have grain handling and storing facilities, transport, upgraded milling equipment to produce a super maize meal product, etc.

The application was supported by a comprehensive business plan that was also made available to SURUDEEC staff. This application was also submitted to the Land Bank as well as the Eastern Cape Rural Development Corporation. Sadly we have to report that although all parties have indicated their interests, the project was not successful to raise any further funding for the completion of the maize mill activities.

##### ***Reason for modification for the planned activity***

During the business planning activity the following became a reality:

- The ESCOM quotation for the supply of electricity is the sum of ZAR R 300,000.00. The total SURUDEEC budget for electricity supply is only ZAR 45,000.00. It became clear that additional funding through means of an additional loan or grant is compulsory.
- The activity budget did provide for the planning of a transport component.
- After procurement of the milling equipment it was found that the existing budget of ZAR 300,000.00, will not provide for additional equipment to the mill, such as packing material, maize handling and storing, wetting bins, screeners, etc., that is compulsory for manufacturing a super product to the market.

### **Results of this activity**

- A detailed business plan that includes the management structure and detailed budget together with cashflow projections is available for the milling enterprise.
- The IDC was responding positively to the application regarding the information requests to this stage.
- Provision was made for electricity supply to the total Centre.
- Provision was made for the supply of sufficient vehicles for transporting all commodities of the Centre.
- Provision was made for running capital to the milling enterprise.
- Provision was made to assist the community with the own contribution of ZAR 1,266,299.00 to the infrastructure and transport budget in total.

The project was visited by the provincial manager, Mr. Mazwi, of the Industrial Development Corporation of SA (IDC) on 14 June 2011. The outcome of the meeting was that Umnga should present a more detailed market research and marketing plan, as well as to increase the capacity of the Mill to the value of an additional R 1,5 Million.

Although the beneficiary did comply with all requests from the IDC, until closure of this report, there was no further outcome.

### **3.4 (c) Enterprise development and management – wholesales**

#### ***Topics/activities covered***

- A 150 square meter shopping area was constructed as part of the construction of the resource centre infrastructure, in the place of the Arts and Craft Centre.

#### ***Reason for modification for the planned activity***

Modification to the original planning was done as follows:

- The originally planned Arts & Crafts area will fall away to make place for the sales area.
- The originally planned sheep shearing and wool sorting shed has been constructed by the Department of Agriculture in cooperation with Umnga Farmers on another identified site, still part of Block C.

This modification was reasoned by the following motivation:

- During the initial business planning and income budgeting, the directors of Sisonke decided that more emphasis must be given to a shopping area for the supply of agricultural production inputs to the members of Block C. The viability of an originally planned Arts and Crafts manufacturing area did not prove to fit in with the agricultural production side of the resource centre and will also not benefit the larger community of Block C, but only a few individuals. For this reason, the space planned to the extent of 75 square meters for an arts and craft factory, will now become part of the shop outlet.
- The original infrastructure was planned to accommodate a shearing shed and wool sorting facility to the extent of 150 square meters. Soon after the construction phase for the Sisonke resource centre started, it became known that the Department of Agriculture in the Chris Hani District, also approved the construction of a shearing shed for block C, approximately 1 km away from the Sisonke Resource centre.

#### **Results of this activity**

The result is that a 225 square meter shopping area was made available for the supply of household and production inputs to the wider Ncora Community. The shearing shed area was moved away from the resource centre with the benefit of a more healthy and higher hygienic standard on the poultry abattoir and maize mill.

### **3.4 (d) Enterprise development and management – wool sorting**

#### ***Topics/activities covered***

- A new shearing shed infrastructure together with all equipment was negotiated to be constructed together with the Department of Agriculture.

#### ***Reason for modification for the planned activity***

- The original infrastructure was planned to accommodate a sheering shed and wool sorting facility to the extent of 150 square meters. Soon after the construction phase for the Sisonke resource centre started, it became know that the Department of Agriculture in the Chris Hani District, also approved the construction of a shearing shed for block C, approximately 1 km away from the Sisonke Resource centre. Umnga negotiated a deal with the Department on order to combine funds to improve the infrastructure planned by the Department as follows:
  - o Adding of a dip tank for sheep
  - o Adding of kraals for handling and auctioning of sheep
  - o Capacity building to the livestock members on technical training in livestock production, sheep shearing and wool sorting.
  - o Marketing of meat and wool products.

#### ***Results of this activity***

The result is that a modern sheering and wool sorting infrastructure is constructed with a combined funding and action between Umnga and the Department of Agriculture.

### **3.4 (e) Enterprise development and management – sales pens**

#### ***Topics/activities covered***

As reported above under the sheep shearing and wool sorting activities, the construction of the handling facility and sales pen were done by the Department of Agriculture.

#### ***Reason for modification for the planned activity***

As motivated under Activity 3.4(d) above.

#### ***Results of this activity***

Combine infrastructure for livestock handling and sales pens for auctioneering was made available as according to the original plan.

### **3.4 (f) Enterprise development and management – egg packing**

***Topics/activities covered***

- Infrastructure have been completed
- Egg sorting machinery have been installed
- Egg packing material is available
- Branding and labeling of packing material is displayed
- Egg grading and packing is in full operation

***Reason for modification for the planned activity***

No modification was done to this activity.

***Results of this activity***

A fully operational egg grading, packing and marketing enterprise is completed.

**3.4 (g) Enterprise development and management – cold storage*****Topics/activities covered***

- A reconditioned second hand cold storage facility was obtained that could fit in with the budget. It was completely installed and operational since the end of May, 2011.

***Reason for modification for the planned activity***

No modification was done to this activity.

***Results of this activity***

The freezer room and cold storage facility for the use by the abattoir is fully operational.

**3.4 (h) Enterprise development and management – potato pack house*****Topics/activities covered***

- The potato pack sorting and pack house unit was cancelled and the budget re-allocated as motivated in par. 4 below.

***Reason for modification for the planned activity***

This is due to the cancellation of potato production. Please refer to par. 4 below.

***Results of this activity***

- This production unit was cancelled form the list of activities and budget.

**3.4 (i) Enterprise development and management – arts and craft**

***Topics/activities covered***

This activity has been cancelled as according to the motivation done above, under paragraph 3.4(c) and 3.4(d).

***Reason for modification for the planned activity***

Please refer to the motivation in paragraphs 3.4(c) and 3.4(d) as above.

***Results of this activity***

The budget and infrastructure space was relocated to the wholesale and retail area.

**3.4 (j) Enterprise development and management – transport*****Topics/activities covered***

This activity was planned as part of the activity budget, activity number 3.4. j. As part of the Human Resource budget, Umnga was providing an additional driver and vehicle to the Sisonke project to fulfill the marketing function at this stage.

***Reason for modification for the planned activity***

There are no modifications for this activity.

***Results of this activity***

Umnga was making Transport available to the Sisonke project and was taking further precautions as to apply for additional funding to supply own transport in future.

**3.5. Marketing*****Topics/activities covered***

- Through a local competition a logo, brand name and slogan were designed for the marketing of all products as follows:



# Kuyasa Products

## The Power of Choice!

*Sisonke Agricultural support Centre and Cooperative*  
*Trading name of the*  
*Msefo Land development and Agricultural Cooperative*  
*P.O. Box 100*  
*Ncora*

- Umnga was assisting on a full time basis in the marketing of eggs and chicken meat.
- Bar codes for the selling of all products were successfully registered at the SA Numbering Association.

### ***Reason for modification for the planned activity***

There are no modifications for this activity.

### ***Results of this activity***

- All products are marketed under an own brand name.
- Markets have been found at the following localities:
  - o Local shops and retail suppliers.
  - o SPAR Outlets at Ncgobo, Cala and Cofimvaba.
  - o Mr. A. Botha, a commercial egg farmer from Elliot was buying all access eggs from the Cooperative.

### **3.6. Internal financial management and administration**

#### ***Topics/activities covered***

- Planning and design of an internal financial management and administration procedure was done that included the following:
  - o Good received vouchers
  - o Grading system for produce delivered.
  - o Produce code and valuing system
  - o Credit note too producer
  - o Invoice system on behalf of the producer
  - o Recording of the contract producer loan administration
  - o Order vouchers from contract producers
  - o Branding and marketing system
  - o Delivery notes and invoices for production inputs delivered to contract producer

- Order vouchers for cash purchases from input suppliers
- Value adding system and stock register
- Point of sale
- Banking and recording of cash income
- Debtors control
- Creditors Control
- Financial statements via PASTEL Accounting

***Reason for modification for the planned activity***

There are no modifications for this activity

***Results of this activity***

A full functional financial management system is implemented.

**3.7. Outgrower enterprise development and support (training)**

***Topics/activities covered***

The following training was done to the various enterprises:

- a) Broiler production
  - Broiler Production training
  - Basic Bookkeeping
  - Record keeping
- b) Egg production
  - Egg Production
  - Basic Bookkeeping
  - Record keeping
- c) Crop production

Successful additional funding from the AgriSETA had the following results:

- Completion of a Learnership in Plant Production, NQF Level 1, 10 learners. Duration: 9 August 2010 till 25 March 2011.
- Completion of a second Learnership in Plant Production, NQF Level 1, 35 learners. Duration: 1 February 2011 till 27 July 2011.
- d) Livestock production ( Sheep and cattle)

An application was made to the AgriSETA for the training of 60 livestock farmers in Livestock production, NQF 1, but was not successful at the date of this report. Umnga are planning to present a 20 day skills course in livestock production to the 60 farmers already procured, during August 2011, before the start of the shearing season.

***Reason for modification for the planned activity***

There were no modifications for this activity

***Results of this activity***

- All contract producers under the egg and broiler chick production enterprises are fully skilled and are successfully participating to the contract production.
- By the beginning of the planting season, September 2011, all 45 members of the crop production enterprise will be fully skilled to participate in the production of maize and potatoes.

**3.8. Outgrower financial services*****Topics/activities covered***

- Technical Training of book and record keeping was done.
- Delivery Vouchers were supplied and are completed on a daily basis.
- Production records are recorded on a daily basis
- Goods received Vouchers are issued to outgrowers on a daily basis.
- Loan financing are being recorded and daily calculated
- Filing systems are available for each outgrower
- Financial records regarding monthly statements are provided to outgrowers.

***Reason for modification for the planned activity***

There are no modifications for this activity

***Results of this activity***

The broiler and Egg contract producers are fully equipped and are getting full financial support and reports on a monthly basis regarding production figures achieved, sales and income.

**3.9. Resource centre*****Topics/activities covered***

- The abattoir is completed and operational.
- The Egg sorting facility is completed and operational
- The administration and board room section is completed and operational.
- The area to install the maize mill is completed, but not commissioned with the increased electricity demand.
- The Wholesale and retail area is completed.

***Reason for modification for the planned activity***

Modification was done only on the cancellation of the Arts and Crafts Centre as well as the moving of the wool shearing shed and stock handling facility.

Please refer to the motivation in paragraphs 3.4(c) and 3.4(d) as above.

**Results of this activity**

The development of the Resource Centre Infrastructure was completed.

**Activity 4 Enterprise Development****4.1 Broiler production units*****Topics/activities covered***

- Full Infrastructure of 4 Broiler houses were completed and handed over according to budget and timeframes.
- All production equipment was supplied within the budget and timeframe.
- The first batch of feed and livestock was supplied and production was started.

***Reason for modification for the planned activity***

There are no modifications for this activity

**Results of this activity**

Four fully operational production units are running within the budget provided.

**4.2. Egg production units*****Topics/activities covered***

- Full Infrastructure of 9 Layer houses were completed and handed over according to budget and timeframes.
- All production equipment was supplied within the budget and timeframe.
- The first batch of feed and livestock was supplied and production was started.

***Reason for modification for the planned activity***

There are no modifications for this activity

**Results of this activity**

Nine fully operational production units are running within the budget provided.

**4.3. Maize production units*****Topics/activities covered***

The production of maize was cancelled due to unforeseen internal politics and issues as described hereunder.

***Reason for modification for the planned activity***

- The Directors of Sisonke could not secure well fenced land for production as the land were already secured for their massive food production scheme under the Department of Agriculture, during the 2010 - 2011 season.
- The land procured for production were not ploughed for at least 17 years and for this reason we could not in time during the 2011 season provided for the killing of grasses through spraying burning and soil preparation, due to the initial Nitrogen negative effect of organic material decomposing during the growing season.
- The leaking of water from the broken irrigation scheme is having a very negative effect on the soils of the whole of the Ncora irrigation scheme. This is mostly due to anaerobic conditions due to flooding, leaching of clay, minerals and plant nutrition's. This negative effect was not available and only discovered until after detailed planning and surveys were done on the land.

***Results of this activity***

The planting of maize was cancelled and taken out of the project outcomes and budget.

**4.4. Potato production units**

***Topics/activities covered***

The production of potatoes was cancelled due to unforeseen internal politics and issues as described hereunder.

***Reason for modification for the planned activity***

- The Directors of Sisonke could not secure well fenced land for production as the land were already secured for their massive food production scheme under the Department of Agriculture, during the 2010 - 2011 season.
- The land procured for production were not ploughed for at least 17 years and for this reason we could not in time during the 2011 season provided for the killing of grasses through spraying burning and soil preparation, due to the initial Nitrogen negative effect of organic material decomposing during the growing season.
- The leaking of water from the broken irrigation scheme is having a very negative effect on the soils of the whole of the Ncora irrigation scheme. This is mostly due to anaerobic conditions due to flooding, leaching of clay, minerals and plant nutrition's. This negative effect was not available and only discovered until after detailed planning and surveys were done on the land.

***Results of this activity***

The planting of potatoes was cancelled and taken out of the project outcomes and budget.

#### **4.5 (a) Sheep (Mutton production)**

##### ***Topics/activities covered***

- The production of sheep is one of the identified local assets that is already an ongoing production enterprise that only needs capacity building through training and the provision of better breeding material from the Sisonke project.
- 30 Sheep farmers have been identified to participate to the capacity building programme.

##### ***Reason for modification for the planned activity***

There are no modifications to this activity, besides the improved infrastructure with the assistance from the Department of Agriculture.

##### ***Results of this activity***

- 30 Sheep farmers were procured and are ready to participate in the training, wool sorting and breeding programme.

#### **4.5 (b) Wool sorting (Training)**

- The production of wool is one of the identified local assets that is already an ongoing production enterprise that only needs capacity building through training and the provision of better breeding material from the Sisonke project.
- 30 Wool farmers have been identified to participate to the capacity building programme.

##### ***Reason for modification for the planned activity***

There are no modifications to this activity, besides the improved infrastructure with the assistance from the Department of Agriculture.

##### ***Results of this activity***

- 30 Wool farmers were procured and are ready to participate in the wool breeding and sorting programme.

#### **4.6 Beef / sheep sales pens**

- The production of beef is one of the identified local assets that is already an ongoing production enterprise that only needs capacity building through training and the provision of better breeding material from the Sisonke project.
- 30 Beef farmers have been identified to participate to the capacity building programme.

#### ***Reason for modification for the planned activity***

There are no modifications to this activity, besides the improved infrastructure with the assistance from the Department of Agriculture.

#### ***Results of this activity***

- 30 Beef farmers were procured and are ready to participate in the breeding programme.

### **2.3 Activities that have not taken place**

Although it was the objective of the Umnga Farmers Training Group, as agent to SURUDEC for the implementation of the Sisonke Agricultural Support Centre and Cooperative, to fulfill all obligations and activities as planned in the original business plan for application of funding, there were certain issues beyond our control that we were not be able to implement during the implementation period. (*With reference to par. 1.6, Evaluation on page 8 above*)

All these difficulties were discussed and consulted with the SURUDEC management team and at the end written approval was given on application form these changes.

#### **Arts and Craft project**

During the initial project planning stages that were guided from the needs analysis, household survey and social study within the target area during 2005/2006, the need for an Arts & Craft Centre were identified. This was also made a part of the original business plan and application for funding to SURUDEC. The objectives of this activity was planned to be the following:

- To make available within the infrastructure of the resource centre some space for the manufacturing of traditional Art & Craft Furniture through the supply of machinery, training and equipment to enable 15 members as beneficiaries of the community to earn a sustainable living form the products.

- The budget made available for this is ZAR 40,000.00 for machinery and ZAR 10,000.00 for equipment.
- The projected outcome was to manufacture furniture to the value of ZAR 25,000.00.

During the business planning and capacity building workshop stages, it was decided that this activity will not be a viable option for the following reasons:

- The competition in the furniture and traditional Arts & Crafts industry, the distance from a market, the local demand and the small ratio regarding the economies of scale will not make this a viable option.
- 15 Members will have benefit to a total production value of ZAR 25,000.00, over the implementation period of 24 months which will not even cover a basic salary to each member.
- The space of 75 square meters to be made viable in the resource centre can be utilised much more cost effective if it is made part of the Wholesale and Retail Shopping area.
- The amount of ZAR 50,000.00 can rather be spend in a more effective way, as to contribute to production inputs on some of the commodities.

It was thus decided not to proceed with the implementation of an Arts & Craft centre and permission from SURUDEC was obtained to cancel this activity. Approval was also given for a new budget spending, as according to the application and motivation that was submitted and approved by 3 April 2012.

### **Maize mill**

The delay in the implementation of the maize mill and milling equipment was due to the following reasons:

- The supply of electricity ( 200 KVA Transformer and cable to the Centre) can be done by ESCOM, but at a quoted cost of ZAR 300,000.00. This cost is way beyond our budget.
- During the initial planning in 2006, electricity was still supplied to the Ncora Head office and according to the research done would not have been a problem to this extent!
- It was decided to apply for additional funding for the maize mill and also to make provision for upgraded equipment and maize storage silo's with this same effort. In the mean time a generator was supplied by Umnga not to delay the activities of the abattoir and egg sorting facility. A new generator was also procured within the budget of the resource centre and will be kept on standby purposed for the freezer room in future.
- No further funding could be achieved within the implementation period, and the budget and project was closed premature to the spending.
- The Development of the Irrigation Schemes of the Eastern Cape Province was allocated to be the responsibility of the newly formed Department of Rural Development and Agrarian Reforms. The National Minister, Hon. Minister

Nkwinti, of this new Department also visited the Sisonke project and required a copy of the Business Plan for possible funding by this new Department. This business plan also resulted in no further outcome.

### **Planting of maize and potatoes**

The income from the planting of maize and Potatoes was planned to be a crucial part of the own contribution from the members of the Sisonke Project. This action was delayed not to be done during the first production season for the reasons as motivated in detail under paragraph 4.3 on page 25 and cannot be motivated more.

Cancellation of these production units was part of the approval of a new budget plan approved on 3 April 2012.

### **Potato sorting and packing**

The cancellation of the potato production units goes hand in hand with the motivation provided in also cancelling the maize production, as motivated above,

## **2.4 Assessment of the results of the Action.**

### **General administration results:**

The results of all the administration actions action during initial and extended period of implementation were evaluated against the background of the following expectations:

- a) The starting dated of the project was scheduled for 1 January 2010.
- b) The workshop and training to Umnga personnel was only done on 17 February 2010 by SURUDEC officials.
- c) The first tranche payment was only received on 18 February 2010.
- d) The second tranche payment had to be received before 30 June 2011. The application for the second tranche payment was submitted on 30 April 2011 and according to the correspondence, the narrative report was approved on 26 June 2011. The second tranche was only received on 1 August 2011, and had a very negative effect on the implementation of the programme.
- e) An application for urgent budget changes was submitted on 31 August 2011. Permission to proceed with the implementation of the budget changes letter was only received on 3 April 2012, backdated for implementation as from 1 January 2012.

It could be argued that an extension on the implementation of the programme was approved, but this was done at the sole risk of the beneficiaries with no compensation for delays outside the control of the beneficiary.

The further assessment of the results on the outcome of all activities is further described in detail under paragraph 2.5 below:

## **2.5 What has been the outcome on both the final beneficiaries &/or target group.**

**Outcome 1: An orientated, capacitated and informed group of beneficiaries, well informed on the objectives and proposed activities of implementation of this complete action.**

*The following total of individuals directly benefited from the induction programme provided:*

- 6 x Directors of the Sisonke Agricultural Support centre and Co-operative
- 1 x General manager
- 1 x Financial manager
- 2 x Administrative clerks
- 6 x Directors of the Damane Agricultural Co-operative
- 6 x Directors of the Famini Agricultural Co-operative
- 6 x Directors of the Chibini Agricultural Co-operative
- 27 x subcontractors as egg producers
- 20 x subcontractors as broiler producers
- 90 x sheep farmers
- 90 x cattle farmers
- 16 x potato producers
- 30 x maize producers
- 15 x Arts and craft entrepreneurs
- 5 x maize milling operators
- 6 x Abattoir operators
- 10 x Potato washers and packers
- 1 x Truck driver
- 10 x General labourers

The total of direct beneficiaries under this output was 348 people. These people were also after a selection process, part of a two-week induction, capacity building programme. The result after this process was that of a general understanding of the project concept, all expectations was realistically cleared and understood. All beneficiaries got to know exactly where they did fit into the system, also as to why their role is important and what important link they are in the production chain.

These individuals and especially the directors of the three Co-operatives were tasked to transfer the correct message as an overflow function to the broader community to understand the interaction from their side in the production function.

### **Output 2: A land use plan, production plan and signed contracts with contract producers:**

The direct output under this category of the action plan is a well-structured scientific production plan to the main co-operative (Sisonke Co-op) that will act as main coordinator, value adder and marketer. The direct output includes:

- 1:10000 Aerial photographs of the production area (Block C, Ncora) indicating soils types, crop selection, water availability, dry-land, irrigation lands, access roads, etc.
- 1: 50000 maps of the district of Block C for future planning purposes.
- Production contracts with 27 producers for egg production.
- Production contracts with 20 producers for broiler production

### **Output 3: A constructed support centre and other infrastructure:**

A 750 square meter support centre, providing the following infrastructure:

- 75 m2 poultry abattoir
- 75 m2 Egg sorting and ablution facility
- 150 m2 Administration area
- 150 m2 Maize milling area to be equipped
- 450 m2 Wholesale and retail area

### **Output 4: Completed infrastructure for various enterprise productions:**

The following infrastructure to be completed:

- 9 x 240 layers, egg production units.
- 4 x 1000 broiler chicken production units, complete with brooder and storeroom.
- 1 x livestock handling facility, sheering shed and auctioneering kraals.

### **Output 5: Production equipment:**

The following equipment and machinery is available in the infrastructure in order to start production:

- Egg production equipment.
- Broiler production equipment
- Abattoir equipment
- Egg sorter and equipment

### Output 6: A skilled beneficiary group of producers in production:

The output of this part of the action plan is the following skilled beneficiaries is place:

- 27 x farmers trained in broiler production and management skills
- 20 x farmers trained in egg production and management skills
- 90 x farmers trained in sheep production (sheep shearing and wool sorting ) and management skills
- 90 x cattle farmers trained in beef production and management skills
- 45 x farmers trained in commercial crop and vegetable production and management skills
- 24 Directors trained in Operation of Co-operatives, Directorship and business management.
- 4 x clerks trained in Administration procedures, shop keeping, bookkeeping, financial management, stock control and general business management.
- 10 x general assistants trained as general assistants.

A grant total of **220** members of the community skilled and competent to actively participate and contribute labour to the various production units.

### Output 7: Production of agricultural produce, value added and sold:

The following production outputs were achieved:

#### Egg Production

Producer	Period	Period	Period	Mortality		
Name	March - May 2011	June - December 2011	Jan – August 2012	%	mortality rate Expected norm	Variance
N.P. Nyxabazi	73%	72%	73%	22	8%	-14
N.N. Mbesi	57%	59%	61%	20	8%	-12
S. Damane	55%	63%	63%	25	8%	-17
X.B. Cula	87%	94%	93%	15	8%	-7
S.N. Siko	90%	99%	98%	4	8%	4
E.N. Mautse	86%	98%	98%	12	8%	-4
N.N. Moni	86%	88%	89%	13	8%	-5
T. Bhakisa	77%	89%	89%	14	8%	-6
M.N. Memani	81%	92%	92%	16	8%	-8
<b>AVERAGE</b>	<b>77%</b>	<b>84%</b>	<b>84%</b>	<b>15.7</b>	<b>8%</b>	<b>-6.78</b>

The expected rate of production as according to the original planning was 83%. During the first 93 days, an average of 77% was achieved and this was improved up to 84% during the next production period.

The mortality rate was double of what we expected, but mostly occurred during the first 93 days of production. This can thus not be blamed on diseases or a poorly managed vaccination programme, as all chickens would have died due to this by now.

The sales of eggs have sustained the supply of feed, packing material, transport cost of the vehicle and some wages/ producers payment.

### **Broiler Production**

<b>Producer</b>	<b>Batch 1 received</b>	<b>Total Sold</b>	<b>% Sold</b>	<b>Mortalities</b>	<b>Total still unpaid</b>
Tyutyu	450	200	44	117	133
Mbambi	450	244	54	144	62
Msefo	450	223	50	157	70
Titi	450	185	41	131	134
<b>Totals</b>	<b>1 800</b>	<b>852</b>	<b>47</b>	<b>549</b>	<b>399</b>
<b>Average Mortalities:</b>				<b>30.50%</b>	

<b>Producer</b>	<b>Batch 2 received</b>	<b>Total Sold</b>	<b>% Sold</b>	<b>Mortalities</b>	<b>Total still unpaid</b>
Tyutyu	666	284	43	63	319
Mbambi	667	260	39	93	314
Msefo	667	298	45	96	273
Titi					
<b>Totals</b>	<b>2 000</b>	<b>842</b>	<b>42</b>	<b>252</b>	<b>906</b>
<b>Average Mortalities:</b>				<b>12.60%</b>	

The mortality rates improved drastically, and the following reasons for poor production were reported by the broiler producers:

1. Although it is part of the key responsibilities of the Operational manager to inspect the broiler units every Tuesday and Thursday, it has never happened.
2. Management did not assist with the provision of sawdust as it was arranged.
3. Heavy snowfall and extreme cold conditions caused a lot of mortalities.
4. The operational manager took some chickens without issuing a proper voucher to the producers.
5. Most live chickens were sold on credit and the cash still have to be collected on pensioners' days.

**Output 8: An evaluation report of the complete action:**

A monthly evaluation report approved by the project Steering committee included the following statistics and measurements.

- SC and Directors meetings
- Management meetings
- Training outcomes and achievements
- Budget spending per budget line and cash flow projections for the completing of the project.
- Production achievements per enterprise
- Value adding achievements per product
- Marketing information and expectations/projections.
- Challenges experienced with solutions to problems
- General overview of the project.

The evaluation reports will also have the value of providing parameters and indicators of measurement of the various outcomes of all enterprises of the action.

## **2.6 List all materials (and no. of copies) produced during the action.**

No material for any commercial exploration or publishing was produced during the implementation period.

The following material were specially designed for information and training purposes only, and were duplicated as part of training material supplied to the beneficiaries as trainees:

- Institutional training programme for Directors and project managers of the Sisonke resource Centre and Agricultural Cooperative.
- A guide to broiler production
- A guide to Egg Production
- A guide to sheep and wool production
- A guide to beef production

A Comprehensive Business Plan was developed to obtain funding for the maize mill unit, and copies were submitted to:

- The Management of the Sisonke Project
- The Industrial development Corporation of South Africa ( IDC)
- The Landbank ( East London branch)
- The Eastern cape Development Corporation ( ECDC)
- The office of SURUDEC / Ruliv in East London.

An updated Stakeholder Analysis and Baseline Survey was done and supplied to the SURUDEC Offices.

## **2.7 List all contracts above 10,000€ awarded for implementation of the action, since the last interim report if any or during the reporting period, give for each contract the amount, the award procedure followed and the name of the contractor.**

<b>Amount</b>	<b>Procedure followed</b>	<b>Name of Contractor</b>
ZAR 118,760.64	Tender procurement, 3 tenders, evaluation.	EPOL Feeds
ZAR 118,760.64	Tender procurement, 3 tenders, evaluation.	EPOL Feeds
ZAR 122,974.08	Tender procurement, 3 tenders, evaluation.	EPOL Feeds
ZAR 139,080.00	Tender procurement, 3 tenders, evaluation.	Monti-Feeds

**2.8 Describe if the Action will continue after the support from the European Community has ended. Are there any follow up activities envisaged? What will ensure the sustainability of the Action?**

The Action will definitely not continue after the support from the European Community. There were just too many obstacles during the implementation period, especially with regard to the complexity and internal political situation at the broader Ncora Irrigation Scheme.

No further follow-up activities are envisaged.

The Internal Political situation, land claim and land ownership issues ensure that no sustainability will be achieved in this area.

**2.9 Explain how the Action has mainstreamed cross-cutting issues such as promotion of human rights, gender equality, democracy, good governance, children's rights and indigenous peoples, environmental sustainability and combating HIV/AIDS ( If there is a strong prevalence in the target country/region).**

During the Induction and Institutional training phase, the participating members and parties were made aware of the mainstreamed cross-cutting issues, and that the implementation of the project have to provide a concern for gender equality, democracy, promotion of human rights and environmental issues.

All training that were done, had a strong component that focused on HIV/AIDS awareness and prevention.

The selection and nomination of project managers, contract producers and general staff members was a function of the Sisonke Directors, and was not done by the implementation agent.

**2.10 How and by whom have the activities been monitored /evaluated? Please summarize the results of the feedback received, including from the beneficiaries.**

All activities were solely monitored by the implementing agent, against the planned indicators as set in the logical framework activities.

The outcome of the monitoring and evaluation report was captured in a system introduced by SURUDEC, known as the PMS system. According to our view, this was a very good system of monitoring, although it had technical problems.

The PMS system was later replaced by an Excel report that was used as the activities monitoring guideline until completion. These reports were submitted on a 2-monthly basis and captured by SURUDEC staff.

The monitoring of real production outcomes of contract producers were also monitored by the implementing agent, until the end of the first implantation period, being 31 December 2011. The outcome of this monitoring action was in fact not very positively welcomed by some of the contract producers, who was found not be honest about production. This has led to the implementing agent that recommended action against those producers by management, but unfortunately the Sisonke Management and Directors never instated any further proposed corrective monitoring actions against the contract producers.

On 19 January 2012, Umnga Farmers Group gave notice to a meeting between all Cooperative Directors, managers and contract producers to urgently bring to their attention and to discuss the following results of the activity monitor report:

1. The cash money on all sales was still not banked and petty cash for diesel was still taken from the cash sales. The double banking between the Post office and First National Bank had to stop immediately and the Manager must bank all cash at FNB. Money for petty cash must be manager by the Manager and petty cash must be drawn from the bank, and not from cash sales.
2. The transport are being misused for other purposes, at the cost of the project, e.g. :
  - On Monday, 16 January 2012, the transport was not available for sales but was used to transport water for the private building operations of the MD.
  - The transport was being used on weekends with an average traveling of 70 km's per weekend.
  - There was no doubt that the logbook does not correspond with the cash diesel vouchers.

3. Over December 2011, some animals were hosted in the Wholesale Retail store shed with a devastating loss on the poultry feeds to the value of ZAR 122 000.00! Who was going to pay for these losses? The rats were also destroying the feed and nobody seemed to care!!!
4. Some abattoir equipment was stolen from the office where they were safe kept, where are the security that are being paid to secure the site?
5. A well experienced manager was appointed during 2011 to run the management operations, but he complained that the MD was overruling his efforts and decisions on the handling of cash, petty cash and banking of money. For this reason the cash does not balance with the cash sales invoices.
7. The manager had no control over the transport over weekends. This must stop! On weekends the keys for the transport must be kept by the manager!!!
8. No producers must be paid in cash. Internet banking and internet services are available on site and the control of the money must go through the bank!

The outcome of this meeting was merely devastating!

- Contract producers that were exposed of stealing produce became aggressive, and did not allow any managers close to the production units. They also approached an attorney to act against the management team.
- The Managing Director of the Cooperative exploded against Umnga Farmers Group for exposing him in a very bad light against the community and other directors.

The management team from SURUDEC was requested to assist Umnga Farmers Group with a conflict resolution. This was again done on a special meeting during April 2012 whereby Umnga farmers Group and the Management team agreed to complete the implementation of the newly approved budget.

## **2.11 What has your organisation/partner learned from the action and how has this learning been utilised and disseminated?**

2.11.1 During the initial planning and preparation period to deliver a bankable business plan to the European Commission, prior to the approval of the project, there were no references at all with regard to the following issues:

- Land ownership and the demarcation of Ncora Block C land the Communities of Kwa Mzola, Damane and Famini & Cibini. The reality later became a huge obstacle, even after letters of land-use and support to development was produced by the community leaders and the Department of Agriculture.
- The role of the Local Municipality and the support from them was newer considered a problem, until a local councilor started to boycott the project for personal gain at the Municipality. Suddenly all doors was closed towards further funding, even after several meetings and consultations together with SURUDEC management.
- The initial Stakeholder Analysis and Baseline Survey never indicated any problems with regard to the previous success rate and records of the project managers. As the internal political situation unfolded, members from the community only started to come forward with accusations as to the past reference of mismanagement of similar projects by the same project leaders.

It became clear that community members during the pre-assessment and survey period tend not to disclose a truthful picture of internal affairs, with the expectations and fear that that it can lead to the project funding not being approved. Although not being literate to the sense of the situation, the community is clever enough to “provide in the correct answers” and to sketch a “romantic” picture of being “harmonised in poverty.”

2.11.2 The “European miss-concept” with regard to “Africans being disadvantaged and resource poor.”

Taken on face value, any European that visits the so called disadvantaged rural areas in Africa, in this instance the former Ncora irrigation Scheme that was made out to be a prior “Flagship Project” for the former “Apartheids Regime”, already do have the concept of disadvantaged refugees, “combined in harmony” through struggling form hunger, unemployment, lack of resources, lack of opportunities, low levels of educations, etc., etc.

Whilst living between and interacting on many levels with the local communities and leaders, the first impressions became the following reality:

- The rural African people do live in a very rich culture that is not based on European values of money and luxuries. It is rather based on cultural values, the role and respect for ancestors and richness in social interaction. These attitudes and values do not fit into some European project concepts such as; “time is money”, productivity, modern management rules, etc.
- Rural African people further value the time for social interaction, social functions such as the importance of church, funerals, weddings, etc. Time spend during these activities are more valuable than the complete changing of lifestyle to participate in high sufficient production activities, record keeping and production management.
- Rural Africans to live in a natural environment of natural beauty, calmness, comfortable houses where no taxes and cost is applicable. The current South African Social Grant network system effectively contributes to neat and modern clothing and staple food that is equally shared between household members. There is thus no “need” for more artificial luxuries and extra money to be achieved through hard work, change of lifestyle, productivity, etc.

The lesson learned is whether the inspirations to uplift and develop the disadvantaged and poor is more that of the “Developing Agency” than that of the beneficiary identified? The African Community have learned these lessons over many years, especially during the former South African Regime’s “handout” policy in the former homelands. They will play along as there is extra and free monies coming, thereafter it is the end...

### **3. Partners and other Co-operation**

#### **3.1 Assessment of relationship between the formal partners of this Action**

The relationship between the Project members and the beneficiary, directors and community of the Block C under the Sisonke Agriculture Support Centre and Co-operative was very healthy during the first period of implementation, being January 2010 until December 2011.

As reported hereunder in par. 3.4.c, the relationship was under pressure due to budget constraints and the lack of being able to raise outside capital as own contribution.

Besides this problem, the relationship can be described as respectful towards one another, but definitely with a lack of trust and confidence to both sides.

#### **3.2 Is the partnership to continue?**

No

### **3.3 Assessment of the relationship between our organization and State authorities in the Action countries**

The Department of Agriculture was the most important State Authority in the implementation of this agricultural based action. The Department of Agriculture on Provincial level has responded to the invitation to become part of the Project Steering Committee and attended some of the meetings.

The Department of Agriculture, Chris Hani District al contacted Umnga regarding cooperation in the completion of the sheering shed and auction pens through combining funds.

During January 2011 we became aware of the fact that a new Department known as the Department of Rural Development and Agrarian Reforms has taken over the responsibilities of development of the irrigation schemes in the Eastern Cape. Umnga immoderately obtained a meeting with the National Minister and his Directorate to discuss the Sisonke Project. This meeting took place on 12 March 2011 and a follow-up presentation was done on 12 April 2011.

Against the given background, we can assess the relationship between Umnga, Sisonke and the Eastern Cape Government as very positive and cooperative.

### **3.4 Description of your relationship with any other organizations involved in implementing the Action**

#### **a. Associate(s) (if any)**

Not Applicable

#### **b. Sub-contractor(s) (if any)**

Not Applicable

#### **c. Final Beneficiaries and Target groups**

Throughout the implementation period, the relationship between Umnga Farmers Group and the leading team of the final beneficiaries were always sound and respectful. Towards the extended period of implantation (January – September 2012), this relationship was under extreme pressure to the extent that SURUDEC officials intervened to resolve the problems. These difficulties were purely bases on financial constraints and expectations from both sides that could not be fulfilled due to additional budget shortcomings.

The project management was put under exceptional and unfair pressure from contract producers that were disciplined for not following standing procedures. It also became clear that some producers were stealing and selling eggs and chickens outside the production contract. After final completion, it was very clear that management team are exhausted from pressure from inside, and that the trust relationship were not very good. This even related to the contract producers to appoint an attorney to act against the management team. This was a very unfair practice, and Umnga Farmers Group had to assist the Management team to defend the obligations made against them.

Besides all problems, the relationship with the Management team was very respectful.

**d. Other third parties involved (including other donors, other government agencies or local government units, NGO's, etc)**

The AgriSETA funded and strengthened own contribution to the amount of ZAR 810,000.00, as well as a contribution of ZAR 337,500.00 as stipends that was paid in cash to all learners.

**3.5 Where applicable, outline any links and synergies you have developed with other actions:**

Although all applications for additional funding and partnerships were unsuccessful during the implementation period, the following links and synergies have developed:

An application was submitted to the Industrial development Corporation (IDC), The Land Bank and the Eastern Cape Development Corporation for the following:

- A loan to the value of R 5 784 270.00 for the upgrading of the maize mill and electricity supply.
- A grant of R 800,000.00 as part of the own contribution.

The project was visited several times by high officials from the IDC, making promises and creating huge expectation, but however with no further results.

**3.6 If your organization has received previous EC grants in view of strengthening the same target group, in how far has this Action been able to build upon/complement the previous one(s)? (List all previous relevant EC grants)**

Not Applicable

**3.7 How do you evaluate co-operation with the services of the Contracting Authority?**

Besides the problems experienced in the payment of the second tranche claim, the Contracting Authority by all means was always very supportive, understood the complexity of the project, was part of all meeting and discussions, and did their best to resolve conflict between the parties.

**4. Visibility**

**How is the visibility of the EU contribution being ensured in the Action?**

The Logo of SURUDEC and the EU were prominently displayed on all correspondence and presentations. During all meetings and workshops the contribution from the EU was mentioned.

Clear and visible signboards were supplied and erected by the Contracting Agency at strategic points to indicate direction and location of the project.

**The European Commission may wish to publicize the results of Actions. Do you have any objection to this report being published on Europe Aid Co-operation Office website? If so, please state your objections here.**

We have no Objections

Name of the contact person for the Action: *Johann Stassen*

Signature:



Location: *Ugie, Eastern Cape*

Date report due: *31 December 2012*

Date report sent: *15 December 2012*

**MSEFO LAND & DEVELOPMENT AGRICULTURAL  
COOPERATIVE LIMITED  
T/A  
SISONKE AGRICULTURAL SUPPORT CENTRE AND  
COOPERATIVE**

**Registration Number K6/3/3/8009**

**ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

Theron du Plessis Middelburg Inc  
Chartered Accountants (S.A.)  
Registered Accountants and Auditors

Issued: 03 March 2011



**Theron du Plessis**

*Ons verstaan besigheid . . .  
We understand business . . .*

**MSEFO LAND & DEVELOPMENT AGRICULTURAL COOPERATIVE LTD**  
**T/A SISONKE AGRICULTURAL SUPPORT CENTRE AND COOPERATIVE**  
**REGISTRATION NUMBER: K6/3/3/8009**  
**FINANCIAL STATEMENTS - 31 DECEMBER 2010**

---

**GENERAL INFORMATION**

LEGAL FORM :	COOPERATIVE LIMITED
ADDRESS OF REGISTERED OFFICE:	KWAMZOLA A/A, PO BOX 100 NCORA, 5403
ADDRESS OF THE BUSINESS:	KWAMZOLA A/A, PO BOX 100 NCORA, 5403
NATURE OF BUSINESS:	AGRICULTURAL LAND & DEVELOPMENT AND SUPPORT

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INCOME STATEMENTS	2
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CASH FLOW STATEMENT	4
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The attached financial are approved:

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**CHAIRPERSON**

3 March 2011

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**DATE**

KANTORE/OFFICES:  
MIDDELBURG OK/EC  
ALWAL NOORD/NORTH  
BELLVILLE  
BURGERSDORP

CRADOCK  
DE AAR  
DURBANVILLE  
GRAAFF-REINET  
VILLIERSDORP

**Theron du Plessis**  
GEOKTROOIEERDE REKENMEESTERS (SA) CHARTERED ACCOUNTANTS (SA)

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**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF  
MSEFO LAND & DEVELOPMENT AGRICULTURAL COOPERATIVE LTD  
REGISTRATION NUMBER: K6/3/3/8009  
FOR THE YEAR ENDED 31 DECEMBER 2010**

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We have audited the annual financial statements of Msefo Land & Development Agricultural Cooperative Limited - Reg.no.: K6/3/3/8009 set out on pages 1 to 5 for the year ended 31 December 2010. These financial statements are the responsibility of the cooperative's members. Our responsibility is to express an opinion on these financial statements based on our audit.

**Qualification**

The scope of the audit was limited due to the fact that no complete accounting records could be obtained from the client due to technical difficulties, thus not all the transactions or opening balances could be verified at year end. Also, no fixed asset register was maintained for the year under review.

**Qualified audit opinion**

With regards to the matter referred to in the preceding paragraph, no opinion is expressed by us to whether or not the financial statements fairly present, in all material respects, the financial position of the company at 31 December 2010 and the results of its operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, appropriate to the business and in the manner required by the Cooperative Act in South Africa.

*Theron du Plessis Inc.*

**THERON DU PLESSIS MIDDELBURG INCORPORATED  
CHARTERED ACCOUNTANTS (S.A.)  
REGISTERED ACCOUNTANTS AND AUDITORS  
3 MARCH 2011**



**MSEFO LAND & DEVELOPMENT AGRICULTURAL COOPERATIVE LTD**

**REGISTRATION NUMBER: K6/3/3/8009**

**BALANCE SHEET AS AT 31 DECEMBER 2010**

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	Notes	2010 R
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
		1 120 566
Long Term Loans		1 120 566
<b>CURRENT ASSETS</b>		
		244 780
Bank		148
Money Market		200 577
SARS - BTW		44 055
<b>TOTAL ASSETS</b>		<u>1 365 346</u>
<b>EQUITY AND LIABILITIES</b>		
<b>MEMBERS FUNDS AND RESERVES</b>		
		1 365 346
Members' Contributions		100
Accumulated Profits / (Losses)		1 365 246
<b>NON-CURRENT LIABILITIES</b>		
		0
<b>CURRENT LIABILITIES</b>		
		0
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>1 365 346</u>

**MSEFO LAND & DEVELOPMENT AGRICULTURAL COOPERATIVE LTD**

**REGISTRATION NUMBER: K6/3/3/8009**

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010**

---

	Notes	2008 R
<b>GRANT FUNDING - EU</b>		3 293 569
<b>EXPENDITURE</b>		2 028 631
Equipment - Sisonke Infrastructure		1 182 079
Expenditure from Grand Contribution - Human Resources		510 214
Training Consultants		9 382
Workshops		99 450
Administrative Costs		3 641
Local Transport		128 402
Supplies - Sisonke Infrastructure		95 463
		<hr/> 1 264 938
<b>OTHER INCOME</b>		100 308
Other Income		100 308
		<hr/> 1 365 246
<b>NET PROFIT / (LOSS) BEFORE TAXATION</b>		1 365 246
<b>TAXATION</b>		0
		<hr/> 1 365 246
<b>NET PROFIT / (LOSS)</b>		<hr/> <hr/> 1 365 246

**MSEFO LAND & DEVELOPMENT AGRICULTURAL COOPERATIVE LTD**

**REGISTRATION NUMBER: K6/3/3/8009**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED**

**31 DECEMBER 2010**

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	<b>Members' Contributions</b>	<b>Retained Income</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Balance as at 01/01/2010	0	0	0
Members Contributions	100	0	100
Profit / (Loss)	<u>0</u>	<u>1 365 246</u>	<u>1 365 246</u>
Balance as at 31/12/2010	<u>100</u>	<u>1 365 246</u>	<u>1 365 346</u>

**MSEFO LAND & DEVELOPMENT AGRICULTURAL COOPERATIVE LTD**

**REGISTRATION NUMBER: K6/3/3/8009**

**CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010**

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	<b>2010 R</b>
<b>CASHFLOW FROM OPERATING ACTIVITIES</b>	206 510
Net Profit before Taxation	1 365 246
Operating Profit before Working Capital Changes	1 365 246
Working Capital Changes	-44 055
(Increase) / Decrease in Debtors	-44 055
Cash Generated by Operations	1 321 191
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>	0
Investments Made	0
<b>CASHFLOW FROM FINANCING ACTIVITIES</b>	-1 120 466
Loans Granted	-1 120 466
<b>NET INCREASE IN CASH</b>	<u>200 725</u>
<b>BANK BALANCE AT BEGINNING OF YEAR</b>	0
<b>BANK BALANCE AT END OF YEAR</b>	<u><u>200 725</u></u>

**MSEFO LAND & DEVELOPMENT AGRICULTURAL COOPERATIVE LTD**

**REGISTRATION NUMBER: K6/3/3/8009**

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010**

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**1. BASIS OF PREPARATION**

The annual Financial Statements are prepared in accordance with the requirements of Statements of General Accepted Accounting Practice for limited purpose Financial Statements. The measurement basis used is historical cost.

**2. ACCOUNTING POLICIES**

There have been no changes in the Accounting Policies during the period.

The following are the principle Accounting Policies used in the preparation of the Financial Statements:

**2.1. REVENUE RECOGNITION**

Revenue is generally recognised when it is probable that economic benefits will flow to the Cooperative and the amount of revenue and cost in respect of the transaction can be measured reliably.

## **EUROPEAN COMMISSION**

### **EUROPEAID DEVELOPMENT AND COOPERATION**

### **DIRECTORATE GENERAL ('DEVCO')**

#### **DRAFT REPORT**

**07 October 2020**

#### **FINANCIAL AUDIT OF**

### **"Sisonke Agriculture Resource Centre and Cooperative"**

#### **B2006-21.031700/FTDF/C2/05**

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Entity subject to Audit:	Umnga Farmers Training Group
Country:	South-Africa
Commission service :	EU Delegation to South Africa
DEVCO Directorate:	
Audit Framework Service Contract:	2010/ S1-000108 (Lot N° 1)
CRIS Audit N°	224-387
Auditor:	Deloitte Belgium
Period subject to audit:	1 January 2010 to 30 September 2012
Dates of audit fieldwork:	7 May 2014
Project status:	Completed

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The European Commission has requested this report. The views expressed in this report are those of the external auditor and in no way reflect the official opinion of the European Commission. This report is intended solely for the information and use of the European Commission for the purpose of its control of the use of funds of the project concerned by the audit. It may be disclosed to those EU official authorities having regulatory right of access to it, such as the European Court of Auditors, the Internal Audit Service and the European Anti Fraud Office. This report should not be used by any other party or for other than its intended purpose.

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## Independent Auditor's Report – Financial Audit

### **EU Delegation to South-Africa**

P.O. Box 945, Groenkloof 0027  
Pretoria  
SOUTH-AFRICA

We have audited the expenditure and revenue as stated in the Financial Report of the project entitled "SISONKE AGRICULTURE RESOURCE CENTER AND COOPERATIVE" the 'Project', for the period from 1 January 2010 to 30 September 2012 which is set out in Annex 1. This report has been prepared pursuant to Article 16.2 of the Contractual Conditions for the Project as agreed by the Office of the Premier of the Eastern Cape (Contracting Authority), the European Commission and "UMNGA FARMERS TRAINING GROUP" the 'Entity'.

Our findings are set out in the relevant sections of our report, which is made solely to the European Commission in order to gain assurance that the Project funding provided has, in all material respects, been used in conformity with the applicable Contractual Conditions which are set out in section 2.2 of our report, and to facilitate determination with the Entity of any balance of funding which is payable or recoverable.

### **Respective Responsibilities of the Entity's management and auditors**

In accordance with the Contractual Conditions the Entity's management is responsible for the preparation of the Financial Report and for being satisfied that it presents fairly the actual expenditure incurred and revenue received for the Project in conformity with the applicable Contractual Conditions.

Our responsibility is to audit the Financial Report and to report our findings to the European Commission in accordance with the Terms of Reference for the audit engagement. These specify that we should carry out our work in accordance with International Standards on Auditing (issued by the International Federation of Accountants) insofar as these standards can be applied in the specific context of a contractual compliance audit. These standards require us to observe applicable ethical standards in the conduct of our work.

### **Scope of the audit**

The scope of our audit is set out in the Terms of Reference as noted in Section 3 of our report. It includes obtaining evidence for the amounts and disclosures in the Financial Report sufficient to give assurance, based on a confidence level of 95%, that the Financial Report is free from material misstatement, whether caused by error or fraud. For the purpose of determining what a material misstatement is, we have applied a materiality threshold of 2% of the total expenditure amount for the Project or ZAR 121,818.83 as requested by the European Commission. We have reported all our findings regardless of the amount involved.

We have taken into account all the available evidence presented to us during our fieldwork which we finalized on 7 May 2014, including the subsequent comments and information of the Entity and of the European Commission up to the date of this report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Basis for Qualified Opinion**

We refer to our financial findings totalling ZAR 1,163,842.40 as set out in Section 1 (Summary of Findings) of our report. These findings represent 19.11 % of the total expenditure amount reported for the Project.

We consider these financial findings material in the context of our audit.

The effects of this to the Financial Report and the total expenditure reported for the Project are material but not pervasive in the context of our audit.

### **Qualified Opinion**

In our opinion, except for the effects of the matters referred to in the preceding 'basis for qualified opinion' paragraph,

- The Financial Report presents fairly, in all material respects, the actual expenditure incurred and revenue received for the Project for the period from 1 January 2010 to 30 September 2012 in conformity with the applicable Contractual Conditions; and
- The Project funds provided by the European Commission have, in all material respects, been used in conformity with the applicable Contractual Conditions.

**Distribution and Use**

The European Commission has requested this report and it is intended solely for the information and use of the European Commission and the Entity.

7 October 2020

Brussels

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**Deloitte Reviseurs d'Entreprises**

SC s.f.d. SCRL

Represented by Dirk CLEYMANS

## 1- SUMMARY OF FINDINGS

### 1.1. Summaries of all Findings

Our financial findings are summarised further below in sections 1.1.1 and 1.1.2. The following tables show the relation of the financial findings with the total expenditure reported for the Project and with the total amount of Commission funding for the Project.

Description	Amount ZAR	% of total Project expenditure reported
Total expenditure reported for the Project and subject to audit (see Financial Report Annex 1)	6,090,941.28	
Financial findings (ineligible expenditure established)	1,163,842.40	19.11%
Financial findings for further consideration by the Commission (eligibility of expenditure questioned)	-	-
<b>Total of all financial findings</b>	<b>1,163,842.40</b>	<b>19.11%</b>

Description	ZAR
Total expenditure reported for the Project and subject to audit (see Financial Report Annex 1)	6,090,941.28
Less: financial findings (ineligible expenditure established)	1,163,842.40
<b>Total eligible expenditure for the Project</b>	<b>4,927,098.88</b>
% of contribution to eligible expenditure for the Project	81.28%
<b>Total Commission funding for the Project</b>	<b>4,004,745.97</b>
Less: instalment(s) paid by the Commission	4,949,618.00
Less: interests generated on EC payments	49,484.53
<b>Balance of funding payable or recoverable by the Commission</b>	<b>994,356.56</b>

Our other findings are summarised in sections 1.1.3 to 1.1.5.

1.1.1. FINANCIAL FINDINGS

We report financial findings totalling ZAR 1,163,842.40 which represent amounts included in the Financial Report presented to us for audit which in our opinion are ineligible for funding under the Contractual Conditions.

Our detailed financial findings in Section 4.1 can be summarised as follows:

<b>Finding n°</b>	<b>Compliance issue</b>	<b>Title</b>	<b>Amount ZAR</b>	<b>Related to IC (1) finding</b>	<b>Entity comments</b>
1	N°10 – Other	Miscalculations of daily rates	147,039.49	2	
2	N°2 – procurement	No or incorrect procurement procedure performed	416,486.47	3	
3	N°10 – Other	Amounts reported not based on actual costs	322,025.44	N/A	
4	N°1 – missing / inadequate information	Missing supporting documents	278,291.00	N/A	
<b>Total financial findings</b>			<b>1,163,842.40</b>		

(1) Internal control finding (number) to which the financial finding is related (where applicable)

1.1.2. FINANCIAL FINDINGS SUBJECT TO FURTHER CONSIDERATION BY THE COMMISSION

We do not report any financial findings for further consideration by the Commission.

1.1.3. INTERNAL CONTROL FINDINGS

Our detailed internal control findings in Section 4.3 can be summarised as follows:

<b>Finding n°</b>	<b>Internal control issue</b>	<b>Title</b>	<b>Priority (1)</b>	<b>Entity comments</b>
1	N°9 - Human resources and payroll management	Incomplete time sheets	3	
2	N°9 - Human resources and payroll management	Reporting of salary costs	1	
3	N°8 – Expenditure control	Procurement procedure	1	

(1) Priority level of the recommendation (see Section 4.3).

1.1.4. OTHER COMPLIANCE FINDINGS

We do not report any other compliance findings.

1.1.5. SPECIFIC MATTERS FINDINGS

Our procedures cover additional specific objectives listed in the Terms of Reference. We report in section 5 of this report related findings and conclusions.

## 1.2. Key Audit Data for CRIS Audit

The summary tables below contain **key audit data** and are solely for **use of the Commission** for internal reporting purposes in **CRIS** (Common RELEX Information System) **Audit**.

<b>Type of audit</b>	<b>Financial audit</b>
<b>Type of financial audit opinion</b>	<b>Qualified</b>
<b>Total expenditure reported and subject to audit</b> – amount in ZAR (see Summary of Findings in Section 1.1)	<b>6,090,941.28</b>
<b>Financial findings</b> – amount in ZAR	<b>1,163,842.40</b>
% of total expenditure reported and subject to audit	19.11%
<b>Financial findings for further consideration by the Commission</b> – amount in ZAR	<b>0,00</b>
% of total expenditure reported and subject to audit	-

		Financial findings		Financial findings for further consideration by the Commission	
Nº	Compliance issue / reason for ineligible expenditure	nr (1) of findings	amount ZAR	nr (1) of findings	amount ZAR
1	Missing / inadequate documentation	1	278,291.00	-	-
2	Incorrect procurement procedure applied	1	416,486.47	-	-
3	Expenditure outside contractual period	-	-	-	-
4	Expenditure includes VAT / other taxes	-	-	-	-
5	Incorrect exchange rate used	-	-	-	-
6	Budget exceeded	-	-	-	-
7	Expenditure not for project purposes	-	-	-	-
8	Fraud and irregularities	-	-	-	-
9	Income not declared / not reported	-	-	-	-
10	Other financial findings	2	469,064.93	-	-
	<b>Total financial findings</b>	<b>4</b>	<b>1,163,842.40</b>	-	-

(1) This is the number of times a finding for the compliance issue concerned was made.

<b>Internal Control Findings</b>					
<b>N°</b>	<b>Internal control issue</b>	number findings priority 1	number findings priority 2	number findings priority 3	<b>total number of findings</b>
1	No documentation or inadequate documentation	-	-	-	-
2	Accounting system and procedures	-	-	-	-
3	Financial reporting system and procedures	-	-	-	-
4	IT systems and procedures (computerised information systems)	-	-	-	-
5	Control environment	-	-	-	-
6	Asset management including related procurement process and procedures	-	-	-	-
7	Cash and bank management (treasury)	-	-	-	-
8	Expenditure control including related procurement process and procedures	1	-	-	1
9	Human resources and payroll management	1	-	1	2
10	Other	-	-	-	-
	<b>Total internal control findings</b>	<b>2</b>	<b>-</b>	<b>1</b>	<b>3</b>

(1) This is the number of times a finding for the compliance issue concerned was made. For priority levels for ranking the recommendations relating to the findings see Section 4.3.

<b>Other Compliance Findings</b>					
<b>N°</b>	<b>Other compliance issue</b>	number findings priority 1	number findings priority 2	number findings priority 3	<b>total number of findings</b>
1	Delays in (financial / non-financial) project reporting to the Commission	-	-	-	-
2	Reporting formats not respected	-	-	-	-
3	Contractual requirements for visibility and publicity not respected	-	-	-	-
4	Other	-	-	-	-
	<b>Total other compliance findings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## **2- THE ENGAGEMENT CONTEXT**

### **2.1. Reason for the Audit**

The audit is part of the Audit Plan 2013. The audit was performed on the basis of Article 16.2 of the General conditions applicable to this Grant contract.

### **2.2. Contractual Conditions**

We obtained a sufficient understanding of the EC laws and regulations which apply to the Project and in particular of the compliance criteria as set out in the terms and conditions of the legal and regulatory documents for the Project. The applicable contractual terms and conditions are set out in:

- The Financing Agreement signed by the Commission on 14 December 2006, and the Republic of South Africa on 23 July 2007, including:
  - o Annex I General Conditions;
  - o And Annex II Technical and Administrative Provisions.
- The Grant Contract B2006-21.031700/FTDF/C2/05 – External Actions of the EC (Special Conditions) signed by the Contracting Authority, the Office of the Premier of the Eastern Cape (17 November 2009), the European Commission (10 December 2009) and the Entity (17 November 2009), including:
  - o Annex I: Description of the Action;
  - o Annex II: General Conditions applicable to European Community-financed grant contracts for external Actions
  - o Annex III: Budget for the Action;
  - o Annex IV: Contract-award procedures;
  - o Annex V: Standard request for payment and financial identification form;
  - o Annex VI: Model narrative and financial report;
  - o Annex VII: Model report of factual findings and terms of reference for an expenditure verification of an EC financed grant contract for external actions (i.e. audit report).
- Addendum N° 1 to Grant Contract B2006-21.031700/FTDF/C2/05 approving a no cost extension to 33 month, signed by the Contracting Authority, the Office of the Premier of the Eastern Cape (25 October 2011), the European Commission (19 December 2011) and the Entity (14 November 2011).

### **2.3. Project subject to Audit**

The implementation of this action involved a holistic approach of community development in order to achieve the objective of poverty alleviation through strengthening the social capital and networking needed by the disadvantaged communities of the Mzola Administrative Area. These people do live in and around the former Ncora Irrigation Scheme in the Eastern Cape Province. This scheme was a former flagship of the Apartheids regime of South Africa, which felled to pieces for many reasons, after the formulation of the new democratic South Africa, on 27 April 1994.

The logic of this development is based on the economical principles of; Primary production through creating a primary market, Contract production; grouping of commodities to obtain positive economics of scale; Value adding, Branding and marketing.

Through this action the following activities were planned to be achieved within the implementation period:

- Orientation and capacity building of 348 beneficiaries.
- A land use plan, production plan and individual contract producers
- Provide the following infrastructure:

- Recourse Centre
- Production units
- Establish crop production units;
- Technical training to be provided to the following;
- Supply of production equipment, livestock and inputs;
- Production outputs;
- To achieve a self-driven sustainable project during the implementation period.

## **2.4. Entity subject to Audit**

### 2.4.1. ORGANISATION

The Entity subject to audit is a local private company which main objective is to focus on the development of the disadvantaged farming communities by providing a service of intensive training and development that will relate to sustainable job opportunities, food security, a sustainable income and a positive attitude whilst protecting the natural resources of the land.

The Management Unit of the project is part of the Development department within the Entity and is comprised 12 employees.

The Entity has extensive previous experience with management of EU funds and has a fair general understanding of EU requirements in terms of administrative and financial management.

### 2.4.2. INTERNAL CONTROL SYSTEM

We briefly describe below the accounting and financial procedures and controls in place within the entity:

- The Entity uses a computerised accounting system named 'PASTEL' which allows for double entry accounting. The accounting system is based on the cash accounting method;
- The Financial Reports are prepared based on accounting records extracted to Excel records by the subcontracted Accountant and reviewed by Project Manager. The structure of the report is in line with the model provided by the EC;
- Filing of supporting documentation allows proper audit trail and thus tracing financial transactions to related supporting documentation and *vice-versa*;
- The Entity has an internal control manual covering aspects such as procurement procedures, payments approval, HR & travel policies, and other which is made available to all employees;
- The allocation of responsibilities for processing financial transactions allows proper segregation of duties;
- The Entity has opened a specific bank account for the Project: interests accrued on EU funds are specifically identified and reported as such in the Financial Report;
- The Entity has an internal audit function. Also an expenditure verifications has been performed at the end of the project by 'Theron du Plessis' Chartered Accountants;
- Project activities are monitored by Project Management and through meetings with the Implementing Authority. Narrative reports are issued on a regular basis.

## 2.5. Financial information subject to Audit

The financial information subject to audit is the expenditure and revenue stated in the Financial Report of the Project for the period from 1 January 2010 to 30 September 2012 (see Annex 1).

### Sources of funding and revenue – amounts in ZAR

Sources of funding and revenue	Budget	Actual
EU contribution (as per Grant Contract)	5,499,576.00	4,949,618.00
Contributions by third parties (co-financing)	-	
Contribution by the beneficiary of the EU funds	1,266,299.00	1,153,378.20
Direct revenue from the project	-	49,484.53
<b>Total of funding and revenue</b>	<b>6,765,875.00</b>	<b>6,152,480.73</b>

### Summary by category / main type of expenditure – amounts in ZAR

Expenditure category	Budget	Actual	Ineligible expenditure	Questioned expenditure
Human Resources	1,375,040.00	1,370,180.12	501,626.49	-
Travel	490,095.00	490,094.90	-	-
Equipment and supplies	4,514,999.00	3,846,032.92	316,190.47	-
Local office	-	-	-	-
Other costs, services	360,128.00	359,407.02	346,025.44	-
Other	-	-	-	-
Provision for contingency reserve	-	-	-	-
Administrative costs (maximum 7% of total direct costs)	25,613.00	25,226.32	-	-
<b>Total expenditure for the project</b>	<b>6,765,875.00</b>	<b>6,090,941.28</b>	<b>1,163,842.40</b>	<b>-</b>

### 3- THE AUDIT

We have been engaged by the European Commission to perform this audit in accordance with the terms of reference attached to the Commission's request for services No. 2013/328-158 of 20 December 2013 and to the specific contract signed between the auditors and the European Commission.

#### 3.1. Audit Objectives

The objectives of this Audit are to enable us to express an opinion on whether:

- the Financial Report presents fairly, in all material respects, the actual expenditure incurred and the revenue received for the Project for the period from 1 January 2010 to 30 September 2012 is in conformity with the applicable Contractual Conditions;
- and
- the Project funds provided by the European Commission have, in all material respects, been used in conformity with the applicable Contractual Conditions.

The **additional specific objectives** of this Audit are to examine whether assets have been bought and if so, if the Statement of Assets presents properly (i.e. number, description and value of assets) and completely (i.e. all assets covered by the Financial Report) the assets acquired for the Project in conformity with the Contractual Conditions and with the information in the Financial Report.

#### 3.2. Audit Scope

##### 3.2.1 CONTRACTUAL CONDITIONS

The Contractual Conditions for the Project are set out in Section 2.2 of this report. The scope of this audit included obtaining a sufficient understanding of the applicable EC laws and regulations which apply to the Project, the Contractual Conditions and in particular of the requirements for financial reporting, presentation and submission of financial information and the eligibility of expenditure.

##### 3.2.2 SCOPE OF WORK

The scope of work of this financial audit covered the expenditure and revenue stated in the Financial Report of the project for the period from 1 January 2010 to 30 September 2012

Our work included but was not limited to an assessment of:

- Whether the Entity has used the Project funds provided by the Commission in accordance with the applicable Contractual Conditions and the Project budget taking into account the objectives and activities of the Project.
- The Entity's compliance with the requirements for reporting, presentation and submission of financial information. We assessed the adequacy of the financial reporting set for the Project by taking into account our understanding of the Project, the Contractual Conditions and conformity of presentation with the Project budget.
- Moreover, we may have, where considered appropriate and based on our professional judgment, referred to other applicable reporting practices including where appropriate generally accepted financial reporting principles and standards to assess the adequacy of the financial report presented by the Entity.
- The Entity's compliance with the terms and conditions for the eligibility of expenditure and rules and criteria for interest, other revenues and use of exchange rates.
- The Entity's compliance with the applicable procurement, nationality and origin rules for expenditure insofar these conditions are relevant to determine the eligibility of Project expenditure.
- The Entity's compliance with the requirements for internal control insofar this is necessary or relevant for the purpose of this financial audit, generally accepted accounting principles and record keeping and documentation.

- We may have, by performing audit tests and procedures, identified deficiencies in the design or operation of the internal control system. Such deficiencies may or may not have affected our opinion but we have nevertheless reported them.
- Whether the supplied equipment is in line with the contract and technical offer specifications.
- Whether the contract signed has been respected following the delivery of the equipment to the end users.

➤ **Project expenditure**

Our work focused on the costs claimed for the period from 1 January 2010 to 30 September 2012 for a total amount of ZAR 6,090,941.28.

Hereunder are the costs reported per period and per cost category:

Period examined: 1 January 2010 to 30 September 2012		TOTAL in ZAR
	Expenditure category	
1	Human Resources	1,370,180.12
2	Travel	490,094.90
3	Equipment and supplies	3,846,032.92
4	Local office	-
5	Other costs, services	359,407.02
6	Provision for contingency reserve	0.00
7	Administrative costs	25,226.32
<b>Total expenditure declared</b>		<b>6,090,941.28</b>

For these expenses, and based on a representative sample, we verified:

- the Entity's compliance with the requirements for reporting, presentation and submission of financial information;
- The Entity's compliance with the terms and conditions for the eligibility of expenditure and rules and criteria for interest, other revenues and use of exchange rates.
- The Entity's compliance with the requirements for internal control insofar this is necessary or relevant for the purpose of this financial audit, generally accepted accounting principles and record keeping and documentation.

➤ **Project income**

During the period under review, the Entity received a total of ZAR 4,949,618.00 of EC contribution paid as follows:

- Advance payment of ZAR 3,068,706.00 paid by the EU Delegation on 8/02/2010;
- 1<sup>st</sup> Interim payment of ZAR 940,456.00 paid by the EU Delegation on 26/07/2011;
- 2<sup>nd</sup> Interim payment of ZAR 940,456.00 paid by the EU Delegation on 30/11/2011

Moreover the Entity reported interests received for ZAR 50,059.00 for the period under review.

Since the 1<sup>st</sup> Interim Payment was done for EUR 277,959.78 or ZAR 3,068,706.00, we consider the interests received as from the 8 March 2010 until 27 July 2011 (date of 1<sup>st</sup> Interim Payment to the Entry) as EU contribution for ZAR 49,484.53.

The scope of work included specific considerations and procedures which are set out in the following section of the report (Section 3.3).

### **3.3. Audit Procedures**

The scope of work included the following specific considerations and procedures:

#### **3.3.1 OBTAINING AN UNDERSTANDING OF THE ENGAGEMENT CONTEXT**

We obtained an understanding of the engagement context through:

- the Contractual Conditions as detailed in section 2.2 of this report in particular regarding focus areas as listed below;
- review of EC laws and regulations applicable to the Project;
- communications with the Commission and the Entity prior the audit fieldwork

Our understanding of Contractual Conditions and other relevant information specifically focused on:

- Documentation, filing and record keeping for Project expenditure and income;
- Eligibility of Project expenditure and income;
- Procurement and origin rules insofar these conditions are relevant to determine the eligibility of Project expenditure;
- Asset management (management and control of Project fixed assets; e.g. equipment).
- Cash and bank management (treasury);
- Payroll and time management;
- Accounting (including the use of exchange rates) and financial reporting of Project expenditure and income;
- Internal controls notably financial internal controls.

We believe that our understanding was sufficient to identify and assess the risks of material errors or misstatements in the expenditure and revenue stated in the financial reporting, whether caused by error or fraud, and sufficient to design and perform further audit procedures.

#### **3.3.2 RISK ASSESSMENT AND MATERIALITY**

We conducted a risk assessment in order to determine to which extent the financial reporting of the project for the period under review could present material financial misstatements. Our procedures led to the following conclusions:

- the budget headings and sub-headings of the Financial Report are in line with the budget as set out in Annex III of the Grant Contract. Thus there is no evidence that the Project funds have not been used in conformity with the applicable Contractual Conditions;
- there is no indication that fraud or irregularities may have occurred having an impact on the financial information;
- there is no indication that the Contractual Conditions are not complied with regarding other aspects such as calculation and reporting of incidental expenditure, expert fee management, etc.

The risk assessment is satisfactory and a materiality threshold of 2% with a level of confidence of 95% as set out in the Terms of Reference to the Financial Audit is considered adequate with regards to the points above mentioned.

#### **3.3.3 OBTAINING EVIDENCE REGARDING DESIGN OF CONTROLS AND TESTS OF CONTROLS**

We obtained evidence regarding the design of controls within the Entity through interviews, in particular with the Entity's external accountant Mr Hendrik BOUWER.

Further details as regards the internal control environment and more specifically of the design of controls are provided in section 2.4 'Entity subject to Audit'.

We conducted a test of the controls implemented in order to ensure that invoices are properly authorised, reviewed and effectively paid and properly booked in the accounting system. We did not detect any exceptions during this test of controls.

Other tests of controls were not specifically conducted as our substantive procedures cover all other points mentioned in the Annex 2 of the ToR.

#### 3.3.4 SUBSTANTIVE PROCEDURES

Based on the risk assessment procedures carried-out we selected expenses for testing in accordance with the procedures detailed in section 3.2 'Test and Procedures in a Financial Audit' of the Guidelines for Auditors. In particular, we verified the following (non-limitative):

- We reconciled the Financial Report with the project ledger/ detail of expenses;
- We verified the exchange rates for transactions in foreign currencies according to the exchange rates rules stipulated in the General Conditions;
- We verified the eligibility of expenditure reported in accordance with the requirements of the Contractual Conditions (see section 3.2.1 of this report);
- We verified the conformity of the expenditure reported with the budget;
- We assessed the reality of the expenditure and traced to proper supporting documentation/ evidence.

Our results and financial findings are presented under section 4.1 and 4.2 of the present report.

#### 3.3.5 ANALYTICAL PROCEDURES

As part of our procedures we performed an analytical review of the financial information provided by the Entity.

A particular attention was paid to the comparison between invoices issued and the project budget and analysed deviations. No exception has been noted regarding these analytical procedures.

#### 3.3.6 SAMPLING AND OTHER MEANS OF SELECTING ITEMS FOR TESTING

In accordance with ISA 530 'Audit Sampling', the sample of transactions selected for testing procedures has been defined based on the risk assessment performed and the materiality threshold defined in the terms of reference.

## 4- FINDINGS AND RECOMMENDATIONS

### 4.1. Financial Findings

We report financial findings which represent amounts included in the Financial Report presented to us for audit which in our opinion are ineligible for funding under the Contractual Conditions. These financial findings are set out in detail below.

<b>Finding n°:</b> 7	<b>Title:</b> Miscalculations of daily rates
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**Compliance issue:** N°10 – Other

**Description of the finding:** The hourly salary rate declared for Mr Albert MOTSOIKHA (ZAR 790.00 per day on budget line 1.1.1b "Umnga Project manager") and Mr Sandile SIFANELE (ZAR 550.00 per day on budget line 1.1.3a "UMNGA Technical Support") were overstated. We recalculated their daily rate based on the employment contract and came up with the following hourly rate for:

- Mr MOTSOIKHA: ZAR 55.56 thus ZAR 444.48 per day;
- Mr SIFANELE: ZAR 25.00 thus ZAR 200.00 per day.

We recalculated their eligible salary based on the days performed and the recalculated daily rate and noted the following amounts to be ineligible for the entire period under review:

- ZAR 97,430.01 for Mr MOTSOIKHA on budget line 1.1.1b;
- ZAR 49,609.48 for Mr SIFANELE on budget line 1.1.3a.

**Amount ZAR:** 147,039.49

#### Related internal control finding n°: 2

The reporting on HR expenses (salaries) was a contract condition and also a system very clearly put in place and bi-monthly controlled by SURUDEC.

On 16 June 2010, we were requested by the SURUDEC financial team to submit copies of the service agreements and salary structures of all Umnga personnel involved in the Sisonke project. The following summary was provided together with the copies of the service agreements:

Name	Position in Umnga	Umnga Gross Salary	Position in Sisonke	Bu all bu
J. Stassen	Managing Director	R 28,500.00	Project manager and training moderator	
A.T. Motsoikha	CEO	R 12,500.00	Assistant manager and training manager	
S.O. Sifanele	Training manager	R 11,500.00	Technical assistant and assessor	
A. Venter	Financial Manager	R 15,500.00	Administrator finance	
R. Malan	Admin manager	R 10,000.00	Administrator admin	
F.J. Venter	Technical manager	R 11,500.00	Technical manager	

**Table 1. Note: The real payments from the Sisonke budget will be done according to the timesheets and is not the same for each month.**

The EU audit was not done from employment contracts as mentioned in the audit report, but from a budgeted Excel sheet dated February 2010 that Mr. Bouwer assumed to be the salary calculations. The sheet provided in fact is a personal budget Excel sheet that I used to estimate the expected financial impact, even before the first funding from the EU was received.

Based on the copies of the real service agreements as well as the summary of the salary structure for Umnga farmers Group, we calculated the rates for Mr. Albert Motsoikha and Mr. Sandile Sifanele as follows:

Table 2. Calculation of daily salary rates:

			Hourly	Daily	Weekly
<b>Albert Motsoikha</b>			Hours/Week	Hours	Days
<b>Labour Rate Calculations</b>			45.00	9.00	5.00
Basic Rate			64.11	576.97	2 884.84
Allowance	Food		0.00	0.00	0.00
	Housing		0.00	0.00	0.00
	Travel		0.00	0.00	0.00
Employer's Contribution	Medical Aid		0.00	0.00	0.00
	Pension/Prov Fund		0.00	0.00	0.00
	Other		0.00	0.00	0.00
Total Package Rate		100.00%	64.11	576.97	2 884.84
On Cost	UIF	1.00%	0.64	5.77	28.85
	WCA	0.00%	0.00	0.00	0.00
	Skills Development	1.00%	0.64	5.77	28.85
	Leave Pay	7.60%	4.87	43.85	219.25
	Sick Pay	4.60%	2.95	26.54	132.70
	Compassionate Leave	4.80%	3.08	27.69	138.47
	Retrenchment	6.50%	4.17	37.50	187.51
	Bonus	11.50%	7.37	66.35	331.76
Total On Cost		37.00%	23.72	213.48	1 067.39
<b>Total Cost to Company</b>		<b>137.00%</b>	<b>87.83</b>	<b>790.45</b>	<b>3 952.23</b>
<b>Sandile Sifanele</b>			Hourly	Daily	Weekly
<b>Labour Rate Calculations</b>			Hours/Week	Hours	Days
			45.00	9.00	5.00
Basic Rate			58.98	530.81	2 654.05
Allowance	Food		0.00	0.00	0.00
	Housing		0.00	0.00	0.00
	Travel		0.00	0.00	0.00
Employer's Contribution	Medical Aid		0.00	0.00	0.00
	Pension/Prov Fund		0.00	0.00	0.00
	Other		0.00	0.00	0.00
Total Package Rate		100.00%	58.98	530.81	2 654.05
On Cost	UIF	1.00%	0.59	5.31	26.54
	WCA	0.00%	0.00	0.00	0.00
	Skills Development	1.00%	0.59	5.31	26.54
	Leave Pay	1.70%	1.00	9.02	45.12
	Sick Pay	0.00%	0.00	0.00	0.00
	Compassionate Leave	0.00%	0.00	0.00	0.00
	Retrenchment	0.00%	0.00	0.00	0.00
	Bonus	0.00%	0.00	0.00	0.00
Total On Cost		3.70%	2.18	19.64	98.20
<b>Total Cost to Company</b>		<b>103.70%</b>	<b>61.16</b>	<b>550.45</b>	<b>2 752.25</b>

**Comments from the Commission:**

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**Further comments of the Auditor:**

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<b>Finding n°: 2</b>	<b>Title:</b> No or incorrect procurement performed
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**Compliance issue:** N°2 – Procurement

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**Description of the finding:** According to Article 7.1.10 of the Special Conditions the Entity is required to use the "3 quotation procedure" for any purchase above ZAR 500.00.

The Entity failed to provide us with the proof that at least three suppliers were consulted for the following costs incurred:

- All costs declared for subcontractor Mr Hendrik BOUWER for ZAR 180,472.00 on budget line 1.1.2a UMNGA Administrator;
- The purchase of office equipment for ZAR 1,789.47 on budget line 3.1 "UMNGA Office Equipment";
- The audit costs incurred for the expenditure verification for ZAR 24,000.00 on budget line 5.3 "Auditing costs";
- The 25% Ploughing Deposit paid to 'CLOETE' for ZAR 210,225.00 on budget line "3.5 Sisonke Service Centre farm inputs".

We consider ineligible the corresponding amount of ZAR 416,486.47.

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**Amount ZAR:** 416,486.47

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**Related internal control finding n°: 3**

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**Comments from the Entity:**

**All costs declared for subcontractor Mr. Hendrik Bouwer for ZAR 180,472.00 on budget line 1.1.2a, Umnga Administrator;**

SURUDEC was informed in writing about the sudden death of Mrs. Anna Venter on 24 November 2010. Mrs Venter was until the time of her death appointed as the Umnga Administrator. During November 2010 the project implementation was at a critical stage and the Umnga Farmers Group had to replace Mrs. Venter as quickly as possible with somebody having the same skills and also within the same salary budget. In the small village of Ugie, there are just no such skilled people available and to have brought somebody in from outside would have involved additional cost of transport, housing, etc.

We have heard about Mr. Hendrik Bouwer who recently moved to Ugie and who had the skills to assist the project. The decision to appoint Mr. Bouwer immediately was based on the following criteria:

- a) The project was in an emergency situation
- b) Mr. Bouwer is a competent person who was immediately available
- c) Mr. Bouwer is a disabled person
- d) Mr Bouwer had the relevant skills and was willing to be employed under the budget limitations
- e) Mr Bouwer was appointed under the same conditions of employment than the late Mrs. Venter

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**The purchase of office equipment for ZAR 1,789.47 on budget line 3.1 "Umnga office equipment";**

At the beginning of August 2011 the project urgently needed office furniture. Office furniture is not readily available in the small villages of Ugie and Maclear, except for 1 second hand antique furniture dealer. The following suitable furniture was immediately available from Maclear Antique Shop at very affordable prices as follows:

- 1 x Desk at ZAR 490.00
- 1 x Desk at ZAR 490.00
- 1 x Desk at ZAR 500.00
- 2 x Chairs at ZAR 295.00

The decision to buy this furniture immediately was based on the following circumstances and was also motivated as such on the pay sheet:

- The project urgently needed cost effective office furniture
- There is only one local second-hand furniture dealer available that stocked office furniture
- It was thus not possible to get 3 quotations on the available furniture
- The furniture was immediately available and could be transported to the project site without any further transport cost and arrangements
- The individual furniture items cost less than ZAR 500 each.

**The audit cost incurred for the expenditure verification of ZAR 24,000.00 on budget line 5.3 "Auditing Cost".**

The payment of the Auditors to the amount of ZAR 24,000.00 without any further procurement procedures was based on the following facts and understanding:

- A fixed amount for the external financial audit was made specifically available as described in the funding contract according to Annex 2A, procedures 2.1 – 2.7. We interpreted this specific action to be handled by the appointed auditors of the company and to be excluded from the conditions of Article 7.1.10. For the reason that this specific contract was our 3rd similar EU contract and that we had never encountered an inquiry in the auditing procurement procedure and for the reason that this was not disputed or specifically shown out by SURUDEC.
- We further interpreted "auditing cost" with reference to and under the Companies Act. No 71 of 2008, Chapter 3, part C, Appointment of Auditors. According to the Act, a Company must appoint its Auditor by means of an Annual General Meeting, and not by means of a procurement process.

Under these conditions the Directors of the Umnga Farmers Training Group appointed Theron du Plessis Chattered Accountants as legal auditor of the company for the year 2012. These auditors firm thus conducted all audits of the Company according to SA companies Act. The audit was conducted and the Audit report was delivered and accepted by SURUDEC.

This spending of ZAR 24,000.00 was according to our understanding thus a fixed budget agreement as part of fixed "Other Cost and Services" specified in Budget line 5.3, and it can thus not be considered as an ineligible spending.

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**The 25% Ploughing contract deposit paid to "Cloete" for ZAR 210,225.00 on budget line 3.5 Sisonke Service Centre farm inputs.**

According to the project activities, maize and potato crops had to be produced. The amount of ZAR 210,225.00 was procured to H. Cloete as contractor and paid on 15 August 2011.

Due to many unforeseen conditions, the project could not proceed with the planting of the crops. (Refer to all project reports and correspondence between Umnga and SURUDEC)

On 31 August 2011, a formal application was submitted to the EU in order to do some budget changes and to take the crop production out of the activity plan. Final approval to proceed with the new approved budget was only received 7 months later from the EU on 3 April 2012.

The amount of ZAR 210 225.00 was recovered and spent under the same budget expense line to pay for the increased poultry budget. Refunding was done on:

Date	Amount
4/06/2012	100 000.00
4/06/2012	113 000.00

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**Comments from the Commission:**

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**Further comments of the Auditor:**

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<b>Finding n°: 3</b>	<b>Title:</b> Amounts reported not based on actual costs
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**Compliance issue:** N°10 – Other

**Description of the finding:** We noted that the several workshops organised and facilitated by the Entity (ZAR 290,825.44 on budget line 5.2 "Workshops") and costs for "Consultancy fee" (ZAR 31,200.00 on budget line 5.1 "Training Consultants") could only be supported by several internal commercial invoices.

As these costs could not be supported by proper supporting documents proving the actual costs incurred (HR costs, actual invoices,...), we consider those costs ineligible based on Article 14 of the General Conditions (Annex II to the Grant Contract)

We consider ineligible the total amount for ZAR 322,025.44.

**Amount ZAR:** 322,025.44

**Related internal control finding n°:** N/A

**Comments from the Entity:**

According to the project budget line 5, "Other Costs and Services", our understanding and contractual agreement with the EU and Provincial Agency was that this budget line stood apart from the normal project implementation procedure, and was therefore specifically mentioned and budgeted for under "Other costs and services." For this reason, all amounts budget for were single amounts calculated and agreed, needed for:

- Specific agricultural related accredited training according to the project needs.
- Specific workshops to be conducted to the beneficiaries of the project, according to the unique model of implementation proposed by Umnga in the original business plan.

We again base our interpretation and understanding to these budget items to the argument above and would like to add the following:

- During our Business Plan and Budget verification workshop with Dr. Adkins of SURUDEEC, that took place in East London in die SURUDEEC office in approximately September 2009, prior to the compiling of the final contract, we specified these budget items specifically to be directed to the expenses of the Umnga Farmers Training Group, for application in the implementation of the design and presenting of training workshops, and consultancy with regard to the further expansion of funding for the project.
- The Sisonke Project account was invoiced by the Umnga Farmers Training Group to enumerate the cost we incurred under this budget line. Detail reports were drafted and attached together with the workshop outcomes as a breakdown of the demographics of the beneficiaries whom benefited from this. These reports were also included in our bi-monthly narrative reports and approved by SURUDEEC, during regular project visits.

The following was also taken into consideration:

- a) The project methodology was very innovative and the initiative and proposal is the brain child of the Umnga farmers Training Group.
- b) Only the Umnga Farmers Training group had the understanding towards the workshop and specific capacity building content in these programmes
- c) Umnga Farmers Group keeps the copy right on specific training material developed and is accredited to provide the training and workshops
- d) These expenses were in fact procured under budget line 5 as "other cost" and agreed to be done solely by the Umnga farmers training group as initiated of this project.

**Comments from the Commission:**

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**Further comments of the Auditor:**

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<b>Finding n°:</b> 4	<b>Title:</b> Missing supporting documents
<b>Compliance issue:</b> N°1 – Missing / inadequate information	
<b>Description of the finding:</b> Article 14.1 of the General Conditions stipulates that all eligible costs must be identifiable and verifiable. For the following costs reported, we have not received all the necessary supporting documentation: <ul style="list-style-type: none"><li>- Missing time sheets (proof of work done) for the period of 2010 for Mr Johan STASSEN for ZAR 115,010.00 (budget line Umnga Project manager);</li><li>- Missing time sheets (proof of work done) for the period of 2010 for Mr Sandile SIFANELE for ZAR 59,105.00 (budget line 1.1.3a Umnga Technical Support);</li><li>- Proof of payment for ZAR 104,176.00 related to the invoice of EPOL for July 2011 (budget line 3.5 Sisonke Service Centre farm inputs).</li></ul> We therefore consider ineligible the amount of ZAR 278,279.00.	
<b>Amount ZAR:</b> 278,291.00	
<b>Related internal control finding n°:</b> N/A	
<b>Comments from the Entity:</b> All additional information was mailed to Deloitte as requested on 20 May 2012..	
<b>Comments from the Commission:</b>	
<b>Further comments of the Auditor:</b>	

#### 4.2. Financial Findings subject to further consideration by the Commission

We do not report financial findings which require further consideration by the European Commission.

#### 4.3. Internal Control Findings

This section sets out the internal control findings.

<b>Finding n°:</b> 1	<b>Title:</b> Incomplete timesheets
<b>Internal control issue:</b> N°9 - Human resources and payroll management	
<b>Description of the finding:</b> We noted that the timesheets are prepared on a daily basis for all employees involved in the Project and are duly signed on a monthly basis.  We noted, however, that the timesheets presented for the Project do not represent an effective control over the time spent since time sheets are only prepared for the time spent on the project under review.  As such, this system does not enable a direct control and reconciliation of the time spent on the project out of the total time worked for a given period. Therefore, we identified a risk of incorrect reporting of personnel costs for employees who are not working full time on the project.	
<b>Recommendation:</b> We recommend the Entity to improve the time recording system/procedure allowing proper daily monitoring and reporting of all hours spent on EC and other projects (i.e. per person).	
<b>Recommendation priority:</b> Priority 3 – Specific remedial action is desirable	
<b>Comments from the Entity:</b> We disagree! All timesheets were completed and bi-monthly audited and approved by the SURUDEC agent.	
<b>Comments from the Commission:</b>	
<b>Further comments of the Auditor:</b>	

<b>Finding n°:</b> 2	<b>Title:</b> Reporting of salary payment
<b>Internal control issue:</b> N°9 - Human resources and payroll management	
<b>Description of the finding:</b> We noted that the salaries incurred were declared by the Entity using time sheets and the daily rates as foreseen in the budget. However, according to Article 14.2 staff costs assigned to the Action must correspond to actual salaries.  This resulted into different daily rates per person depending on which activity the employee was working.  We recalculated the actual rates and noted differences in favour of the Entity (see financial finding below) as well in favour of the EU.	
<b>Recommendation:</b> We recommend the Entity to align with the Contractual Conditions and use the actual daily rates for declaring HR costs.	
<b>Recommendation priority:</b> Priority 3 – Specific remedial action is desirable	
<b>Comments from the Entity:</b>	
<b>Comments from the Commission:</b>	
<b>Further comments of the Auditor:</b>	

<b>Finding n°:</b> 3	<b>Title:</b> Procurement procedure
<b>Internal control issue:</b> N°2 - Procurement	
<b>Description of the finding:</b> We noted that the Entity did not request 3 quotations for all expenditure incurred above ZAR 500.00 as stated Article 7.1.10 of the Special Conditions.	
<b>Recommendation:</b> We recommend the Entity to respect the Contractual Conditions and follow the procurement rules as stated in the Special Conditions and Annex IV to the Grant Contract.	
<b>Recommendation priority:</b> Priority 1 – Urgent remedial action is required	
<b>Comments from the Entity:</b> We disagree with this statement as already answered in this report. Our procurement processes were followed very strictly and the supporting documents are proof of that.	
<b>Comments from the Commission:</b>	
<b>Further comments of the Auditor:</b>	

The priority levels for ranking recommendations are:

#### **Priority levels for ranking recommendations**

**Priority 1 - Urgent remedial action is required.** Key internal controls are absent or are not complied with on a regular basis. There is a fundamental weakness or deficiency in an internal control or in a series of internal controls which involves a substantial risk of either material error, or irregularity or fraud with regard to the expenditure and revenue stated in the Financial Report of the Project. There is a substantial risk of failure to achieve the control objectives for the Project which concern reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations notably the Contractual Conditions for the Project. Such risks could lead to an adverse impact on the financial report of the Project. Remedial action should be taken urgently.

**Priority 2 - Prompt specific action is required.** There is a weakness or deficiency in an internal control or in a series of internal controls which, although not fundamental, relates to shortcomings which expose specific internal control areas (e.g. cash and bank management or budgetary and expenditure control) to a less immediate level of risk of either error, or irregularity or fraud. Such a risk could impact on the effectiveness of the internal controls and on the internal control objectives and should be of concern to the Entity's management. Prompt specific action should be taken.

**Priority 3 - Specific remedial action is desirable.** There is a weakness or deficiency in internal control which individually has no major impact but where the Project would benefit from improved internal controls and/or where the Entity would have the opportunity to achieve greater effectiveness and/or efficiency. There is a possibility of undesirable effects at the process level, which, combined with other weaknesses, could give cause for concern.

#### **4.4. Other Compliance Findings**

We do not report other compliance findings.

## **5- SPECIFIC MATTERS**

We have examined whether the Statement of Assets presents properly (i.e. number, description and value of assets) and completely (i.e. all assets covered by the expenditure in the Financial Report) the assets acquired for the Project for the period from 1 January 2010 to 30 September 2012 in conformity with the Contractual Conditions and with the information in the Financial Report. Our findings and summary conclusions are set out below:

- The Auditors were not provided with a Statement of Assets;
- The Auditors were only provided with a duly signed "Transfer of Assets" listing all the equipment transferred to the Final Beneficiary;
- We noted that the list did not include the amount of purchase nor the value of the assets.

## **Annexes**

**Annex 1: Financial Report subject to Audit**

**Financial report of "Sisonke Agriculture Resource Centre and Cooperative"**

for the Period from 1 January 2010 to 30 September 2012

	<b>BUDGET ZAR</b>	<b>ACTUAL ZAR</b>	<b>Ineligible expenditure ZAR</b>	<b>Questioned expenditure ZAR</b>	<b>Note s</b>
<b>Operating income</b>					
EC Contribution	5,499,576.00	4,949,618.00			
Contribution by other EU member states	-	-			
Interests received on EU funds	-	49,484.53			
Contribution by the Beneficiary	1,266,299.00	1,153,378.20			
<b>Total operating income</b>	<b>6,765,875.00</b>	<b>6,152,480.73</b>			
<b>Operating expenditure</b>					
1. Human Resources	1,375,040.00	1,370,180.12	501,626.49	-	4.1.1, 4.1.2 and 4.1.4
2. Travel	490,095.00	490,094.90	-	-	
3. Equipment	4,514,999.00	3,846,032.92	316,190.47	-	4.1.2 and 4.1.4
4. Local office costs	-	-	-	-	
5. Other costs	360,128.00	359,407.02	346,025.44		4.1.2 and 4.1.4
6. Provision for contingency reserve	-	-	-	-	
7. Administrative costs	25,613.00	25,226.32	-	-	
<b>Total operating expenditure</b>	<b>6,765,875.00</b>	<b>6,090,941.28</b>	<b>1,163,842.40</b>		
<b>Surplus from Project activities</b>	<b>-</b>	<b>61,539.45</b>			

## Annex 2: Cash Flow Reconciliation

### Cash Flow Reconciliation for "Sisonke Agriculture Resource Centre and Cooperative"

for the Period from 1 January 2010 to 30 September 2012

Description	ZAR
<b>Opening balance as per cashier and bank statements as at the beginning (A)</b>	-
Advances / disbursements from the Commission	4,949,618.00
Advances from Beneficiary	377,394.05
Interest received	50,059.29
Other revenues	-
<b>Total Receipts (B)</b>	<b>5,377,071.34</b>
Payments made (expenditure, purchase of assets etc)	5,314,957.13
Other disbursements	0.00
<b>Total Payments (C)</b>	<b>5,314,957.03</b>
<b>Calculated balance (D=A+B-C)</b>	<b>62,114.21</b>
Cash in hand	N/A
Balance of account 62241459967 at FNB per 6 October 2012	-125.63
Balance of account 62256873483 at FNB per 27 October 2011	-
<b>Total balance as per cashier and bank statements (E)</b>	<b>-125.63</b>
Differences in receipts and income in the Financial Report	-
Differences in payments and expenditure in the Financial Report (1)	62,239.84
<b>Total Project funds as at end of project (F)</b>	<b>62,239.84</b>
<b>Difference (G= F - D)</b>	<b>-125.63</b>

(1) VAT on costs incurred was paid from the EU account but was not recovered per 6 October 2012.

**Annex 3: Other Information**

Not applicable.

**Annex 4: Persons contacted or involved in the Audit**

<b>The Auditor – Deloitte</b>	
Dirk CLEYMANS	Partner (Deloitte Brussels)
Alexandre DASSÉ	Manager (Deloitte Brussels)
Luc VANHEULE	Manager (Deloitte Brussels)
Lonwabo MGANDELA	Senior Auditor (Deloitte South Africa)

<b>The Entity subject to audit – Umnga Farmers Training Group</b>	
Mr Hendrik BOUWER	Project Accountant
Mr Johan STASSEN	Project Manager

<b>Delegation of the European Union to South-Africa</b>	
Mr Kris ENGELEN	Audit Task Manager
Mr Robert LANGBAUER	Audit Task Manager



*Kuyasa Maize Meal*

**The Power of Choice!**

*A product of:*

*Sisonke Agricultural support Centre and Cooperative*

*Trading name of the*

*Msefo Land development and Agricultural Cooperative*

*P.O. Box 100*

*Ncora*

# **Business Plan and Application for funding**

***8 February 2011***

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## 1. Executive Summary

This business plan is in support for an application for funding for the purpose of constructing and operating a Maize Mill on behalf of the members of the Sisonke Agricultural Support Center and Cooperative to the value of R 1,804,775.20

### **Introduction:**

The Msefo Land Development and Agricultural Cooperative, trading in the name of the Sisonke Agricultural Support Centre and Cooperative is the legal entity making this application for funding . This Cooperative is registered as a primary Agricultural Cooperative, under the Cooperatives Act 1981, Act No. 91 of 1981, of South Africa.

The Sisonke Agricultural Support Centre and Cooperative, hereinafter further in this plan, is referred to as SASC&C, was funded during February 2010, by SURUDEC ( the Sustainable Rural Development of the Eastern Cape) , an European Commission funded initiative, to the amount of R 6,765,784.00. This development fund is currently being utilised for the implementation of the SASC&C, which involves the following actions:

### **Description of the action and its effectiveness**

#### **Overall objectives of the action, outputs and expected results.**

The overall objective of the SASC&C, is to strengthen the Social Capital and networking needed to establish itself as an Agricultural Support Centre that will optimise the Social Assets of the target area through agricultural support, in order to utilise all local resources to the optimum in order to enhance the ability of people to employ themselves, to improve own income distribution, soak up under employed labour and create opportunities to bring socio- economic stability in the target area.

#### **This main objective will be fulfilled through the following specific objectives:**

- 1) Enabled controlled co-operation amongst the landowners in the identified target area, but also to spread these advantages in time to all surrounding districts and communities.
- 2) Enable landowners to group their land in a controlled and co-operative manner, in order to benefit from economies of scale in production, produce deliveries, value adding and marketing. (The complete production function.)
- 3) All individual and small fractions of domestic farmers to become part of the mainstream commercial production. This will increase the economies of scope, such as joint production, facilities division of resources and specialization production, increased productivity and income.
- 4) Members' participation in order to reduce cost structures and enhance effectiveness of farming methods, joint bargaining for prices, markets and specific products. 5) Holistic capacity building and skills training programmes
- . 6) Stability due to risk sharing in the whole production function.
- 7) Innovation of members to learn from one another and from production cycle to production cycle.
- 8) Legal protection through the co-operative structure as well as limited legal liability of individuals.

The result of these outputs will be a well structured, positive and contributing group of members of various primary Agricultural Co-operatives, already in place. These co-operatives through the support of the SASC&C as umbrella Co-op, will have a holistic agricultural service to their door step such as:

- land plan optimisation,
- production planning,
- production loans,
- enterprise production contract,
- value adding on produce,
- collective marketing in the commercial market,
- administrative and secretarial services, and
- A local Co-operative Supply Centre.

**Description of the current proposed activities, effectiveness and provisional costing:**

1. **Orientation, capacity building, life-skills training and business planning** to all directors and members of the Co-op's and communities. The output will be a training plan, training manuals and equipment and certificates. The result is a motivated and informed community as members and beneficiaries of the Co-operative. All training will be SAQA accredited and certified.
2. **Land use planning, grouping and production contract allocations. GIS analysing and reporting** on land optimisation that includes climatic reports, soil surveys, critical infrastructure (irrigation) site suitability and land use plans, demarcation of borders, enterprise recommendations and production plans. Market analysis per season, market requirements and recommendations to contract producers.
3. **Construction of the Support Centre Infrastructure.** The output will be support centre with all facilities for trading, storing, cold storage, value adding, and community supportive functions for administration, secretarial assistance, commercial banking, etc. The result is a holistic support and trade centre, centrally placed to fulfil the needs as identified to the local communities and farmers.
4. **Construction of various production enterprise infrastructures.** The output will be infrastructure such as: Maize storage silos, abattoir and cold storage, stock pens and handling facilities, poultry production sheds. The result will be a well-equipped Cop-operative with the entire infrastructure to add value to Agri products in order to supply the commercial market on acceptable commercial standards.
5. **Supply and install equipment and machinery action or phase.** The output will be fencing materials, irrigation systems, potato sorter and washing machine, micro roller maize mill, stock feeds and medicines, abattoir equipment, 3-ton truck, Tractor with implements, breeding bulls and rams, arts and craft equipment and material and running capital for the co-operative. The result will be a well equipped Cop-operative with all the equipment to add value to Agri- products in order to supply the commercial market on acceptable commercial standards

6. **Technical skills training action or phase.** The outputs will be the following skills training courses:

- Vegetable and crop production
- Operate and maintain irrigation systems
- Tractor and Farm implement operation and maintenance
- Broiler Production
- Egg Production
- Livestock production
- Operate and manage packing stores
- Basic business management
- Basic bookkeeping
- Project management
- More relevant skills training courses on demand

The result will be a well skilled direct employed work force to the co-op as well as thoroughly skilled farmers as contract producers to deliver only the optimum production results as well as optimum quality of produce for value adding to the cop-operative.

7. **Production action or phase.** The output will be potato and cabbage production, maize production, household vegetables, egg production, broiler production, fat lamb production, sheep shearing, weaner Calve production, milk production. The result will be the optimum quality of agri-and other produces to sustain the value adding demand from the Co-operative as market. The Co-operative well capacitated to pay in cash for the products delivered.

8. **Value adding action or phase.** The output will be washed and packet potatoes, maize stored and milled into maize meal, vegetables washed and packet and in cold storage, Eggs graded washed and packed, Slaughtered, packed and cold stored broiler chickens, fat lambs evaluated for auctioneering, weaner calves evaluated for auctioneering, wool sorted and baled. The result will be a ell-structured Co-operative and personnel of 30 to add high quality of value to all products to be sold in the commercial market.

9. **Marketing action or stage.** The output will be the distributing and selling of all agri- produce to the commercial markets and livestock auctioneering. The result will be commercialised produced delivered with own transport to the commercial market.

10. **Evaluation in the implementation plan and actions.** The output will be an evaluation and assessment report on the project, with the result that a thoroughly planned and implemented action within the guidelines of LED implementation.

11. **Final handover and withdrawal of the project.** The output will be a final handover ceremony with an independent and functional community development structure as result.

### **Relevance of the application for funding**

#### **A brief description of the target group and final beneficiaries.**

The target group under this funding application make out a total of 9650 individuals, living in 1484 households in the KwaMzola District, Block C of the Ncora Irrigation Scheme, Intsika Yethu Local Municipality, district of Chris Hani in the Eastern Cape Province.

This Municipality serves only rural town and districts, and is together with Ukhahlamba, Alfred Nzo, the poorest districts in South Africa. As part of a local needs driven initiative, these beneficiaries has grouped themselves in three, and registered 3- Primary Agricultural Co-operatives to see to their needs. These Co-operative are known as:

- a) Msefo Land Development and Agricultural Cooperative
- b) Famini &Chibini Agricultural Co-operative, and
- c) Damane Agricultural Cooperative.

A local social study has shown that only 58% of the households in the target area are male headed. This is mostly due to males seeking for other employment opportunities in the Western Cape and Gauteng, with the result that the social structures of these households are suffering tremendously. All beneficiaries are living in traditional built mud brick houses, with mostly grass-thatched roofs. 78% of all beneficiaries are feeling that they are unemployed due to not self-contributing to household income, as they do depend on Social grants from the government. The rate of HIV/Aids infection in the Chris Hani district is currently 32%, and is tragically increasing due do mostly migrant workers returning for holidays. From the youth group, age 18 –39, a total of 38% of people are just doing nothing during the day due to no employment and also no hope for any future after completion of the schooling system. This relates to crime and the forming of gangs by the youth, as part of a dangerous living on drugs and sex, and these groups do operate mostly as crime syndicates in the town of Ncgobo, Cofimvaba, Cala, Indwe, Dordrecht and Queenstown. Besides the fertile agricultural land and the availability of irrigation water and systems, only 28% of local farmers do contribute to domestic agriculture, of which only 9% do sell commercial produce, mostly with government assistance form the massive food production scheme. Only 4% of all farmers could indicate that they indeed do make use of own capital to produce, indication that there is a great need for a local Farmers Support System in order to ensure sustainable skills development, production, value adding and marketing to foresee in better living conditions and a life for all beneficiaries

### **A general presentation and analysis of the problems and their interrelation at all levels**

In understanding the specific problem that related towards this action, it must be understood that during the Apartheid years, the Ncora Irrigation Scheme was developed and funded by the former South African Government as a flagship to the world, to demonstrate the success of Apartheid and separate Black Development. In reality, a lot of local inhabitants were forcefully removed from their farming land in order to make space for water catchments and irrigation land. This project was also artificially pumped full with South African Capital and managed by so called “International Companies”.

After the new democracy of 1994, the removed inhabitants could claim back their land in order to start all over in making a rural agrarian living. In summary the general problems as identified and listed by the community groups were:

- Water and irrigation systems are available, but we do not have access to production capital, inputs, tractors and implements and a market.
- Due to us being ignored for many years, the youth do not have any agricultural related or business management skills. They finish school in a corrupt system where teachers are hardly teaching, and they do have no hope for the future in the Eastern Cape. They flee for Cape Town and Gauteng; become gangsters who hide here for the police. We want to set a sample and crate a future for out children here on our own land.

### **Specific problems to be addressed by the action that will flow out of the funding application**

The following specific problems will be addressed by this action:

- There are no infrastructure and local suppliers for agricultural inputs in a radius of more than 30km.
- No infrastructure for value adding and marketing of produce.
- No transport to deliver production inputs and also no transport of produce to the markets.
- No technical skills, management and life skills.
- No production loans and a system of production, value adding and marketing.
- No motivation and assistance to produce for a specific agricultural enterprise

**Relevance of the proposal to the needs and constraints of the target region and target group and beneficiaries**

According to the 2001 census, The Chris Hani District had a population of 799,134, but recent estimates put the population figure more in the region of 810 000. The District covers an area of 36,963.8 square kilometres. Approximately 71% of the population reside in rural areas. The largest populations occur in the Intsika Yethu, Lukhanji, Ngcobo and Emalahleni municipalities. The population is relatively youthful with just more than half of the population being female (53.76%). According to the Chris Hani District Municipal IDP, 51% of the total population for the Province do reside in these districts, but these districts only account for 6% of the Provinces production, manufacturing and value added. This action is a practical and relevant development proposal in order to address the problems and needs of hopelessness, extreme poverty and the lack towards self-reliance and sufficiency. This action will focus on the supply of the relevant technical and management skills, capacity building and the provision of an infrastructure that can supply value-adding facilities and a market for specific identified agricultural products. It will provide in the structuring and capacitating of beneficiaries to be able to produce form a local production loan input, as own initiative towards specific product contract markets.

**Relevance of the proposal to the priorities and requirements presented in the guidelines towards readiness for implementation (legal issues, licences, permits)**

From the description of the target group, and the analysis of the problems and constraints within this target group area, the main objective of this proposed action is to increase the support for agriculture as it is the only industry that has the local resources to enhance the ability of people to employ themselves, to improve own income distribution, soak up under employed labour and create opportunities for agro-processing thus create further job opportunities and bring stability in this area. This action is thus perfectly in line with the overall objective of the LCF, CAP implementation LED programme. The community has registered a primary Agricultural Co-operative, the Sisonke Agricultural Support Centre and Co-operative for this purpose. A board of 6 local directors that will see to the functioning will manage this initiative. The Ncora Irrigation Scheme site is a well known registered and permitted irrigation scheme for many years and do comply with all legal issues, permits and licences.

**Level 1 – Objectives:** A local partnership was formed between the main applicant, the Umnga Farmers Training Group and the Sisonke Agricultural Support Centre and Co-operative. The main applicant is a proven and accredited legal entity, and will have the main objective of capacity building, infrastructure supply, skills development and value adding that will related to the establishment of agricultural produce for the commercial markets of Mthatha and East London. This action will thus ensure the following outcomes in line with the National LED framework: - *Direct employment of 30 employees, sustainable job creation by means of agricultural enterprise production as contract producers for a specific quality and quantity of a specific enterprise market, The optimisation of local land resources through the implementation of a scientific land-use plan, the upliftment of the spirit and social value of the communities within the target area, that will secure a better income per household and a future for the youth to hang on.*

**Level 2 – strategic priority areas:** This action is based on the principles of holistic agrarian development, improvement, as well as the diversification of various agricultural enterprise production units. The applicant is convinced that this model is the only African Development model, designed and based on the Chinese development model that was successfully implemented in the past. The infrastructure, capacity building, skills development programmes, value adding of products, etc. will be brought by the people, to the people and will be founded on a real needs driven methodology. **Level 3 – Provincial priority sectors:** Based on an economic analysis and the current and future trends, in the Growth and Development Summit that was held in the Chris Hani District during November 2006, the following priority sectors was identified: - Agriculture and agro-processing, - Forestry and wood processing, - Tourism, - Construction, - Manufacturing, - Trade and business services. This proposed action is thus directly in line with the Provincial priority sectors, and will focus on; Agriculture and agro-processing, Construction, and the Trade and business service.

**Level 4 – Local level priorities:** The IDP of both the Chris Hani DM as well as that of the Intsika Yethu Local Municipality, do focus on the needs and limitations of the development of the rural areas and people such as:

Economic growth projects, poverty alleviation projects, Skills Development programmes, Education and capacity building programmes, social infrastructure needs and LED support. This action is 100% in line with these local needs and priorities.

**Involvement of implementing partners, their role and interrelationship between the applicant and partners**

Partners	Role and interrelationship
Umnga Farmers Training Group	Main applicant, project facilitator and implementer. A partnership agreement is signed between the two parties. The agent is well known to the community for a period of 16 years
Sisonke Agricultural Support Centre and Co-operative	A newly registered community development legal entity to fulfil the development needs of its members. This co-op is a local community initiative and was registered with the help of the main applicant.

**Sustainability of the action**

- a. **Risk analysis and eventual contingency plans:** In the implantation of this type of action there are no major risks to consider. People are intellectual and individual and each community has its own diversity, culture and social structures. The risk in social attitude and contribution is minimised through the fact that the project is needs driven and locally initiated. The physical environment is very much favourable towards Agricultural production.
- b. **Main preconditions and assumptions during and after the implementation phase.**  
It is a precondition that there must be a trustworthy relationship between the implementation agent and the beneficiary structure. This was secured by means of a well structured and schedule co-operation or partnership agreement. During the implementation phase and after, this conditions and relationship will be maintained between the parties.
- c. **Sustainability after completion of the action.**  
The methodology of this action ensures that it is a self-efficient and needs driven project. The strategy of stimulating primary production through creating a primary market, is a very old development concept designed and followed by the Chinese, but has not been explored as a development policy in South Africa. The Umnga Farmers Group, like in all other cases of project implementation is committed to a long-term follow up and support strategy.

*This business plan is specifically aimed at the application for the much needed own contribution funding from additional donor funding, which was not provided for under the current SURUDEC fund, for the completion of the Maize Milling Enterprise.*

A total funding requirement of R 1,804,775.20 s needed and motivated in this Business plan.

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## **2. Business Overview**

### **2.1 Business History**

#### **Introduction and background**

During 1976, the former Republic of the Transkei was declared as an Independent State, under the Apartheid policy of the former South Africa. In order for the Apartheids Regime to prove the success of their world hated "Separate Nations Development" policy, an area of over 3000 hectares was developed under the name of the Ncora Irrigation Scheme. This scheme was funded by the former South African Government as a flagship to the world of the success of Apartheid and separate Black Development in the Republic of Transkei. In reality what happened, was that some local inhabitants of this area were forcefully removed from their farming land in order to make space for water catchments and irrigation land. This project was also artificially pumped full with South African Capital and managed by so called "International Companies" who managed the scheme for own profit, and not to the benefit of the people, as was promised.

Soon after the new democracy of 1994, the Austrian management company has fled from the land and the removed inhabitants could claim back their land in order to start all over in making a rural agrarian living.

(Refer to Annexure A, letter of support from the Department of Rural Development and Land reform)

The result of these tragic historical happenings caused the following brief problems within the Ncora Community:

1. Water and irrigation systems are available, but the farming community do not have access to production capital, inputs, tractors and implements and a market
2. Due to this community being ignored for many years, the youth do not have any agricultural related or business management skills. They finish school in a corrupt system where teachers are hardly teaching, and they do have no hope for the future in the Eastern Cape. They flee for Cape Town and Gauteng; become gangsters who hide here for the police.

#### **Involvement of the Umnga Farmers Training Group.**

During February 2006, the Umnga Farmers Group was invited to meet with some local leaders of KwaMzola community in order to workshop and to plan a future development project for the Ncora farmers of Block C. (Refer to Annexure B, Profile of the Umnga farmers Training Group)

During this workshop the following very important aspects of development was highlighted:

1. The farmers of Ncora wants to take control of their own development project, but do need a legal structure and government aid for that,
2. The main problem at Ncora is not to produce primary agricultural products, but the lack of a primary market for their products.
3. The lack of agricultural skills is not only about a few technical skills training courses, but the implementation of Learnerships over a period of a year that will also give the farmers the knowledge to understand basic fundamental principles of the economy, the market, decision making, planning, enterprise budgeting, record and bookkeeping, etc.
4. We want to work with the Government to make this thing work, but we do not want to work for the Government in this project!

The outcome of this planning meeting was the successful registration of three Primary Agricultural Cooperatives on 19 June 2006 :

- a) Msefo Land Development and Agricultural Cooperative Ltd
- b) Damane Agricultural Cooperative Ltd.
- c) Famini & Chibini Agricultural Cooperative Ltd

It was further decided to launch a combined Agricultural Development Project for these 3 Cooperatives in Block C at Ncora, under the name of the Sisonke Agricultural Support Centre and Cooperative. This name will be the trading name of the Msefo Land Development and Agricultural Cooperative Ltd.

The Umnga Farmers Group was appointed to do research and to develop a development strategy and policy for the farmers of Block C. The Umnga Farmers Group also had to design a business plan to the satisfaction of the needs of the Block C farmers to be used for the application for funding to implement this Development action.

**The involvement of SURUDEC and the Sisonke Agricultural Support Centre and Cooperative:**

During September 2009, a business plan was submitted to the Sustainable Rural Development of the Eastern Cape / European Commission Agency, known as SURUDEC. On 17 November 2009, a contract was signed by the Umnga Farmers Training Group for the implementation of the Sisonke project under the following budget and conditions:

Description	Budget
SURUDEC / EU Contribution	R 5,499,576.00
Sisonke own kind contribution	R 1,266,299.00
<b>Total Budget for the project</b>	<b>R 6,765,875.00</b>

Implementation date and period: 1 January 2010 until 30 September 2011

**Project Overall Objective:**

The overall objective is to strengthen the Social Capital and networking needed by the Sisonke Agricultural Support Centre and Co-operative, to establish itself as an Agricultural Support Centre that will optimise the Social Assets of the target area through agricultural support, in order to utilise all local resources to the optimum in order to enhance the ability of people to employ themselves, to improve own income distribution, soak up under employed labour and create opportunities to bring socio-economic stability in the target area.

**Estimated project outcomes and results:**

The final outcome under this funding is the construction of a Resource Centre at Block C, with the infrastructure to deliver a holistic Agricultural support service to 847 direct farmers and 1484 households, within Block C, KwaMzola A/A, Ncora.

1. Administration office to manage all activities A Poultry
2. A Poultry abattoir to slaughter 1000 birds per day Infrastructure
3. An Egg sorting and packing facility for 500 dozen of eggs/day.
4. Infrastructure and production inputs to poultry contractors to achieve the production targets
5. A Maize mill with a 650 kg / Hr output capacity
6. A Cattle and Sheep handling facility to handle and auction livestock for farmers
7. A Sheep shearing shed for 1000 sheep / day

**The following production outcomes must be achieved within the 24- months of the implementation period:**

- Production of 78000 dozen of eggs for the commercial market
- Production of 28800 kg of chicken for the commercial market
- To produce and add value to 200000 kg of maize meal
- To produce and market 15000 kg mutton to the commercial market
- To produce and market 55000 kg beef to the commercial market
- To produce and deliver 7000 kg of wool to the commercial market

## **The Maize Mill – The heart of the Sisonke Centre**

This business plan is based on a 5 - year forecast to obtain a loan of R 1,625,000.00 to establish a maize mill operation with all necessary infrastructures within the overall setup of SASC&C). All planning is based on conservative sales figures, and actual sales might be higher. The projections contained herein are based on the mill plant production output and targeted market segment, and will be used as the budget for the Milling business.

### **2.2 Objectives**

The overall objective of the SASC&C, is to strengthen the Social Capital and networking needed to establish itself as an Agricultural Support Centre that will optimise the Social Assets of the target area through agricultural support, in order to utilise all local resources to the optimum in order to enhance the ability of people to employ themselves, to improve own income distribution, soak up under employed labour and create opportunities to bring socio- economic stability in the target area.

This objective will be achieved through a methodology of the SASC&C to provide in the need of the farmers of Block C at the Ncora irrigation scheme, through creating a demand for the production of primary agricultural products, to add value to these products and to create a sustainable market for all value added products

***“We want to stimulate primary agricultural production through the establishment of a primary market for agricultural products. This will be possible through a process of commercial value adding to primary products that will fill the commercial market, without being in direct competition of primary products from commercial farmers.”***

The targeted community to benefit from this action, consists of about 850 farmers and 1500 individuals as head of household of Block C, as selected from the following groups: Woman groups, Youth groups, HIV/Aids Woman groups, Youth Groups, HIV/ Aids affected people, Unemployed, Employed seeking for furthering their agricultural skills, and Emerging farmers groups.

#### **Specific objectives of the maize milling operation:**

1. The maize mill will serve as a industrial operation of value adding to raw maize in order to create a sustainable outlet and market for all Ncora and surrounding area's farmers
2. The milling of 3,328 kg of special maize meal per day to the commercial market in the Eastern Cape
3. The branding and marketing of an own high quality maize product
4. To create employment for 14 full time local members of the Ncora Community
5. The procurement, training and establishment of 180 local farmers as maize contract producers in the near future.

## Vision and Mission Statement and Core Strategies

**Our vision:** The Sisonke Agricultural Support Centre and Cooperative is an Industrial manufacturer of maize meal and other maize products, adding value to the commercial market, whilst being supplied of raw product through a viable and sustainable community of emerging farmers that produces maize under production contracts to the maize mill.

**Our mission** is to create a commercial market for agricultural products through a process of secondary agricultural manufacturing processes that will add value to primary products. This will be achieved through getting the local community and farmers involved in this project, and encourage them to become members of the Co-operative.

## 2.3 Ownership

The business is done through the legal entity of a Primary Agricultural Co-operative that does serve the local farming community. The Msefo Land Development Cooperative, trading as the SASC&C, is a local initiative that was founded and registered by the community of KwaMzola. The 6 founding members of the Cooperative, also serves as the board of Directors.

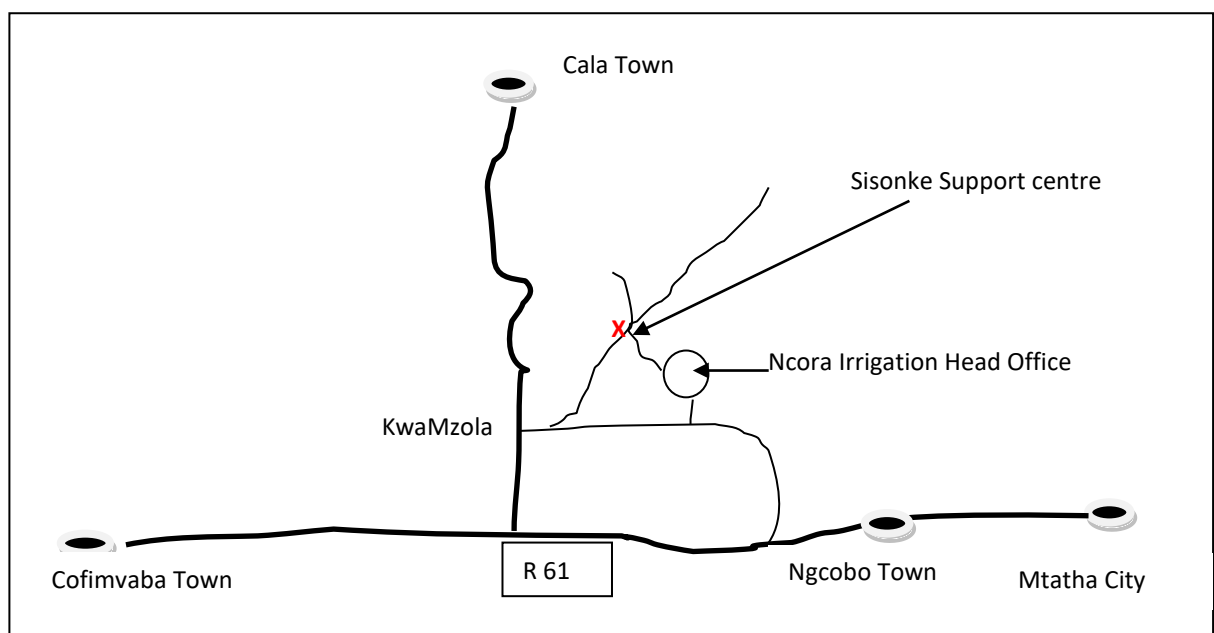
The Cooperative is operating within a constitution as determined under the Cooperative Act, Act 91 of 1981

## 2.4 Location and Facilities

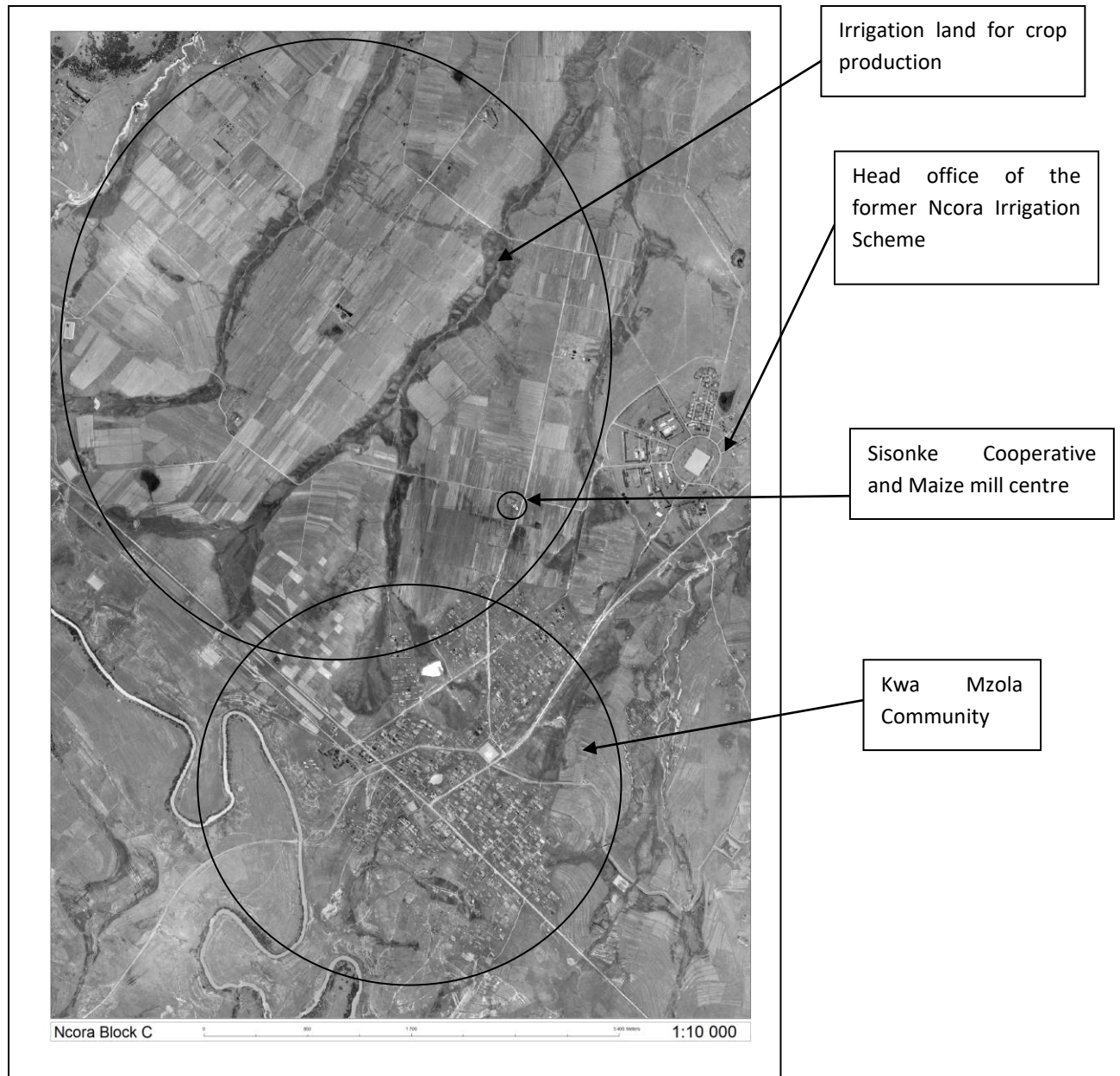
The business is located within the borders of the Eastern Cape Province, under Chris Hani District Municipality, Intsika Yethu Local Municipality, KwaMzola Administrative Area, Block C, Ncora irrigation Scheme, Ncora

As part of the implementation of the SASC&C under the mentioned SURUDEK funding, infrastructure of 750 square meters was constructed, including an area of 225 square meters that will host the maize mill machinery. The resource centre is secured by means of a 1,8 meter security fence. The Business is centrally placed and easily accessible by road, as part of the infrastructure of the former Ncora Irrigation Scheme. ESCOM electricity is also readily available within a distance of 200 meters. The maize mill is very much centrally placed between the irrigation land that will be used for the production of maize.

**Figure 1. Map to the SASC&C**



**Figure 2, Aerial photograph of Ncora, Block C. Indicating the location of the Sisonke Support centre and maize mill**



### **3. The product.**

#### **3.1 Description of the products**

The maize mill will produce special white maize meal with a by- product called "Chop". The chop will be sold as cattle feed to local farmers, and will in future be utilised as energy supplement in an own feed factory that will supply a feedlot at Ncora. (See the future development plans below)

Maize meal will be packed and distributed in 10 kg, 12,5 Kg and 25 kg bags, under an own brand name. (Please refer to the marketing plan)

#### **3.2 Key Features of the product.**

Maize meal is the staple food of Africa. The average South African household do consume approximately 50 kg of maize meal per month. The assumption can be made that that between the 1484 households under the target groups, a total of 74,200 kg's of maize meal is consumed per month. The planned maize mill will produce 180,400 kg's of maize meal per month, meaning that the local beneficiaries will already consume 41% of the production!

It is also true that especially rural people have developed a special taste of different brands of maize meal in different regions of our country. We are well informed that we will only enter the targeted 4% of the local market through a very strong marketing plan. (Please refer to the marketing plan). For the reason that this mill will be a Broad Based Black Economic Development Initiative, we will strive to a high quality product according to the taste of our people.

***The following objectives towards quality of product are relevant:***

1. Only high quality grade 1 White Maize will be milled
2. The market segment for special maize meal will be targeted.
3. All required pre-mixes for additional nutrients, as prescribed by law, will be added
4. All product will be handled and packed according to the highest hygienic standards
5. Quality control and customer satisfaction is our priority

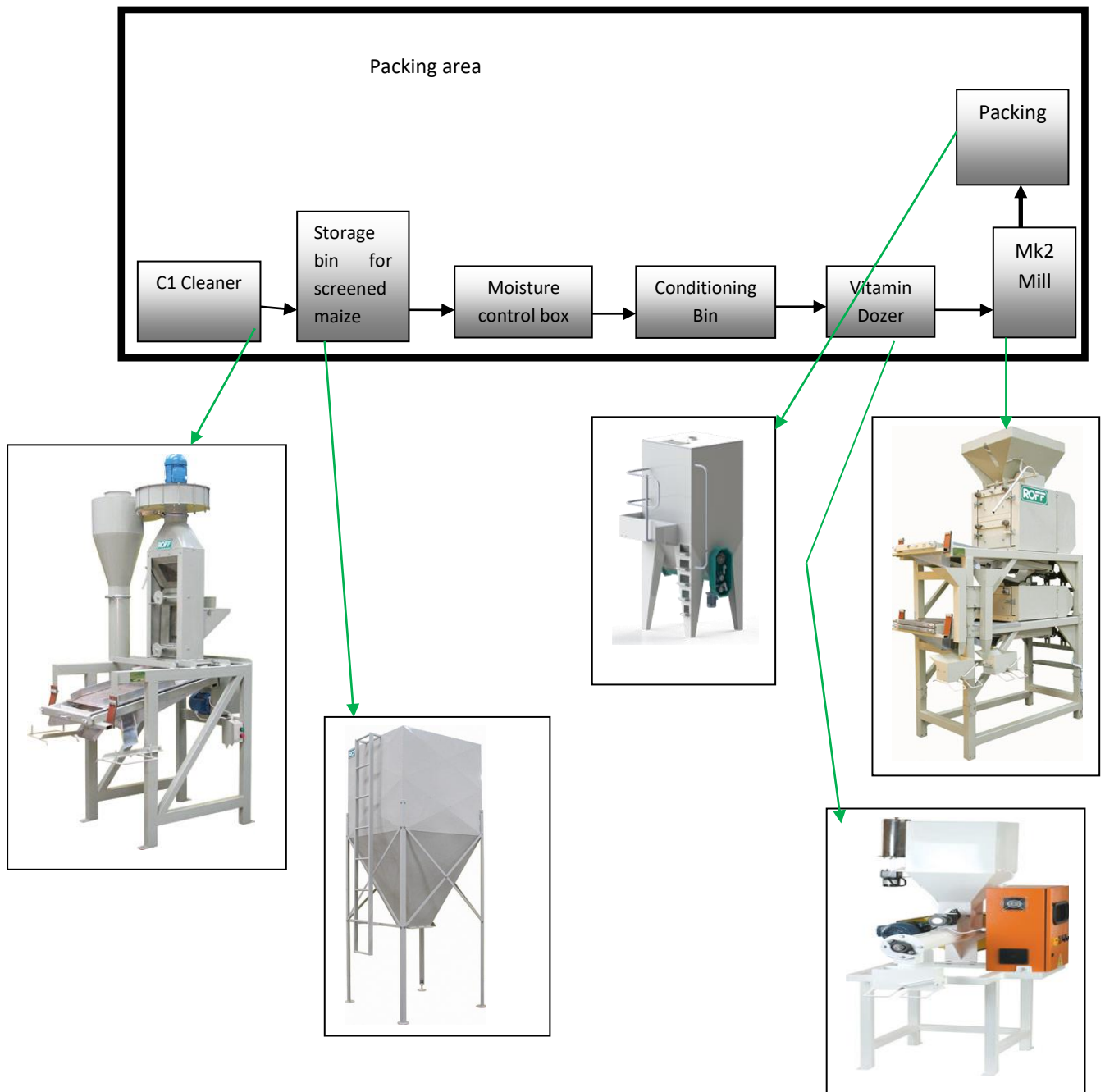
#### **3.3 The production of maize meal.**

##### **3.3. 1. The maize milling process:**

The milling of maize today is a much specialised process. The most important aspect is that only the highest quality of maize can be used in the milling of maize meal. For the reason, as mentioned above, that our African people have developed a special taste for a specific brand of maize meal, only a special super sifted meal product will be able to penetrate the market.

### 3.3.2. The plant set-up:

Figure 3. The future floor layout and placement of machinery in the mill.



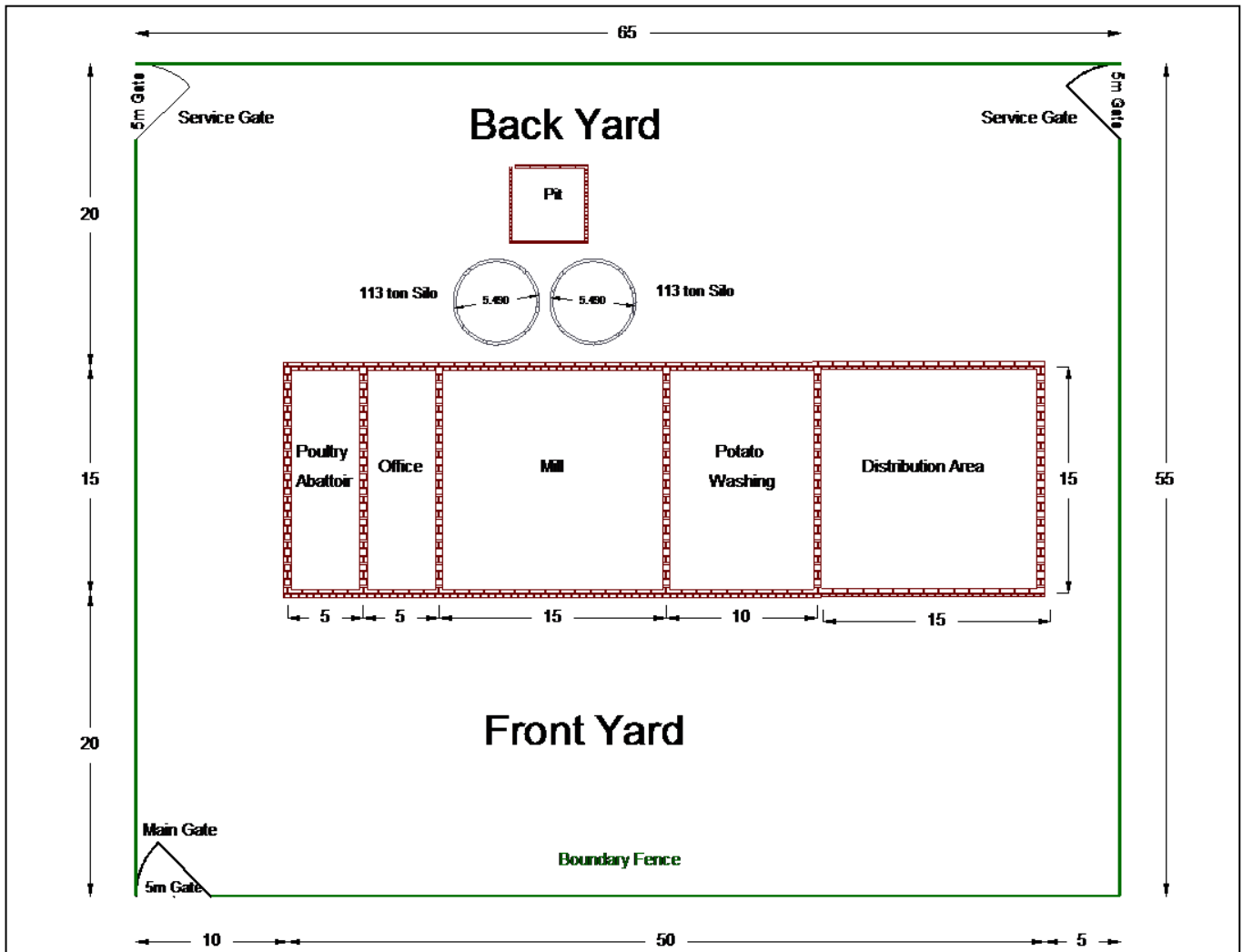
#### Building construction:

It must be mentioned that the building to host the maize mill is already completed through the implementation of the SASC&C as discussed with the introduction. Floor space of 225 square meters is already available. Refer to the photo below:



**Photo:** Construction of the Sisonke Support Centre and Cooperative in progress. The maize mill will be installed to the entrance on the left side.

**3.3.3. Site future layout of the Project site.**



**3.3.4. The physical production process:**

The maize meal will be produced according to international milling standards, which involve the following production processes:

1. Only classified, grade 1 White Maize will be purchased and initially be handled in 40 kg bags.
2. Maize bags will be emptied into a special storage bin, and then screened inside the milling area, to ensure that a clean and acceptable size of grain enters the storage bin. The cleaning and conditioning of maize is an important step in the milling process and refers to the removal of foreign material and all that is not maize kernels from the to be milled grain that lowers the quality of the product such as husk, straw, dust, sand and everything too big and too small, or lighter than a healthy maize kernel. Conditioning refers to the application of moisture to the clean kernels to allow the bran to be peeled off in flakes during the roller milling process. This also allows for easy separation in a sifter and most importantly to add mass to the meal.
3. The type of milling process to be used is called a "roller mill" and the process is called roller milling. For this process the maize kernels have to be de-germinated and de-hulled prior to grinding on the roller mills. The maize is transformed into grits (endosperm particles are larger than flour) with the amount of flour minimized by the milling process. The milling process produces a number of products differing in particle size, composition and application. Many of these products are not suitable for mass fortification as they are used for non-food products or special foods such as breakfast cereals, snacks, et.) In the case of this mill, these products will be sold as dairy feed.
4. Super maize meal, is thus obtained through this process of milling de-germinated maize kernels. This grade is classified as the best grade in terms of low-fat content and low fibre content, essentially as pure as possible starch with a long shelf life.

**Table 1. Analysis of Maize meal types produced in South Africa.**

Maize meal Product name	Ash content target	Fat target	Extraction target	Percent of market	Fat	Fibre
Super	0.55%	1.5%	63%	46	- 2%	0.8%
Special	0.85%	2.7%	79%	36	2 – 3%	1.2%
Sifted	1.1%	3.7%	89%	12		
Un-sifted	-	-	~ 100%	6		

5. The roller milling process split the milling products in two. On the one side, pure super maize meal is blown into a special container, from where it is weighed and packed. On the other side off the line, all the so called waste products (about 20%) called chop, is captured, bagged and stacked to be sold as animal feed supplement.
6. The maize meal is now bagged according to the different packing requirements, stacked on pellets, wrapped and ready to go into the market.

7. Throughout the whole process the following quality assurance will be in place:

**HACCP** (Hazard Analysis Critical Control Point) accreditation will be obtained in order to implement a Quality Control and Food Hygiene system which gives a common sense approach to the safety management of food products. The HACCP system is designed to identify and control hazards which might occur anywhere in the food processing operation. By hazards we mean anything which has the potential to cause harm to the consumer. We do realise the importance of having a thorough Quality Control System in place in the Cooperative to ensure that we comply with the necessary Health requirements as prescribed by legislation. The Quality Control System will also ensure that our suppliers of raw materials ( maize), the packing suppliers, etc. will in return comply with the necessary legislation. It will also ensure that all staff members of the SASC&C, as well as the staff members of our suppliers will be trained in their respective fields, as top the requirements and specifications of legislation, of all materials used in the manufacturing, value adding and packing of our products.

### 3.3.5. Mill Capacity

The mill will have a production output of 4160 kg per day within an 8 hour shift.

Table 2 below, gives a summary of unit cost and production output of the mill:

**Table 2 (a) Unit Cost of Production of the maize mill:**

Production Cost	Per Metric Ton		Per Kilogram		%	
	Local	Import	Local	Import	Local	Import
Maize ( ex Farmer)	2330.00	2210.00	2.35	2.21	77.38%	67.98%
Transport & Handling	20.00	380.00	0.00	0.38	0.66%	11.69%
<b>Cost of Maize</b>	<b>2,350.00</b>	<b>2,590.00</b>	<b>2.35</b>	<b>2.59</b>	<b>78.04%</b>	<b>79.66%</b>
Capital Cost	190.07	190.07	0.19	0.19	6.31%	5.85%
Manufacturing Cost	333.13	333.13	0.33	0.33	11.06%	10.25%
Distribution Cost	137.96	137.96	0.14	0.14	4.58%	4.24%
<b>Cost of Manufacturing</b>	<b>661.16</b>	<b>661.16</b>	<b>0.66</b>	<b>0.66</b>	<b>21.96%</b>	<b>20.34%</b>
<b>Total Cost of Production</b>	<b>3,011.16</b>	<b>3,251.16</b>	<b>3.01</b>	<b>3.25</b>	<b>100.00%</b>	<b>100.00%</b>
Sale of Chop	(470.00)	(518.00)	(0.47)	(0.52)	-15.61%	-15.93%
<b>Nett Cost of Production</b>	<b>2,541.16</b>	<b>2,733.16</b>	<b>2.54</b>	<b>2.73</b>	<b>84.39%</b>	<b>84.07%</b>

The main purpose of the unit cost analysis as displayed in Table 2 above was to establish the selling price for this maize mill per kilogram for maize meal product. These figures were derived from real value chains in the current maize and maize milling industry. This analysis compares the SAFEX maize price, against the local producer's price. The mill will make use initially of 10% local maize (Emerging farmers and massive food products) and 90% from commercial producers in the Eastern Cape, Free State and KwaZulu Natal.

The price differential of production cost between the uses of SAFEX maize or own producers' maize is 24 cents per kilogram. The objective will be to give the benefit of the transport differentiation to the local producer.

**Table 2 (b) Production Output of the mill**

Production Output:	Mill	Meal	Chop
	100%	80%	20%
Capacity ( Kg's / Hr)	650		
Utilisation %	80%		
Utilised Output ( Kg's / Hr)	520	416	104
Hours per shift	8		
Shifts per Day	2		
Daily Output ( Kg's)	4,160	3,328	832
Working Days per Month	22		
Monthly Output ( Kg's)	91,520	73,216	18,304
Production Cost per Kg	%	Meal	Chop
Usage: Local Maize ( Kg's)	10%	7,322	1,830
Usage: Imported Maize ( Kg's)	90%	65,894	16,474
Cost per Kg's: Local maize		27,558.14	<i>Calculated as a sundry income</i>
Cost per Kg's: Imported Maize		267,791.55	
Total Cost per Kg's		295,349.68	
Average cost per Kg		4.03	
Mark up %	22.00%	0.89	
Nett Selling Price		4.92	
Total Sales per Month		360,326.61	
Sales from Chop per Month	3.18%	9,393.61	
Nett Profit per Month	25.18%	74,370.54	

The purpose of the analysis of the production output of the mill as in table 2(b) above was to establish the total production output of the mill. Please note that the mill will have 2 products as output, with is Maize meal and Chop. The monthly output of maize meal will be 73,216 kilograms of special maize meal, against 18,304 kilograms of Chop. The production cost of special Maize meal will be R 4.03 per kilogram, based on a 10% use of local maize and 90% use of imported maize.

The sale of the chop will cover 15.77% the total production cost.

### 3.3.6. The supply of raw maize products.

Although the main objective of the SASC&C is to stimulate and increase local production by the farmers, it must be understood that initially, all maize to the mill, will not be produced locally. This is mainly due to the following reasons:

- The production season is limited as from September until July each year, and it will be impossible to accommodate the storing and storing cost of 300,000 Tonnes of local maize.
- It is going to take time for local farmers to participate to the maize market and also to produce the correct quality of maize needed by the mill

Initially, maize will thus have to be imported from the Free State and KwaZulu Natal. The infrastructure does make provision for the dumping and silo storage of 200 tons of maize at a time. On average, a truck load of 46 Tons of maize will be delivered every week, for 50 weeks of each year.

From table 2(a), Unit cost, it can be seen that the importing of maize, will be R 262.00 more expensive than the buying of local maize. This implicates that the mill will have a competitive advantage over other mills, by using local maize. On the other hand, local farmers will also be paid a better price than the SAFEX market price, due to the transport differentiation to the advantage of local farmers.

### 3.3.7. Grading and quality specs for the use and milling of raw maize

The regulations relating to the grading, packing and marking of maize products intended for sale in the Republic of South Africa is controlled under the Agricultural Product Standards Act, 1990 (Act No. 119 of 1990).

According to the act, they are 18 grades of maize products for sale in South Africa, namely:

- a) fine maize bran
- b) fine crushed maize
- c) sifted maize meal
- d) sifted crushed maize
- e) course maize bran
- f) mixed maize meal
- g) maize rice
- h) maize grifts
- i) maize flour
- j) maize germ meal
- k) No.1 straightrun maize
- l) No.2 straightrun maize
- m) Unsifted crushed maize
- n) Unsifted maize meal
- o) unspecified maize product
- p) special maize meal**
- q) super maize meal
- r) Samp

The Sisonke maize mill will only specialise in the production of Special Maize Meal. Table 3 below, gives the consumption standards for Special maize meal, according to the agricultural product standards act.

**Table 3 The grading requirements for maize in South Africa**

Description of deviation		Maximum percentage of deviation allowed (m/m)					
		White Maize			Yellow Maize		
		GRADE					
		WM1	WM2	WM3	YM1	YM2	YM3
I	Defective maize kernels above 6,35 grading sieve	7	13	30	-	-	-
	below 6,35 mm grading sieve	-	-	-	9	20	30
		-	-	-	4	10	30
II	Maize kernels of a mother colour	3	6	10	2	5	5
III	The foreign matter (excluding stone, pieces of coal or glass and dung)	0,3	0,5	0,75	0,3	0,5	0,75
IV	Total deviations in terms of I,II and III collectively, provided such deviations are individually within the limits specified above	8	16	30	9	20	30
V	Pinked maize kernels	12	12	12	12	12	12

**3.3.8. Quality control of raw maize and meal products.**

The Southern African grain laboratory, these and international grading laboratory, and will be contracted for the testing and quality control of raw maize and super maize meal products. This institution (SAGL) is situated in Tshwane (Pretoria), and therefore samples will be sent by courier to the laboratory on a monthly basis.

**3.3.8.1. The following tests are applicable for quality control:**

MAIZE GRADING	
-	Full maize grading
-	Defective kernels
-	Lemon Yellow %

PHYSICAL TESTS	
100 Kernel mass (maize) / 100 Pit massa (mielies), g	
Kernel size (10mm, 8mm, 6.35mm, 4.8mm, 2.4mm Maize)	
Granulation (Maize products)	
Sieve test (Maize) (USA) % (4.8mm, 2.4mm)	

Milling	
Roff 150 (Maize)	

<b>Milling</b>
Ash % (Additional moisture required)
Colour , Kent Jones (KJ)
GMO (Bt-Cry1Ab – maize and maize meal)
GMO (RUR-NK603 – maize and maize meal)
Milling index (Maize), Infratec (NIT)
Moisture (milled Maize – 1 hour oven)
Carbohydrates / Koolhidrate, g/100g
Energy value, kJ/100g
Protein (crude) - other , % Dumas (Leco)
Starch content
Whiteness index unsifted
Whiteness index 87:13 sifted (300µm)
Total digestible nutritional value
pH

<b>MYCOTOXINS</b>
Determining the Multi-Mycotoxins using UPLC-MS/MS:Includes Aflatoxin B1, Aflatoxin B2, Aflatoxin G1, Aflatoxin G2, Fumonisin B1, Fumonisin B2, T2-Toxin, Deoxynivalenol, Ochratoxin A and Zearalenone
Aflatoxin (total) (Sensitivity 0.1 ppb to 300 ppb) ppb/dpb = µg/kg
Deoxynivalenol (DON), (Limit of detection: 0.50 ppm to 5.0 ppm) ppm/dpm = mg/kg
Fumonisin (Sensitivity 0.25 ppm to 10 ppm) ppm/dpm = mg/kg
Ochratoxin A, (Sensitivity 1 ppb to 100 ppb) ppb/dpb = µg/kg
Zearalenone (Sensitivity 0.1 ppm to 5 ppm) ppm/dpm = mg/kg

<b>HPLC</b>
<b>AMINO ACIDS</b>
Free amino acids
Protein bound amino acids – Foodstuffs
Tryptophan
Cysteine and/or Methionine

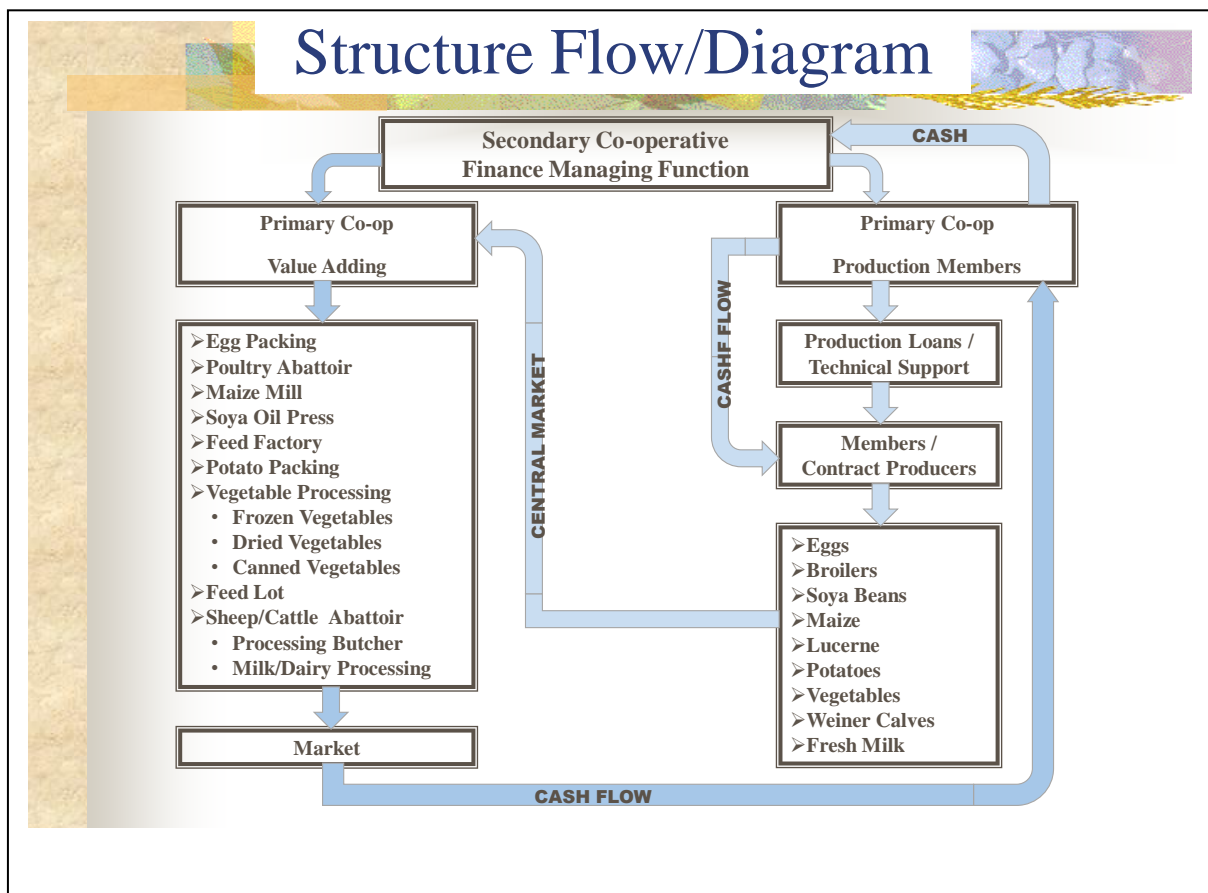
<b>MELAMINE</b>
HPLC determination (positive results must be verified using mass specctrometry)
Confirmation of positive results obtained on HPLC using mass spectrometry
Mass spectrometry (only )

<b>VITAMINS</b>
Ascorbic Acid (Vitamin C)
Folic Acid (Vitamin B9)
Nicotinamide
Pyridoxine (Vitamin B6)
Riboflavin (Vitamin B2)
Thiamine (Vitamin B1)
Vitamin A (Retinol saphonication)
Package for Fortification (6 vitamins)
<b>MINERALS</b>
Iron – Qualitative Method
Iron (Total)
Zinc (Total)

### 3.4 Future Products and Services

Once the targeted market has been secured, we plan to produce maize samp, which will not require any significant change to the current production line.

Future plans also include the cultivation of soya beans by the local farmers, and to produce a soya product for the local market. This will also have no significant change to current product line. All by-products from the maize and soya mill, will be used in a future planned animal feed factory, that will also use all locally produced maize that is not graded for maize milling (grade 2 and 3 maize). This feed factory again will supply a local feedlot that will finish off weaner calves and lambs from the local livestock farmers. These livestock again will be slaughtered in a local abattoir and butchery, which will add value to meat and meat products for the end consumer. The diagram below gives an indication of the future development plans:



## 4. Industry Overview

### 4.1. The need for milling within the basic food production sector as an innovative approach in challenging the issues of structural poverty within the Eastern Cape rural context.

**Key words:** Small-medium-scale milling, decentralization, rural poverty, rural job creation, primary marketing as the means to stimulating primary production. (Higgins, 2009)

Maize is the most important grain crop in South Africa. It is also the major feed grain and staple food for the majority of our population. 1997 marked the beginning of deregulation of the maize milling industry.

We are 13-years down in time towards the aim of progressing towards an accessible, decentralised, competitive and commercially viable industry, and still these objectives has been unsuccessful! The limiting factors contributing to this fact is: (Higgins, 2009)

- Substantial technology and knowledge-share deficits;
- Restricted training and finance options;
- Escalating logistics cost;
- An industry still remnant of the past elitist, centralized system.

It is well known fact that the Government (Refer to Annexure B as attached) and policy makers do recognize the urgent need for the development of small-medium- scale milling sector to alleviate the current food price and rural unemployment crises, there has been little support from private sector in effective implementation of this. Through the Sisonke / Umnga Partnership, this objective can now be reached, as this partnership represents a new class of entrepreneurial venture, with the Umnga Farmers Group as a private development agency, well known with the nuances of the local and South African market, also having the appropriate experience and technology on hand, to implement this venture successfully. The successful application for funding through this business plan will also guide and assist the Local government and other role-players in eliminating the limiting factors as listed above. It is important to understand that in addition to job creation and simultaneous provision of a route-to market (Stimulating primary production through providing a primary market) for the emerging farmers at Ncora irrigation Scheme, this milling project together with all other enterprise value adding development that will take place at the Sisonke Resource Centre, will also have the important implication of lowering maize meal prices with 20% in the surrounding rural area. (Higgins, 2009)

It is the opinion of the Sisonke-Umnga partnership, that in order to understand the feasibility and accessibility of this decentralised rural milling initiative, (as proposed in this business plan) , it is important to also have a good understanding of the historical, practical and economic issues at hand, within the milling industry. This understanding includes issues such as:

- a) Basic knowledge of the current staple food crisis on hand.
- b) Basic knowledge on the working of milling equipment
- c) The product standards to be produced
- d) National grain storing and handling processes
- e) An understanding of the history and current situation on the milling industry.

Each of the above components is fundamental to understanding the current complexities that the industry faces, such as the rural/urban food price differential.

#### 4.2. Poverty and the basic food security problem

According to a recent study (Van der Berg et al., 2009) the Income and Expenditure Survey of Households (IES) 2005/2006 and the General Household Survey 2006 (Statistics South Africa) were analysed.

*This study highlighted the following facts:*

- 47% of the population do consume less than the R 322 “lower bound” poverty line, as proposed by Statistics South Africa.
- 59.3% of the poor people are rural based – taking in mind that 50% of the population is rural based!
- Maize is the most important staple food for poor people ( Food price monitoring Committee, 2003,)

These facts do correlate with the information as provided from the household survey study that was done by the Umnga Farmers Group, as discussed in the introduction on the profile of the Ncora Communities as target group under this project and business plan.

#### 4.3. Milling equipment in South Africa

In the context of the milling industry it is understood that a small-scale milling is defined as capacities below 5-tons per hour, with medium- scale milling Inc capacities in the 5 ton/ hour to 8 ton/ hour range. (National Agricultural Directly, 2010)

The maize mill to be erected for the SASC&C add a capacity of six, five ton/hour, will thus be classified as a medium scale-mill.

Mills can be divided into two categories, single phase milling and a roller milling.

- **Single phase milling** includes general sub-categories of stone mills, plate mills and hammer mills. Stone mills and plate mills are arguably the closest to milling’s first origins as the entire grain passes between two vertical or horizontal stones or plates. In hammer mills, size reduction of the grain particles is achieved through a rapidly moving hammer action. Although some hammer mills can produce fine particle sizing, controlling the uniformity of particle sizes is difficult, resulting in poor cooking performance. A high specification product, such as super maize meal, is thus and not possible to produce through this type of milling.
- **Roller mills** are highly mechanised, specialised milling plants and are capable of a full range of end products incorporating lowest to highest product levels. These mills will obtain efficient cleaning, aspiration and de germinating systems that enable the production of low-fat, uniformly sized white end products such as popular brands Ace and White Star ( Pioneer foods ) maize meal. Traditionally roller mills have been reserved for high-capacity ( large scale), commercial and specialised markets in South Africa due to the perceived associated capital outlay, as well as the lack of availability of small-medium-scale, high-technology milling plant availability. There is general consensus that South African small-scale milling consist mainly of two categories:
  - **The rural custom or services mill**; where small amounts of local, rurally produced grain is milled for a fee, and;
  - **production mills**, like the proposed SASC&C mill, where the grain is purchased, milled and then sold to customers ( Abu & Kirsten, 2009; Jane & Rubey, 2003)

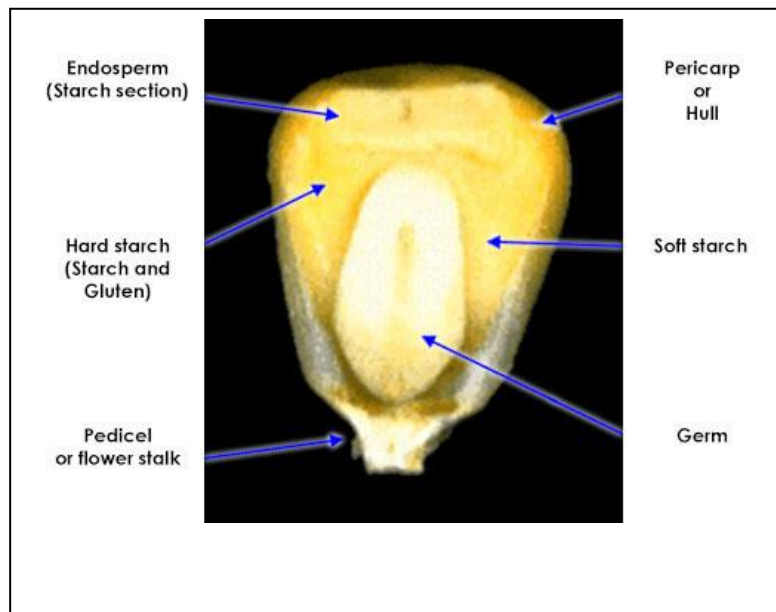
The milling equipment to be installed and used by the SASC&C was already discussed in detail.

#### 4.4. Milled maize products

Simplistically, maize milling can be divided into three phases:

1. At first, a physical separation of the pericarp, germ/ seed embryo and endosperm of the maize kernel is separated from one another is done.
2. Secondly, a sorting and classifying of the particles into their respective groups is done, and then
3. Thirdly, sizing and reducing the endosperm particles to the required granulation as determined by a finished product specification (super maize meal) is done.

**Figure 4: Diagram of the Maize Kernel**



Erasmus in 2004, found that in South Africa, unlike other maize consuming countries around the world, consumers prefer a maize meal, milled from all white variety of dent maize (*Zea Maize*).

Degermination and particle sizing defines the end product, with a finer end granulation and de-germinated product resulting in higher market value and thus increased profit margins. As explained earlier in the business plan, and for ease of understanding, maize products for human consumption can be generally classified into three product categories in South Africa; **super, special and sifted**.

**Super maize meal**, has the finest particle sizing, a fat content of less than 1, 5%, virtual total separation of germ and is the whitest in colour. It also sells at a premium price due to consumer preference of white, “fluffy”, easy- to- cook maize meal, which is possible due to the low fat content of the product. In high-technology roller mills such as those used by large moral milling companies (and to be installed under this business plan by the SASC&C), it is possible to obtain an extraction rate of 60 to 65% super.

**Special maize meal**, is not considered to be as desirable as Super because of its higher fat content. The higher fat content tends to hamper easy cooking and it has a more yellow appearance when cooked. Special maize meal is available at a comparatively lower price and also still carries a large demand as a basic food within the lower social- economic market sectors.

**Sifted maize meal**, includes the whole maize germ, and has a fat content from 4 to 5% (which is equivalent of that of the whole crushed kernel), is generally not perceived as a suitable malt finished product, carrying relatively little independent returns within South Africa.

The strong performance of industry leaders such as Tiger brand's Ace super maize meal brand , as well as Pioneer foods ' White Star super maize meal brand, referred to later in this document, clearly demonstrates the strong consumer preference for premium super maize meal with in South Africa.

**4.4.1. The Sisonke Support Centre and Cooperative Maize mill will initially only mill and pack the following products:**

- Special Maize meal 10 kg
- Special Maize meal 12,5 kg
- Special Maize meal 25 kg

**4.5. Overview of the South African milling industry.**

According to Bernstein, (Bernstein, 1996, cited in Abu et al 2009), South Africa's maize market system, prior to deregulation in 1997, operated under a controlled, single channel fixed price system. The former Government administered the wheat, milling and baking sectors. This resulted in the restricted registration of millers during the period of controlled marketing. This was evident in terms of acquiring the licences needed to operate as a milling enterprise and also in obtaining raw materials. This resulted in a highly concentrated market place in which only a few main players were in able to dominate. The general environment was technically and volume driven as opposed to commercially competitive and quality driven. Supply chain management was generally inwardly focused due to being heavily influenced by government control. The industry communication system, as a result of this centralised structure, was for the most part slow and reactive. (Higgins, 2009)

Higgins (Higgins, 2009) also found that despite a period of 13 years since industry deregulation, much of the past legacy today still prevails. Today there is still a highly concentrated market place in which four main players hold 75% of the white maize market share. These four main role players are:

- Premier Foods = 27%
- Tiger Milling Company = 20%
- Pioneer foods ( Sasko) = 18%
- OTK/AFGRI = 10%

(Food price monitoring committee, 2003)

This point is further in forced in the Government's 2010/11 – 2012/13 industrial policy action plan which states: *"The maize milling sector is highly concentrated and domestic prices appear to be subject to anti-competitive practices"*.

The white maize milling cartel has been under investigation by the competition commission since 2007. In its findings presented to the competition tribunal on 31 March 2010, the commission found the to be clear evidence of price fixing by at least 17 companies in the industry. They commendations were provided for each company to be fined 10% of annual turnover for 2009, with the exception of Premier Foods and Tiger Brands were granted conditional your immunity for the corporation and testimony. Allegations of bullying tactics employed by the larger milling companies active in the cartel also emerged in the report. The commission voiced its concern regarding the prevalence of cartels within the staple foods industry due to it undermining efforts to increase competition and fight rising food prices. It is also evidence of the undermining constraints still enforced on small- medium- scale milling companies in South Africa. The competition commission has also recently initiated investigations against seven grain storage and handling companies (including 2 of the biggest players, Afgri and Senwes) for allegedly colluding in the determination of grain storage tariffs. Higgins ( Higgins, 2009) further argues that this situation could have further implications for the maize food value chain,

highlighting the corrupt and anti-competitive behaviour by a small number of dominant players are long more than just one of the value chain linkages.

It is thus of crucial importance for the South African government to support the establishment of small –medium-scale mills, in a decentralised environment, in order to provide competition, relating to lower consumer prices.

#### 4.6. Market segment targeted by the SASC&C Mill

The following maize meal products occupy the following percentages of the market segment:

1. Super Maize Meal, occupying 46% of the market segment
2. Special maize meal, occupying 36% of the market segment
3. Sifted Maize meal, occupying 12 % of the market segment
4. Un-sifted maize meal, occupying 6 % of the market segment.

The Sisonke maize Mill will target the special maize meal segment of the local Eastern Cape market as indicated in Table 5 below.

**Table 5. Targeted market segment of the Eastern Cape Special maize meal market.**

Year	Tons of maize meal to be sold by the SASC&C mill.	Total Eastern Cape segment ( ton)	Percentage
2011	738	800,000	0.09
2012	1529	800,000	0.19
2013	1882	850,000	0.22
2014	1975	900,000	0.22
2015	1983	900,000	0.22

From table 4 above, it can be seen that the SASC&C maize mill will target in the first year of production only 0, 09% of the total Special maize meal market in the Eastern Cape. The total segment of the market on the long term will be only 0.22%.

## 5. Marketing Strategy

### 5.1 Analysis of Competitive Position

The idea behind the deregulation of the South African milling industry was to encourage competition and does bring down basic food prices. It is unfortunate that the opposite of this in fact occurred. Table 6 below shows the trends in maize products for January 2009 until January 2010.

**Table 6. Data on urban food prize trends, Maize products.**

Maize products	Price level			Percentage change	
	Jan -09	Oct -09	Jan -10	Oct 09-Jan 10	Jan-09 – Jan-10
Maize Special 5 kg	18.89	16.90	17.91	5.96%	- 5.22%
Maize Super 5 kg	23.10	23.48	23.64	0.72%	2.36%
<b>Average</b>				<b>3.34%</b>	<b>- 1.43%</b>
<b>White Maize ( R/ton)</b>	<b>1814</b>	<b>1493</b>	<b>1405</b>	<b>-5.89%</b>	<b>-22.57%</b>

(Quarterly Food Prize monitor, February 2010)

In addition to the competition commission findings' providing that anti-competitive behaviour is still very much prevalent in the industry, prices of staple foods have continued to rise. Previous studies (Mukumbu, 1994; Jayne et al., 1995; Rubey, 1995; Jayne & Jones, 1997) indicate that market reforms in southern and eastern Africa resulted in decreased milling and relating margins. However, in a further in empirical study conducted by trial by Traub and Jayne (2006) simulations "indicate that the deregulation of maize meal prices has caused a 16-20% increase in the maize is retail price of maize meal since 1997. Maize meal prices in South Africa remain the highest of all maize producing countries in the region." (Higgins, 2009)

In order for the SASC&C to be competitive in the maize meal market, the following strategy is applicable:

- a) Lower production cost
- b) Cheaper raw material maize, due to the transport differential in local maize production
- c) Production of a high quality super maize meal product
- d) Lower product prices to the consumer market due to the cheaper cost of delivery transport.

According to the Quarterly Food Price Monitor (FPM), is released in favour early 2009 by the National Agricultural Marketing Council (NAMC), it was revealed that urban-rural food price trends as from January 2008 - 2009, people living in rural areas had to pay on average, R 3.75 more for a 5 Kg bag of maize meal than people in the urban areas. These prices increased further to R 5,42 in January 2009. This was despite the fact that White maize prices remained relatively stable throughout the period.

**The government's response to this urban/rural dilemma was published in the 2010/11 – 2012/13 Industrial Policy Action Plan in February 2010, when it maintained that active promotion of investment in the small-scale milling segments would contribute to the process of moderating pricing in a key sub-sector that impacts greatly on food cost. In addition to job creation, the government maintained that it would also contribute to poverty alleviation through being "particularly competitive in rural areas where high transport and logistics cost raise the price of basic food products."**

## 5.2. Opposition

The management of the SASC&C maize mill, are well informed about the consumer preference for maize meal from large -scale mills. According to Abu & Kirsten ( 2009), in a study to determine the price efficiency of small and medium- scale maize milling enterprises in South Africa, the consumer preference of food two-year lease for super maize meal, as opposed to a special maize meal.

### 5.2.1. Tiger Oats

A market segment leader in this category is **Tiger Brands' Ace super maize meal** brand



Tigers' milling division was the star performer; " South Africa's relatively uncompetitive food production market and resulting pricing power allowed milling and baking to post super profits in the latter part of 2009, according to a margin of 23.1% versus a 7-year advantage of 12, 9% ....Tigers' strong performance in this category will most likely continue, at least over the foreseeable future.." (Worz, 2010)

### 5.2.2. Pioneer Foods ( Pty) Ltd – SASKO MAIZE



**White Star Super Maize Meal** was launched in March 1999 and has since then proofed to be a real STAR! Since the launch the brand has grown consistently and has become one of the biggest super maize brands in South Africa. White Star's character is young, modern and vibrant - the preferred super maize brand for the young in spirit or body! The superior quality of White Star is unmatched in the market and every care is taken to ensure that White Star's consumers are rewarded with the best product money can buy.

In addition to Sasko Grain's super maize meal brand, White Star, there are also three other brands that are distributed. In the special maize meal category two brands namely, **Blue Bird** and Bokomo, are available. In keeping with Sasko Grain's policy of best quality products these two brands are of high quality and have been in the market for more than thirty years. The Champion brand is also very well known throughout South Africa and has three type's of maize products in it's range namely, samp, maize rice and maize flour.

Together with White Star, these three brands gives the consumer a wide variety of high quality maize products that cater for most of their maize needs.

### **5.2.3 Opportunities form the opposition's limitations**

#### **5.2.3.1 High Transport Cost**

Increasing logistics cost due to rising fuel costs is a universally acknowledged challenge and one that is further exaggerated with in South Africa due to vast distances. The gaps between the most urban production centres, place of origin for raw material and the markets the finished product must reach are continually widening due to the perpetually increasing delivery cost.

For the reason that the SASC&C maize mill is strategically placed in a traditionally subserviced rural locality, the Ncora immigration scheme, the milling operations and to the end market (Lower consumer price) will benefit from substantial logistics savings which will result in higher margins, increased polity( freshness) and eat pleased the finished product end prices.

The Ncora Irrigation Scheme further does have 3508 hectares of fertile soil under irrigation available for crop production. The advantage of the government's local Eastern Cape massive food production scheme will also contribute to a Lower transport cost.

#### **5.2.3.2 High maize price**

The long-term objective, as mentioned in the introduction to this business plan, is to encourage sourcing of raw material from local producers. If the current silo differential is shared with local producers, there will be a distinct cost advantage for both parties. The mole will be able to source and local maize at a discount relative to the SAFEX trading price. The "process of agrarian and rural transformation involves households' transition from a subsistence model to a market engagement mode." (Timmer, 1988, Staatz, 1994 cited in Bouhgtou et al., 2007:1)

The grain storage and handling sectors currently in South Africa are evenly dominated by a few main players. Up to 85% of silo capacity is owned by 22 silo owners. In fact, a total of just over see many percent is owned by a mere three co-operatives; namely Senwes Limited, Afgri and Noordwes . (Food Price Monitor, Committee, 2003).

The SASC&C maize mill will create a cost-and differentiation advantage above its competitors on the purchase price of raw maize. The National price of all grain is calculated on the economic principle of Supply and Demand by SAFEX, a Johannesburg stock exchange (JSE) entity based in Randburg. Every town in South Africa has its own price for grain, calculated and based on the SAFEX price, plus the cost of transport for the difference in distance between Randburg and the specific town.

The distance between Randburg and the farmer producers thus will cause that due to the cost of transport, the farmers further away from Randburg, will be paid the lowest price for their maize. This also means that the millers closer to Randburg, also do pay the lowest price for maize, getting the biggest advantage due to the differential in cost of transport. When a miller is buying maize (or any other grain) through the controlled market of a Cooperative, the price calculation is strictly based on the SAFEX price, plus the cost of transport to the miller. SASC&C Milling will be buying their raw maize directly from private producers in the Eastern Cape, thus be paying a higher price than the SAFEX price to the farmer, but still a lower price than that of buying through the controlled SAFEX market, as all the opposition must do. This is possible through sharing the transport differentiation with the producer directly. This initiative will thus give the SASC&C Mill a competitive advantage above other competitors based in Gauteng, Bloemfontein, Aliwal North, Queenstown, East London and Port Elizabeth.

### **5.2.3.3 Technology and skills deficits**

As mentioned, previously the milling technology required to produce top-quality, high margin mulled maize products was limited to capital and volume intensive large-scale milling operations. However, this is no longer the case. The milling equipment, specifically designed for developing markets and tried and tested with in the South African context, is fully owed to make it and well-suited to operate in the low skilled environment. All personnel involved in he SASC&C Mill will be trained by the Grain Milling Federation. *Please refer to an Annexure F, Course content: Maize milling and Management course, Maize Milling Federation*

## **5.3. Marketing Vision and Objectives**

The SASC&C Mill will produce a high quality special maize meal. This marketing plan illustrates our market segment target and the strategies that we are employing to get customers and to create a solid revenue stream. We are not just any maize mill! Our unique focus of creating a primary market also to our primary producers, will give us an advantage over our competitors by giving customers a local outlet to enjoy the advantage of a local market and also the objective of reducing the cost of the local price of maize meal. We will thus fund the development of our own raw product!

### **5.3.1. Vision**

Our vision is to provide our local people in the Eastern Cape Province with a high-quality, special maize meal, with a bitter taste preference and nutritional content as that of our competitors.

### **5.3.2. Objectives**

- a) To produce and sell 60 tons of special maize meal per month by 31 December 2012.
- b) To increase our sales to 90 tons per month 31 July 2013
- c) To be a sustainable and profitable small-sized maize mill by 31 December 2013

### **5.3.3. Branding**

All maize meal products will be sold under the unique brand name of Kuyasa. Kuyasa is the Xhosa word that means: "Sunrise!" This band name was locally developed by a scholar in the KwaMzola community after a competition was launched between the community members for the design of a band name, logo and slogan.

Marketing the brand will proudly be done in the following manner.



## **The Power of Choice!**

*Kuyasa! ...The sun is rising for the rural people of the Eastern Cape!*

*Kuyasa! The Power of Choice!*

- *The choice to take our future in our own hands!*
- *The choice to make a difference!*
- *The choice to take the lead!*
- *The choice to support a proudly own brand of maize meal!*
- *The choice ....the choice is yours!*

***“Choose Kuyasa Maize meal today!”***

## **5.4. Target markets**

Our ideal customer is the disadvantaged, the rural and township community household, who is depending on maize meal as the staple food for survival.

### **5.4.1. Market definition and segmentation**

We target two segments:

#### **a) Large wholesale suppliers**

Our target here is to register as a supplier to the following wholesale suppliers, located in all towns as listed in paragraph b, below.

- SPAR Group
- Boxer Group
- Weirs Cash & Carry
- METRO
- U-Save ( Shoprite/Checkers Group)
- Orient Bazaar Group

#### **b) Small local rural shop outlets.**

Our target here is to provide directly to all possible small local retail shops in and around the following town districts.

- Cala
- Elliot
- Ugie
- Maclear
- Mt Fletcher
- Dordrecht
- Indwe
- Queenstown
- Cofimvaba
- Cathcart
- Stutterheim
- Ncgobo
- Mtatha
- Dutywa
- Butterworth
- Wollowvale

## **5.5. Target Market segment strategy**

Our strategy will focus on the marketing of a local product, BBBEE owned manufacturer, through a one to one contact between our marketing representative and the responsible person for purchasing, in the two market segments as discussed above.

## **5.6. Target Market: Rural and Township communities.**

### **5.6.1. Needs and requirements**

Consumers are tired of new bands including the market, not complying to the personal preferences and taste. For this reason consumers are resistant to change from a well-known and established band, to a new band. We will thus target our consumers in the following ways:

- a) Promotions through the customer through pamphlets and promotion days whereby our product will be displayed and cooked for tasting. These promotions will target the following venues:
  - Community gatherings such as meetings, information days and donations of maize meal for funeral catering.
  - One two one promotions on pension days at wholesale suppliers as identified above.
  - Commissioning of a detail shop owners in giving preference to selling our maize meal.
- b) We will target the media and local newspapers for advertising and sponsoring of our product.
- c) We will target the local radio stations for interviews in order to promote rural development in other communities as well as our product.

### **5.6.2. Distribution channels**

Our channels of distribution will be through the big wholesale suppliers as well as directly to detail shops. Delivery will be done through the use of own transportation that will ensure prompt payment on time delivery.

### **5.6.3. Competitive forces**

As discussed earlier in this business plan, we have to compete with giant brands that are well known and established in the market. Our focus to our market our competitors will be based on:

- Better quality for better prices.
- Proudly local and African
- Delivery on orders sticky on time

### **5.6.4. Communications**

We will even its social media and word of mouth for them vast majority of our marketing using platforms such as Daily Dispatch, promotion pamphlets, Internet website, taste promotions, attractive packaging and Mhlobo Wenene radio station.

**5.6.5. Price structures**

**Table 7. Comparing the current maize meal price with the proposed selling price of maize meal.**

<b>Product</b>	<b>Current wholesale price</b>	<b>Current retail price</b>	<b>% Retail GP</b>	<b>Proposed Wholesale price</b>	<b>Proposed retail price</b>	<b>% Variance from current retail GP</b>
Special 10 kg	R 52.11	R 61.30	15.00%	R 49.20	R 56.58	8%
Special 12,5 kg	R 67.26	R 70.80	5.00%	R 61.50	R 70.73	0%
Special 25 kg	R 131.69	R 146.32	10.00%	R 123.00	R 141.45	3%

It will be our objective to enter the market at 8 % below the current wholesale price. When referred for cross reference to Table 2 (b), it was projected that on a 22% mark-up above production cost, our product will be sold at R 4.92 per kilogram.

## 6. Management and Staffing

### 8.1 Organizational Structure



### 6.2. Management Team and job descriptions.

Job Title	Job Description
Manager	Management of all milling activities, cash flow, quality assurance
Miller / Technical Assistant	Technical milling activities
Marketing manager	Marketing / Sales representative
Admin Clerk	General administrations, orders, GRV, Invoicing, filing
Conditioning Conveyor Operator	Technical management of all conveyors, technician
Mill Operator	Technician on maize milling, quality assurance
Bagger	Weighing and bagging / packing materials
Stitcher	Stitching of packing
Packer	Packing of pellets, drive forklift
Driver	Driver and deliveries
Driver's Assistant	Assist driver and deliveries

**6.3. Budget for Management and Staffing**

<b>Job Description</b>	<b>Numbers</b>	<b>Training</b>	<b>Institute</b>
Manager	1	Shareholder	Umnga
Miller / Technical Assistant	1	Miller	Umnga
Marketing manager	1	Marketing	Umnga
Admin Clerk	1	Admin	Umnga
Mill Operator	1	On Site	Roff / GSI Africa
Bagger	2	On Site	Umnga
Stitcher	1	On Site	Umnga
Packer	4	On Site	Umnga
Driver	2	Drivers silence	Qualified
Driver's Assistant	2	On Site	Umnga
<b>TOTAL</b>	<b>16</b>		

<b>Job Description</b>	<b>Number</b>	<b>Monthly</b>	<b>On Cost %</b>	<b>Monthly Cost</b>	<b>Annual Cost</b>
Management	1	15,000.00	34.28%	20,142.00	241,704.00
Admin	1	1,075.00	34.28%	1,443.51	17,322.12
<b>Total</b>	<b>2</b>			<b>21,585.51</b>	<b>259,026.12</b>

<b>Job Description</b>	<b>Number</b>	<b>Monthly</b>	<b>On Cost %</b>	<b>Monthly Cost</b>	<b>Annual Cost</b>
Miller / technical Assistant	1	12,000.00	34.28%	16,113.60	193,363.20
Marketing Manager	1	10,000.00	34.28%	13,428.00	161,136.00
Drivers	2	1,720.00	34.28%	4,619.23	55,430.78
General workers	10	1,075.00	34.28%	14,435.10	173,221.20
<b>Total</b>	<b>14</b>			<b>48,595.93</b>	<b>853,151.18</b>

## 7. Financial Plan

### 7.1 Funding Required

We do require funding of R 1,804,775.20 (One million Eight hundred and four thousand rands) on top of the own financial contribution as discussed in paragraph 7.2 below.

<b>Summary of capital required</b>				
<b>Equipment :</b>	<b>VAT incl</b>	<b>Additions</b>		<b>Total (Incl VAT)</b>
Milling Plant	R 513 775.20	Accommodation	R 10 000.00	R 523 775.20
Sample Prodder	R 1 000.00			R 1 000.00
Electrical Installation	R 50 000.00			R 50 000.00
<b>Sub Total</b>	<b>R 564 775.20</b>		<b>R 10 000.00</b>	<b>R 574 775.20</b>
<b>Vehicles :</b>				
5ton Canter Truck	R 550 000.00			R 550 000.00
1ton Bakkie	R 150 000.00			R 150 000.00
750kg Trailer	R 30 000.00			R 30 000.00
<b>Sub Total</b>	<b>R 730 000.00</b>		<b>R 0.00</b>	<b>R 730 000.00</b>
<b>Operating Expenses :</b>				
Cashflow	R 500 000.00			R 500 000.00
<b>Sub Total</b>	<b>R 500 000.00</b>		<b>R 0.00</b>	<b>R 500 000.00</b>
<b>Total Loan</b>	<b>R 1 794 775.20</b>		<b>R 10 000.00</b>	<b>R 1 804 775.20</b>

## 7.2 Own financial contribution

The detailed funding of the SASC&C was discussed in the introduction. From this funding, the portional contribution to the construction of the building, as well as equipment is as follows:

Construction of the shed	: R 1,200,000.00
Own contribution in labour	: R 213,894.00
Water purification and electricity	: R 42,000.00
<b>Total own contribution:</b>	<b>R 1,455,894.00</b>

## 7.3 Financial Projections

### 7.3.1. Projected Profit and Loss Accounts (Income Statement)

Years ending Dec	Year 0 2011	Year 1 2012	Year 2 2013	Year 3 2014	Year 4 2015
<b>PROFIT &amp; LOSS ACCOUNTS</b>	ZAR	ZAR	ZAR	ZAR	ZAR
<b>Total sales</b>		1 603 340	4 449 572	5 569 495	6 293 529
Cost of sales:					
-Materials/packaging/goods		1 042 171	2 892 222	3 620 171	4 090 794
-Direct labour		842 170	901 122	964 200	1 031 694
-Other direct		<u>114 639</u>	<u>318 144</u>	<u>398 219</u>	<u>449 987</u>
<b>Cost of sales</b>	<b>0</b>	<b>1 998 980</b>	<b>4 111 488</b>	<b>4 982 591</b>	<b>5 572 476</b>
<b>Gross profit</b>	<b>0</b>	<b>(395 640)</b>	<b>338 084</b>	<b>586 904</b>	<b>721 053</b>
Overhead costs:					
-Selling		0	0	0	0
-Management/admin staff		0	0	0	0
-General		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total overhead costs</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Trading profit</b>	<b>0</b>	<b>(395 640)</b>	<b>338 084</b>	<b>586 904</b>	<b>721 053</b>
Less: Depreciation		93 198	186 396	186 396	186 396
Less: Operating lease & HP payments		0	0	0	0
Plus: Profit(loss) sale of F Assets		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Operating Profit</b>	<b>0</b>	<b>(488 838)</b>	<b>151 687</b>	<b>400 507</b>	<b>534 657</b>
Less: Interest payable		81 215	153 406	135 358	117 310
Less: Intangible asset writedowns		0	0	0	0
Plus: Interest receivable		0	0	0	0
Plus: Miscellaneous income		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net profit before tax</b>	<b>0</b>	<b>(570 053)</b>	<b>(1 719)</b>	<b>265 149</b>	<b>417 346</b>
Corporation tax		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Profit after tax</b>	<b>0</b>	<b>(570 053)</b>	<b>(1 719)</b>	<b>265 149</b>	<b>417 346</b>
Dividends declared		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Transferred to reserves</b>	<b>0</b>	<b>(570 053)</b>	<b>(1 719)</b>	<b>265 149</b>	<b>417 346</b>

**7.3.2. Projected Balance Sheet**

The projected Balance sheet for the mill is shown below.

<b>Years ending Dec</b>	<b>Dec 2011</b>	<b>Year 1 2012</b>	<b>Year 2 2013</b>	<b>Year 3 2014</b>	<b>Year 4 2015</b>
<b>BALANCE SHEETS</b>	ZAR	ZAR	ZAR	ZAR	ZAR
<b>ASSETS</b>					
Current assets:					
Cash at bank		0	0	0	360 155
Accounts receivable		131 781	365 718	457 767	517 276
Inventory		0	0	0	0
Prepaid expenses		0	0	0	0
VAT recoverable		0	0	0	0
<b>Total current assets</b>	<b>0</b>	<b>131 781</b>	<b>365 718</b>	<b>457 767</b>	<b>877 431</b>
Fixed assets:					
Fixed assets (gross)		1 304 775	1 304 775	1 304 775	1 304 775
Less: Accumulated depreciation		93 198	279 595	465 991	652 388
<b>Net fixed assets</b>	<b>0</b>	<b>1 211 577</b>	<b>1 025 181</b>	<b>838 784</b>	<b>652 388</b>
<b>Net intangible assets</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total assets</b>	<b>0</b>	<b>1 343 358</b>	<b>1 390 899</b>	<b>1 296 551</b>	<b>1 529 819</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable		85 658	237 717	297 548	336 230
Capital expenditure creditors		0	0	0	0
Accrued expenses		0	0	0	0
Payroll taxes/benefits		0	0	0	0
Dividends		0	0	0	0
Federal/state tax		0	0	0	0
VAT payable		0	0	0	0
Short-term loans/credit		203 456	281 133	42 282	0
Current portion of longterm liabilities:					
Longterm debt/notes		0	0	0	0
<b>Total current liabilities</b>	<b>0</b>	<b>289 114</b>	<b>518 850</b>	<b>339 830</b>	<b>336 230</b>
Longterm liabilities:					
Longterm debt/notes		1 624 298	1 443 820	1 263 343	1 082 865
<b>Total longterm liabilities</b>	<b>0</b>	<b>1 624 298</b>	<b>1 443 820</b>	<b>1 263 343</b>	<b>1 082 865</b>
Equity:					
Equity investments		0	0	0	0
Retained earnings		(570 053)	(571 771)	(306 622)	110 724
<b>Total owners' equity</b>	<b>0</b>	<b>(570 053)</b>	<b>(571 771)</b>	<b>(306 622)</b>	<b>110 724</b>
<b>Total liabilities &amp; equity</b>	<b>0</b>	<b>1 343 358</b>	<b>1 390 899</b>	<b>1 296 551</b>	<b>1 529 819</b>

7.3.3 Cash Flow Projections

Years ending Dec	Year 1 2011	Year 1 2012	Year 2 2013	Year 3 2014	Year 4 2015
<b><u>CASHFLOW PROJECTIONS</u></b>	ZAR	ZAR	ZAR	ZAR	ZAR
<b><u>Cash receipts</u></b>					
Cash sales & debtors (Note 1)	0	1 471 559	4 215 635	5 477 446	6 234 019
Proceeds of new share issues	0	0	0	0	0
Increases in longterm debt	0	1 804 775	0	0	0
Proceeds from disposals of fixed assets	0	0	0	0	0
VAT recovered from State	0	0	0	0	0
Miscellaneous income received	0	0	0	0	0
Interest received	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total cash receipts</b>	<b>0</b>	<b>3 276 334</b>	<b>4 215 635</b>	<b>5 477 446</b>	<b>6 234 019</b>
<b><u>Cash payments</u></b>					
Materials/goods creditors (Note 2)	0	956 513	2 740 163	3 560 340	4 052 112
Total direct cost payments (Note 3)	0	956 809	1 219 266	1 362 419	1 481 682
Total overhead expense payments (Note 4)	0	0	0	0	0
Corporation tax paid	0	0	0	0	0
Dividends paid	0	0	0	0	0
Total capital expend. payments (Note 5)	0	1 304 775	0	0	0
Operating lease payments	0	0	0	0	0
Longterm debt repayments	0	180 478	180 478	180 478	180 478
VAT related to o/h expenses & capex	0	0	0	0	0
VAT paid to State	0	0	0	0	0
Prior-year payroll taxes/benefits paid	0	0	0	0	0
Changes in prepaid expenses	0	0	0	0	0
Changes in accrued expenses	0	0	0	0	0
Interest paid	<u>0</u>	<u>81 215</u>	<u>153 406</u>	<u>135 358</u>	<u>117 310</u>
<b>Total cash payments</b>	<b>0</b>	<b>3 479 790</b>	<b>4 293 312</b>	<b>5 238 595</b>	<b>5 831 582</b>
<b>Net cashflow</b>	<b><u>0</u></b>	<b><u>(203 456)</u></b>	<b><u>(77 678)</u></b>	<b><u>238 851</u></b>	<b><u>402 437</u></b>
<b>Closing net cash balance (deficit)</b>	<b>0</b>	<b>(203 456)</b>	<b>(281 133)</b>	<b>(42 282)</b>	<b>360 155</b>

## Notes on Cashflow Projections

### Note 1

Cash sales & debtors (incl related VAT):

- Current year	0	1 471 559	4 083 853	5 111 728	5 776 252
- From prior year	<u>0</u>	<u>0</u>	<u>131 781</u>	<u>365 718</u>	<u>457 767</u>
	<b>0</b>	<b>1 471 559</b>	<b>4 215 635</b>	<b>5 477 446</b>	<b>6 234 019</b>

### Note 2

Materials/goods creditors (incl related VAT):

- Current year	0	956 513	2 654 505	3 322 623	3 754 564
- From prior year	<u>0</u>	<u>0</u>	<u>85 658</u>	<u>237 717</u>	<u>297 548</u>
	<b>0</b>	<b>956 513</b>	<b>2 740 163</b>	<b>3 560 340</b>	<b>4 052 112</b>

### Note 3

Direct cost payments (excl VAT):

-Direct payroll/benefit - current year	0	842 170	901 122	964 200	1 031 694
-Utilities (variable)	0	31 265	86 767	108 605	122 724
-Repairs/maintenance (variable)	0	62 530	173 533	217 210	245 448
-Subcontract	0	0	0	0	0
-Consumables	<u>0</u>	<u>20 843</u>	<u>57 844</u>	<u>72 403</u>	<u>81 816</u>
	<b>0</b>	<b>956 809</b>	<b>1 219 266</b>	<b>1 362 419</b>	<b>1 481 682</b>

### Note 4

Overhead expense payments (excl VAT):

-Admin payroll/benefit - current year	0	0	0	0	0
-Variable selling	0	0	0	0	0
-Advertising & brochures	0	0	0	0	0
-Travel expenses	0	0	0	0	0
-Public relations, exhibitions	0	0	0	0	0
-Office supplies etc.	0	0	0	0	0
-Mail, telephone, telex & fax	0	0	0	0	0
-Travel	0	0	0	0	0
-Computer supplies etc.	0	0	0	0	0
-Utilities	0	0	0	0	0
-Rent & property taxes	0	0	0	0	0
-Professional fees & audit	0	0	0	0	0
-Miscellaneous expenses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

### Note 5

Capital expend payments (excl VAT):

- Current year	0	1 304 775	0	0	0
- From prior year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<b>0</b>	<b>1 304 775</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 8. Conclusion

Considering the information as provided in this Business plan, it is hoped that the management and funder, do have a sufficient understanding of an industry which is still encaptured by past constraints, yet contains considerable potential for growth, development and far-reaching benefits to the rural communities of Ncora.

As directors of the Sisonke agricultural support centre and co-operative, together with our agent, the Umnga Farmers Training Group, we have strived to provide a practical business plan on how to construct a medium scale billing project that can operate a suitably within the other enterprises of our support centre. It is also our objective to meaningfully contribute to the issues of food security, unemployment and rising food prices, with a particular emphasis on the rural communities around the Ncora Irrigation scheme.

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Signed at KwaMzola in this \_\_\_\_\_ day of \_\_\_\_\_ 2011

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**Z. W. Mesfo**

**CHAIRPERSON**

Msefo Land Development and Agricultural Co-operative

Trading as: Sisonke Agricultural Support Centre and Cooperative

## **Annexures**

### **Annexure A**

Section 1 Documentation requirements:

- a) Proof of registration ( Certified copy of Registration as a Cooperative)
- b) Registered office address
- c) List of names of directors
- d) Board resolution to apply for this loan indicating name and position of person authorised to sign the loan application.
- e) Constitution of the Cooperative, signed by the founder members
- f) Minutes of the meeting where the Constitution has been adopted
- g) List of the founder and other members
- h) Copy of the Register of the Directors

### **Annexure B**

- a) Personal info and ID's of Directors
- b) Curriculum Vitae of all Directors

### **Annexure C**

Letter of Support from the Department of Rural Development and Land Reform

### **Annexure D**

Company profile of the Supporting and Implementing Agent, Umnga farmers Training Group

### **Annexure E**

Course content: Maize milling and Management course, Maize Milling Federation.

### **Annexure F**

Quotations on machinery and Equipment supply



*Kuyasa Chicken*

**The Power of Choice!**

*A product of:*

*Sisonke Agricultural support Centre and Cooperative*

*Trading name of the*

*Msefo Land development and Agricultural Cooperative*

*P.O. Box 100*

*Ncora*

**Technical Plan and Application:  
Registration Certificate  
Rural Poultry Abattoir  
According to the  
Meat Safety Act, Act No. 40 of 2000**

**to**

**Department of Agriculture  
Veterinary Department  
&  
Department of Environmental Affairs**

**Eastern Cape Province**

**24 May 2012**

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## 1. Executive Summary

This technical plan is in support for an application for the Registration and Certification of the Rural Abattoir of the Sisonke Agricultural Support Center and Cooperative, trading name of the Msefo Land Development and Agricultural Cooperative LTD. This Cooperative is registered as a primary Agricultural Cooperative, under the Cooperatives Act 1981, Act No. 91 of 1981

### **Introduction:**

The Sisonke Agricultural Support Centre and Cooperative, hereinafter further in this plan, is referred to as SASC&C, was funded during February 2010, by SURUDEC ( the Sustainable Rural Development of the Eastern Cape) , an European Commission funded initiative, to the amount of R 6,765,784.00. This development fund is currently being utilised for the implementation of the SASC&C, which involves the following actions:

### **Description of the action and its effectiveness**

#### **Overall objectives of the action, outputs and expected results.**

The overall objective of the SASC&C, is to strengthen the Social Capital and networking needed to establish itself as an Agricultural Support Centre that will optimise the Social Assets of the target area through agricultural support, in order to utilise all local resources to the optimum in order to enhance the ability of people to employ themselves, to improve own income distribution, soak up under employed labour and create opportunities to bring socio- economic stability in the target area.

#### **This main objective will be fulfilled through the following specific objectives:**

- 1) Enabled controlled co-operation amongst the landowners in the identified target area, but also to spread these advantages in time to all surrounding districts and communities.
- 2) Enable landowners to group their land in a controlled and co-operative manner, in order to benefit from economies of scale in production, produce deliveries, value adding and marketing. (The complete production function.)
- 3) All individual and small fractions of domestic farmers to become part of the mainstream commercial production. This will increase the economies of scope, such as joint production, facilities division of resources and specialization production, increased productivity and income.
- 4) Members' participation in order to reduce cost structures and enhance effectiveness of farming methods, joint bargaining for prices, markets and specific products.
- 5) Holistic capacity building and skills training programmes
- 6) Stability due to risk sharing in the whole production function.
- 7) Innovation of members to learn from one another and from production cycle to production cycle.
- 8) Legal protection through the co-operative structure as well as limited legal liability of individuals.

The result of these outputs will be a well structured, positive and contributing group of members of various primary Agricultural Co-operatives, already in place. These co-operatives through the support of the SASC&C as umbrella Co-op, will have a holistic agricultural service to their door step such as:

- land plan optimisation,
- production planning,
- production loans,
- enterprise production contract,
- value adding on produce,
- collective marketing in the commercial market,
- administrative and secretarial services, and
- A local Co-operative Supply Centre.

**Description of the current proposed activities, effectiveness and provisional costing:**

**1. Orientation, capacity building, life-skills training and business planning to** all directors and members of the Co-op's and communities. The output will be a training plan, training manuals and equipment and certificates. The result is a motivated and informed community as members and beneficiaries of the Co-operative. All training will be SAQA accredited and certified.

**2. Land use planning, grouping and production contract allocations. GIS analysing and reporting on land optimisation** that includes climatic reports, soil surveys, critical infrastructure (irrigation) site suitability and land use plans, demarcation of borders, enterprise recommendations and production plans. Market analysis per season, market requirements and recommendations to contract producers.

**3. Construction of the Support Centre Infrastructure.** The output will be support centre with all facilities for trading, storing, cold storage, value adding, and community supportive functions for administration, secretarial assistance, commercial banking, etc. The result is a holistic support and trade centre, centrally placed to fulfil the needs as identified to the local communities and farmers.

**4. Construction of various production enterprise infrastructures.** The output will be infrastructure such as: Maize storage silos, abattoir and cold storage, stock pens and handling facilities, poultry production sheds. The result will be a well-equipped Cop-operative with the entire infrastructure to add value to Agri products in order to supply the commercial market on acceptable commercial standards.

**5. Supply and install equipment and machinery action or phase.** The output will be infrastructure and equipment for a rural poultry abattoir, egg sorting facility, layer hen production units as well as broiler chicken production units with the administration facilities to administrate and manage a well equipped Cop-operative to add value to Agri- products in order to supply the commercial market on acceptable commercial standards

**6. Technical skills training action or phase.** The outputs will be the following skills training courses:

- Broiler Production
- Egg Production
- Livestock production
- Operate a poultry abattoir.
- Basic business management
- Basic bookkeeping
- Project management
- More relevant skills training courses on demand

The result will be a well skilled direct employed work force to the co-op as well as thoroughly skilled farmers as contract producers to deliver only the optimum production results as well as optimum quality of produce for value adding to the cop-operative.

7. **Production action or phase.** The output will be egg and broiler production units to sustain the value adding demand from the Co-operative as market. The Co-operative to be well capacitated to pay in cash for the products delivered.

8. **Value adding action or phase.** The output will be eggs graded washed and packed, slaughtered, packed and cold stored broiler chickens. The result will be a well-structured Co-operative and personnel of 30 to add high quality of value to all products to be sold in the commercial market.

9. **Marketing action or stage.** The output will be the distributing and selling of all agricultural products to the commercial markets. The result will be that commercialised produce is delivered with own transport to the commercial market.

10. **Evaluation in the implementation plan and actions.** The output will be an evaluation and assessment report on the project, with the result that a thoroughly planned and implemented action within the guidelines of LED implementation.

11. **Final handover and withdrawal of the project.** The output will be a final handover ceremony with an independent and functional Cooperative structure as result.

#### **Relevance of the application for Registration and certification of the rural poultry abattoir.**

#### **Description of the target group and final beneficiaries.**

The target group under this funding application make out a total of 9650 individuals, living in 1484 households in the Kwamzola District, Block C of the Ncora Irrigation Scheme, Intsika Yethu Local Municipality, district of Chris Hani in the Eastern Cape Province.

This Municipality serves only rural town and districts, and is together with Ukhahlamba, Alfred Nzo, the poorest districts in South Africa. As part of a local needs driven initiative, these beneficiaries has grouped themselves in three, and registered 3- Primary Agricultural Co-operatives to see to their needs. These Co-operative are known as:

- a) Msefo Land Development and Agricultural Cooperative
- b) Famini &Chibini Agricultural Co-operative, and
- c) Damane Agricultural Cooperative.

A local social study has shown that only 58% of the households in the target area are male headed. This is mostly due to males seeking for other employment opportunities in the Western Cape and Gauteng, with the result that the social structures of these households are suffering tremendously. All beneficiaries are living in traditional built mud brick houses, with mostly grass-thatched roofs. 78% of all beneficiaries are feeling that they are unemployed due to not self-contributing to household income, as they do depend on Social grants from the government. The rate of HIV/Aids infection in the Chris Hani district is currently 32%, and is tragically increasing due do mostly migrant workers returning for holidays. From the youth group, age 18 –39, a total of 38% of people are just doing nothing during the day due to no employment and also no hope for any future after completion of the schooling system. This relates to crime and the forming of gangs by the youth, as part of a dangerous living on drugs and sex, and these groups do operate mostly as crime syndicates in the town of Ncgobo, Cofimvaba, Cala, Indwe, Dordrecht and Queenstown. Besides the fertile agricultural land and the availability of irrigation water and systems, only 28% of local farmers do contribute to domestic agriculture, of which only 9% do sell commercial produce, mostly with government assistance form the massive food production scheme. Only 4% of all farmers could indicate that they indeed do make use of own capital to produce, indication that there is a great need for a local Farmers Support System in order to ensure sustainable skills development, production, value adding and marketing to foresee in better living conditions and a life for all beneficiaries

### **A general presentation and analysis of the problems and their interrelation at all levels**

In understanding the specific problem that related towards this action, it must be understood that during the Apartheid years, the Ncora Irrigation Scheme was developed and funded by the former South African Government as a flagship to the world, to demonstrate the success of Apartheid and separate Black Development. In reality, a lot of local inhabitants were forcefully removed from their farming land in order to make space for water catchments and irrigation land. This project was also artificially pumped full with South African Capital and managed by so called "International Companies".

After the new democracy of 1994, the removed inhabitants could claim back their land in order to start all over in making a rural agrarian living. In summary the general problems as identified and listed by the community groups were:

- Water and irrigation systems are available, but we do not have access to production capital, inputs, tractors and implements and a market.
- "Due to us being ignored for many years, the youth do not have any agricultural related or business management skills. They finish school in a corrupt system where teachers are hardly teaching, and they do have no hope for the future in the Eastern Cape. They flee for Cape Town and Gauteng; become gangsters who hide here for the police. We want to set a sample and crate a future for our children here on our own land."

### **Specific problems to be addressed by the action that will flow out of the funding application**

The following specific problems will be addressed by this action:

- There are no infrastructure and local suppliers for agricultural inputs in a radius of more than 30km.
- No infrastructure for value adding and marketing of produce.
- No transport to deliver production inputs and also no transport of produce to the markets.
- No technical skills, management and life skills.
- No production loans and a system of production, value adding and marketing.
- No motivation and assistance to produce for a specific agricultural enterprise

### **Relevance of the proposal to the needs and constraints of the target region and target group and beneficiaries**

According to the 2001 census, The Chris Hani District had a population of 799,134, but recent estimates put the population figure more in the region of 810 000. The District covers an area of 36,963.8 square kilometres. Approximately 71% of the population reside in rural areas. The largest populations occur in the Intsika Yethu, Lukhanji, Ngcobobo and Emalahleni municipalities. The population is relatively youthful with just more than half of the population being female (53.76%). According to the Chris Hani District Municipal IDP, 51% of the total population for the Province do reside in these districts, but these districts only account for 6% of the Provinces production, manufacturing and value added. This action is a practical and relevant development proposal in order to address the problems and needs of hopelessness, extreme poverty and the lack towards self-reliance and sufficiency. This action will focus on the supply of the relevant technical and management skills, capacity building and the provision of an infrastructure that can supply value-adding facilities and a market for specific identified agricultural products. It will provide in the structuring and capacitating of beneficiaries to be able to produce form a local production loan input, as own initiative towards specific product contract markets.

### **Relevance of the proposal to the priorities and requirements presented in the guidelines towards readiness for implementation (legal issues, licences, permits)**

From the description of the target group, and the analysis of the problems and constraints within this target group area, the main objective of this proposed action is to increase the support for agriculture as it is the only industry that has the local resources to enhance the ability of people to employ themselves, to improve own income distribution, soak up under employed labour and create opportunities for agro-processing thus create further job opportunities and bring stability in this area. This action is thus perfectly in line with the overall objective of the LCF, CAP implementation LED programme. The community has registered a primary Agricultural Co-operative, the Sisonke Agricultural Support Centre and Co-operative for this purpose. A board of 6 local directors that will see to the functioning will

manage this initiative. The Ncora Irrigation Scheme site is a well known registered and permitted irrigation scheme for many years and do comply with all legal issues, permits and licences.

**Level 1 – Objectives:** A local partnership was formed between the main applicant, the Umnga Farmers Training Group and the Sisonke Agricultural Support Centre and Co-operative. The main applicant is a proven and accredited legal entity, and will have the main objective of capacity building, infrastructure supply, skills development and value adding that will related to the establishment of agricultural produce for the commercial markets of Mthatha and East London. This action will thus ensure the following outcomes in line with the Nation al LED framework: - *Direct employment of 30 employees, sustainable job creation by means of agricultural enterprise production as contract producers for a specific quality and quantity of a specific enterprise market, The optimisation of local land resources through the implementation of a scientific land-use plan, the upliftment of the spirit and social value of the communities within the target area, that will secure a better income per household and a future for the youth to hang on.*

**Level 2 – strategic priority areas:** This action is based on the principles of holistic agrarian development, improvement, as well as the diversification of various agricultural enterprise production units. The applicant is convinced that this model is the only African Development model, designed and based on the Chinese development model that was successfully implemented in the past. The infrastructure, capacity building, skills development programmes, value adding of products, etc. will be brought by the people, to the people and will be founded on a real needs driven methodology. **Level 3 – Provincial priority sectors:** Based on an economic analysis and the current and future trends, in the Growth and Development Summit that was held in the Chris Hani District during November 2006, the following priority sectors was identified: - Agriculture and agro-processing, - Forestry and wood processing, - Tourism, - Construction, - Manufacturing, - Trade and business services. This proposed action is thus directly in line with the Provincial priority sectors, and will focus on; Agriculture and agro-processing, Construction, and the Trade and business service.

**Level 4 – Local level priorities:** The IDP of both the Chris Hani DM as well as that of the Intsika Yethu Local Municipality, do focus on the needs and limitations of the development of the rural areas and people such as: Economic growth projects, poverty alleviation projects, Skills Development programmes, Education and capacity building programmes, social infrastructure needs and LED support. This action is 100% in line with these local needs and priorities.

**Involvement of implementing partners, their role and interrelationship between the applicant and partners**

Partners	Role and interrelationship
Umnga Farmers Training Group	Main applicant, project facilitator and implementer. A partnership agreement is signed between the two parties. The agent is well known to the community for a period of 16 years
Sisonke Agricultural Support Centre and Co-operative	A newly registered community development legal entity to fulfil the development needs of its members. This co-op is a local community initiative and was registered with the help of the main applicant.

**Other stakeholders, their anticipated role and/or potential attitudes towards the project:**

- **The Department of Rural Development and Agrarian reforms:** Technical support, Ncora is a priority for the Department.
- **Agri-SETA:** Accreditation of skills and management programmes, possible funding.
- **The Department of Rural Development and Agrarian Reform, veterinary services –** Certification and registration of the rural poultry abattoir.
- **Department of Environmental affairs** - approval of the rural abattoir effluent plant and waste management system.

### **Sustainability of the action**

- a. **Risk analysis and eventual contingency plans:** In the implantation of this type of action there are no major risks to consider. People are intellectual and as individuals each community has its own diversity, culture and social structures. The risk in social attitude and contribution is minimised through the fact that the project is needs driven and locally initiated. The physical environment is very much favourable towards Agricultural production.
  
  - b. **Main preconditions and assumptions during and after the implementation phase.**  
It is a precondition that there must be a trustworthy relationship between the implementation agent and the beneficiary structure. This was secured by means of a well structured and schedule co-operation or partnership agreement. During the implementation phase and after, this conditions and relationship will be maintained between the parties.
  
  - c. **Sustainability after completion of the action.**  
The methodology of this action ensures that it is a self-efficient and needs driven project. The strategy of stimulating primary production through creating a primary market, is a very old development concept designed and followed by the Chinese, but has not been explored as a development policy in South Africa. The Umnga Farmers Group, like in all other cases of project implementation is committed to a long-term follow up and support strategy.
-

## **2. Business Overview**

### **2.1 Business History**

#### **Introduction and background**

During 1976, the former Republic of the Transkei was declared as an Independent State, under the Apartheid policy of the former South Africa. In order for the Apartheids Regime to prove the success of their world hated "Separate Nations Development" policy, an area of over 3000 hectares was developed under the name of the Ncora Irrigation Scheme. This scheme was funded by the former South African Government as a flagship to the world of the success of Apartheid and separate Black Development in the Republic of Transkei. In reality what happened, was that some local inhabitants of this area were forcefully removed from their farming land in order to make space for water catchments and irrigation land. This project was also artificially pumped full with South African Capital and managed by so called "International Companies" who managed the scheme for own profit, and not to the benefit of the people, as was promised.

Soon after the new democracy of 1994, the Austrian management company has fled from the land and the removed inhabitants could claim back their land in order to start all over in making a rural agrarian living.

The result of these tragic historical happenings caused the following brief problems within the Ncora Community:

1. Water and irrigation systems are available, but the farming community do not have access to production capital, inputs, tractors and implements and a market
2. Due to this community being ignored for many years, the youth do not have any agricultural related or business management skills. They finish school in a corrupt system where teachers are hardly teaching, and they do have no hope for the future in the Eastern Cape. They flee for Cape Town and Gauteng; become gangsters who hide here for the police.

#### **Involvement of the Umnga Farmers Training Group.**

During February 2006, the Umnga Farmers Group was invited to meet with some local leaders of KwaMzola community in order to workshop and to plan a future development project for the Ncora farmers of Block C. (Refer to Annexure B, Profile of the Umnga farmers Training Group)

During this workshop the following very important aspects of development was highlighted:

1. The farmers of Ncora wants to take control of their own development project, but do need a legal structure and government aid for that,
2. The main problem at Ncora is not to produce primary agricultural products, but the lack of a primary market for their products.
3. The lack of agricultural skills is not only about a few technical skills training courses, but the implementation of Learnerships over a period of a year that will also give the farmers the knowledge to understand basic fundamental principles of the economy, the market, decision making, planning, enterprise budgeting, record and bookkeeping, etc.
4. We want to work with the Government to make this thing work, but we do not want to work for the Government in this project!

The outcome of this planning meeting was the successful registration of three Primary Agricultural Cooperatives on 19 June 2006:

- a) Msefo Land Development and Agricultural Cooperative Ltd
- b) Damane Agricultural Cooperative Ltd.
- c) Famini & Chibini Agricultural Cooperative Ltd

It was further decided to launch a combined Agricultural Development Project for these 3 Cooperatives in Block C at Ncora, under the name of the Sisonke Agricultural Support Centre and Cooperative. This name will be the trading name of the Msefo Land Development and Agricultural Cooperative Ltd.

The Umnga Farmers Group was appointed to do research and to develop a development strategy and policy for the farmers of Block C. The Umnga Farmers Group also had to design a business plan to the satisfaction of the needs of the Block C farmers to be used for the application for funding to implement this Development action.

**The involvement of SURUDEC and the Sisonke Agricultural Support Centre and Cooperative:**

During September 2009, a business plan was submitted to the Sustainable Rural Development of the Eastern Cape / European Commission Agency, known as SURUDEC. On 17 November 2009, a contract was signed by the Umnga Farmers Training Group for the implementation of the Sisonke project under the following budget and conditions:

Description	Budget
SURUDEC / EU Contribution	R 5,499,576.00
Sisonke / Umnga in kind contribution	R 1,266,299.00
<b>Total Budget for the project</b>	<b>R 6,765,875.00</b>

Implementation date and period: 1 January 2010 until 31 December 2011

**Project Overall Objective:**

The overall objective is to strengthen the Social Capital and networking needed by the Sisonke Agricultural Support Centre and Co-operative, to establish itself as an Agricultural Support Centre that will optimise the Social Assets of the target area through agricultural support, in order to utilise all local resources to the optimum in order to enhance the ability of people to employ themselves, to improve own income distribution, soak up under employed labour and create opportunities to bring socio-economic stability in the target area.

**Estimated project outcomes and results:**

The final outcome under this funding is the construction of a Resource Centre at Block C, with the infrastructure to deliver a holistic Agricultural support service to 847 direct farmers and 1484 households, within Block C, KwaMzola A/A, Ncora.

1. Administration office to manage all activities A Poultry
2. **A Rural Poultry Abattoir to slaughter broiler chickens.**
3. An Egg sorting and packing facility for eggs.
4. Infrastructure and production inputs to poultry contractors to achieve the production targets
5. A Maize mill with a 650 kg / Hr output capacity

## - The Poultry Abattoir – The heart of the Sisonke Centre

The main purpose of this technical plan is to obtain a Certificate of Registration for the Rural Poultry Abattoir from the Veterinary Department of the Department of Agriculture, as well as the Department of Environmental Affairs, as prescribed under the Meat Safety Act, Act No. 40 of 2000.

### - 2.2 Objectives

***“We want to stimulate primary agricultural production through the establishment of a primary market for agricultural products. This will be possible through a process of commercial value adding to primary products that will fill the commercial market, without being in direct competition of primary products from commercial farmers.”***

#### Specific objectives of the Sisonke Rural Poultry Abattoir

1. To construct accredited and registered facilities for a Rural Poultry Abattoir
2. To obtain a Registration Certificate for the abattoir
3. To slaughter initially a total of 50 birds per day, in order to get the abattoir in operation and the idea marketed between other rural poultry producers.
4. To create employment for 10 full time local members of the Ncora Community
5. To sustain the abattoir through the production of broiler chickens and to expand the capacity to a fully registered Poultry abattoir in the near future.

#### Vision and Mission Statement and Core Strategies

**Our vision:** The Sisonke Poultry Abattoir is an Industrial processor of poultry meat and products, adding value to the commercial market, whilst being supplied of raw product through a viable and sustainable community of emerging farmers that produces broiler chickens under production contracts to the abattoir.

**Our mission** is to create a commercial market for agricultural products through a process of secondary agricultural manufacturing processes that will add value to primary products. This will be achieved through getting the local community and farmers involved in this project, and encourage them to become members of the Co-operative, as Broiler Producers.

### 2.3 Ownership

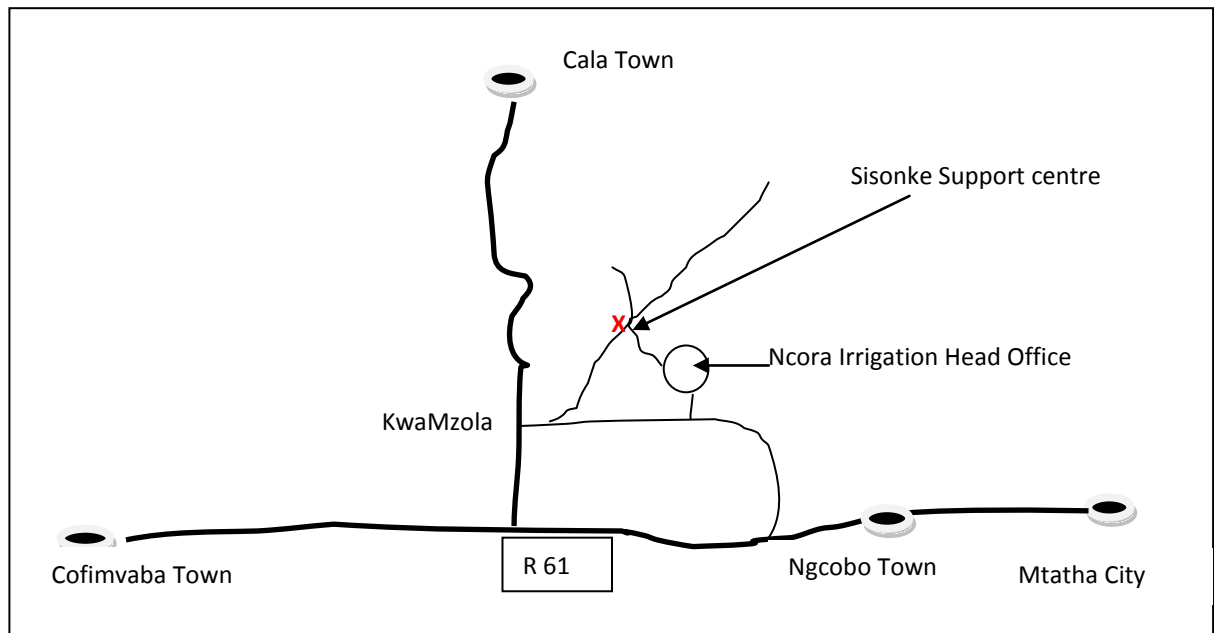
The business is done through the legal entity of a Primary Agricultural Co-operative that does serve the local farming community. The Msefo Land Development Cooperative, trading as the SASC&C, is a local initiative that was founded and registered by the community of KwaMzola. The 12 founding members of the Cooperative, also serves as the board of Directors. Life membership is available to the broader farming communities of Ncora at R 150.00 per member. The Cooperative is operating within a constitution as determined under the Cooperative Act, Act 91 of 1981

## 2.4 Location and Facilities

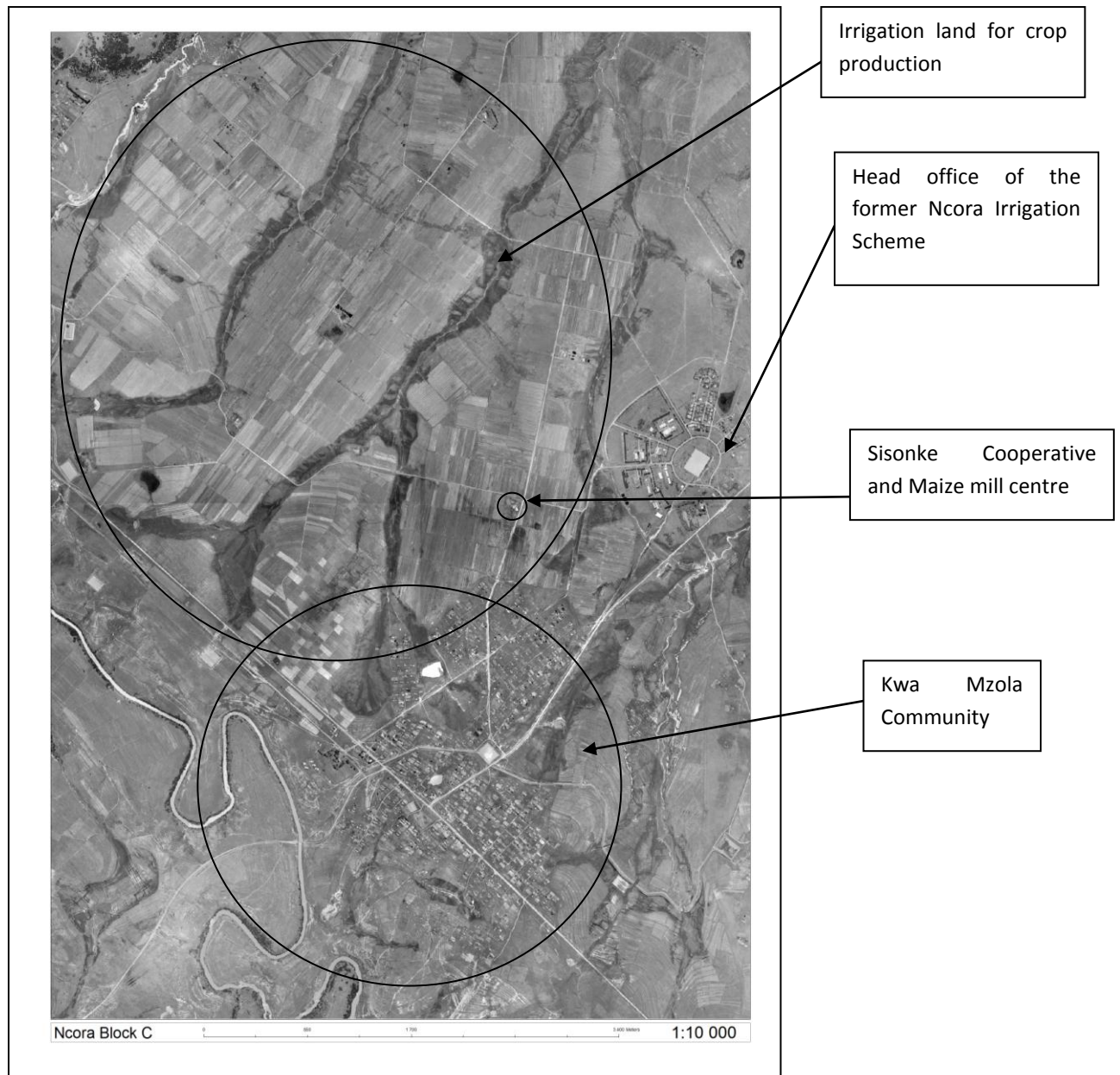
The business is located within the borders of the Eastern Cape Province, under Chris Hani District Municipality, Intsika Yethu Local Municipality, KwaMzola Administrative Area, Block C, Ncora irrigation Scheme, Ncora

As part of the implementation of the SASC&C under the mentioned SURUDEEC funding, infrastructure of 750 square meters was constructed, including an area of 75 square meters that will host the rural poultry abattoir. The resource centre is secured by means of a 1, 8 meter security fence. The Business is centrally placed and easily accessible by road, as part of the infrastructure of the former Ncora Irrigation Scheme. ESCOM electricity is connected to the Resource Centre

**Figure 1. Map to the SASC&C**



**Figure 2, Aerial photograph of Ncora, Block C. Indicating the location of the Sisonke Support Centre.**



### 3. Technical processes and operation of the Sisonke Rural Poultry Abattoir.

#### 3.1. Water purification system

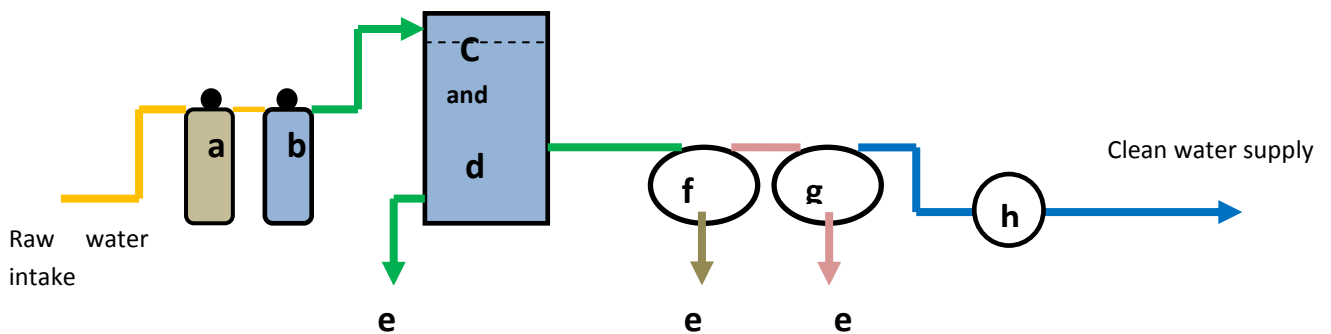
For the reason that the only water available to the Sisonke Resource Centre is raw water from the Ncora dam, supplied through bulk water storage dams for the irrigation of crops, the water is muddy and not suitable for human consumption and the use in the poultry abattoir.

A water purification system was supplied and is in operation, using the following processes of purification.

- a) **Pre-chlorination** – Chlorine is introduced as a primary disinfectant and/or oxidant in the raw water, mainly to control algae growth and slime formation during the treatment processes to follow, as well as to oxidise iron and manganese and kill micro organisms. Chlorine is injected directly into the raw water line downstream of the raw water intake by means of 1 x chlorine dosing pumps. Normal dosage concentrations vary between 1 and 3 mg/l.
- b) **Powdered Activated Carbon** is also injected directly into the raw water line through a carbon dosing pump. Contact time is thus provided in the pipeline and also in the flocculation channels, which have a retention time of between 7 and 15 minutes. Normal dosage concentrations vary between 5 and 20 mg/l.
- c) **Flocculation** – The process of floc growth takes place in a series of baffled channels. Flocculation is the agglomeration of small particles (destabilised and other) to bigger particles (flocs) due to collisions during the transport process. Orthogenetic flocculation, which results from fluid motion at higher velocity gradients and larger particle sizes, is predominant. A flocculent aid is also introduced with or after the coagulation process to aid in the floc formation process. This process takes place in a 5000 litre water tank.
- d) **Sedimentation** - Sedimentation is the process in which the gravity settling of solids particles (or flocs) are promoted. Although it is a natural phenomenon, it is aided by the addition of chemical coagulants (coagulation) to produce flocs (flocculation) which are allowed to settle in a 5000 litre water tank which have provision for the removal of the sludge (settled solids). Scheduled de-sludging of the tank is done manually. A horizontal flow tank, with a retention time of approximately 7 hours, are in use. The turbidity of the water, after sedimentation and before filtration, is less than 2.5 NTU.
- e) **Sludge disposal** – The sludge from the sedimentation tank is hydraulically removed through the manual opening of a sludge valve. Clear water is collected in the 5000 litre tank, from where it is pumped to the sand and carbon filters. The sludge released from the system consists mainly of calcium carbonate (>80%). The total amount of sludge produced is approximately 50 kg dry solids/ML water treated.
- f) **Sand Filtration** – Rapid gravity sand filters are used for the final removal of suspended material. The filters have a fine sand layer of 600mm, supported on a 500mm-gravel layer. The filters are backwashed every 48 hours, which may be increased in case of excessive head loss or an increase in turbidity. The filters are backwashed by first using air to loosen the sand, where after water (from the clean water reservoir) at ca. 30 m/h is used to wash out the loosened dirt. The turbidity of the filtered water is maintained at ca. 0.25 NTU.

- g) **Carbon Filtration** – Granular activated carbon is used as filter media and similar to PAC, used for removal of dissolved organics, colour and taste- and odour-causing compounds in potable water treatment. The Carbon filter is situated just after the sand filtration in the process.
- h) **Post-chlorination** - Post-chlorination is done for terminal disinfection or complete microbiological reduction. Total plate counts (bacteria counts) of zero are maintained in post-chlorinated water supplied to the abattoir. Post-chlorination is done by the injection of chlorine in line, directly after filtration and before it enters the water supply system. The chlorine dosage varies between 1 mg/l and 3 mg/l to allow a residual chlorine concentration of between 1 g) mg/l and 2.5 mg/l after ca.

Refer to Figure 3 below.



### 3.2. Slaughtering process

*With reference to the abattoir floor plan layout and site layout as attached.*

- a) Live birds will be received in transportation crates in the reception area, where it will be weighed, and recorded.
- b) Live birds will be stunned and bled in the most humanly way in the 6- bird stunner bleeder.
- c) Birds are dipped in the scalding tank with water at 75 Celsius for approximately 2 minutes to allow the release of feathers.
- d) Feathers are removed in the drum plucker. Most feathers are also collected in the waist bin of the plucker.
- e) The de-feathered carcasses are hanged on the shackled hooks above the evisceration through where all intestines, heads and feet are removed by hand. Carcasses are washed and rinsed by hand, and are moved on the shackle hooks rail into the clean area. Intestines, gizzards, livers, heads and feet are separated and cleaned on a stainless steel table and packed by hand in separate bowls, before sent for packing and weighing in the clean area.
- f) Carcasses are removed, inspected and finally cleaned from any feathers, excessive loose skin and fat, before hanged on the drip cooler.
- g) Bird carcasses are packed through a packing cone in plastic bags, weighed, recorded and then stacked in plastic crates into the freezer room.
- h) Frozen carcasses will be recorded and disposed to the market in plastic crates through the out loading and disposal area.

### 3.3 Effluent and waste disposal

- a) **Dirt water disposal.** Effluent water that contains mainly blood and small sifted vessels of fat will be disposed in a soil pit with the dimensions of 3m x 3m x 2m , as indicated in the abattoir site layout plan. This wet soil pit will be 50 meters away on the outside of the security fence of the abattoir terrain, and will be fenced in with a 1,8 m security fence with clear warning signs for children to stay away.
- b) **Solid waste disposal.** Solid waste will consist mostly of wet feathers form the plucker. These feathers will be collected in plastic drums and disposed in a dry dumping pit with the dimensions of 3m x 3m x 2m. Agricultural lime will be sprinkled by hand over the solid waste to enhance rapid fermentation, as well as a bad smell and to keep flies away. No burning of solid waste will take place. The solid waste dumping pit will be fenced in with a 1,8 m security fence with warning signs to keep especially children away.

### 3.4. Capacity of the rural abattoir

A maximum of 50 birds will be slaughtered and packed per day.

### 3.5. Health and safety measures

All provisions regarding the Health and Safety Act will be in place at all times during the operation of the abattoir. This includes safety and protection clothing, cleaning and disinfection of working places before and after slaughtering, no personnel movement between the dirty and clean areas, etc.

## 4. Conclusion

Considering the information as provided in this Technical plan, it is believed that the Department of Agriculture, as well as the Department of Environmental Affairs has a sufficient understanding of an industry which is still encaptured by past constraints, yet contains considerable potential for growth, development and far-reaching benefits to the rural communities of Ncora.

As directors of the Sisonke agricultural support centre and co-operative, together with our agent, the Umnga Farmers Training Group, we have strived to provide a practical technical plan on how to construct a Poultry Abattoir project that can operate within the other enterprises of our support centre.

It is also our objective to meaningfully contribute to the issues of food security, unemployment and rising food prices, with a particular emphasis on the rural communities around the Ncora Irrigation scheme.

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Signed at KwaMzola in this \_\_\_\_\_ day of \_\_\_\_\_ 2012

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**Z. W. Mesfo**

**CHAIRPERSON**

Msefo Land Development and Agricultural Co-operative

Trading as: Sisonke Agricultural Support Centre and Cooperative

## **Annexure**

- a) Certified Copy of registration as a Cooperative.
- b) Floor plan layout of the Sisonke Poultry Abattoir
- c) Site layout plan of the Sisonke Abattoir