



MANTUSINI DAIRY: ITHUBA ELILAHLEKILEYO



THE AMADLELO PERSPECTIVE

07 July 2021



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TABLE OF ABBREVIATIONS

Amadlelo	Amadlelo Agri (Pty) Ltd
DALRRD	Department of Agriculture, Land Reform and Rural Development
DRDLR	Department of Rural Development and Land Reform (predecessor to DALRRD)
DRDAR	Eastern Cape Department of Rural Development and Agrarian Reform
MDT	Mantusini Dairy Trust

LIST OF APPENDICES

Appendix	Topic Description
A	2013 Project Business Plan
B	2014-Tripartite Agreement
C	Mantusini Dairy Trust Deed
D	2013-Trustee Authorisation Certificate
E	Proposed Service Level Agreement September 2016
F	Proposed Co-Management Agreement January 2017
G	2019-Project Business Plan
H	2019- Profit Share Agreement
I	Amended Trustee Authorisation Certificate
J	2020 Records Hand-over Certificate
K	Cancelled Invoice: Management Fees
L	Credit lifeline Support.



1. PURPOSE

1.1 The purpose of this report is to-

- provide the political leadership and senior management structures of the National Department of **Agriculture, Land Reform and Rural Development** and the Eastern Cape **Department of Rural Development and Agrarian Reform (DRDAR)** with detailed and verifiable information regarding the Mantusini dairy project;
- record the involvement of Amadlelo Agri (Pty) Ltd. (Amadlelo) with the Mantusini Dairy Trust and the then Department of Rural Development and Land Reform (DRDLR) as a Strategic Partner for the period March 2014 to July 2016; and
- record Amadlelo's support to the Mantusini Dairy Trust for the period August 2016 to September 2020 inclusive of its observations regarding the farming operation.

1.2 The Report is presented as follows:

Executive Summary also highlighting key lessons.

PART A: Period 2013 to 23 July 2016

PART B: Period August 2016 to September 2020



2. EXECUTIVE SUMMARY

2.1 Period 2013 to 23 July 2016

2.1.1 The Mantusini Dairy development initially started as an Eastern Cape Department of Agriculture initiative to support the community during 2007, development work was done incrementally as funding became available. Through this initiative-

- community participation was formalized through the establishment of the Mantusini Dairy Primary Cooperative;
- the outer boundaries of the identified land were fenced;
- an irrigation water pumping station was erected on the riverbank (incorrect location);
- 60 hectares of land were equipped with an irrigation system and developed for pasture establishment;
- a storage shed was constructed; and
- a start-up milking parlour was erected.

2.1.2 Lacking progress to start production on the Farm prompted Minister Gugile Nkwinti of DRDLR under the Recapitalisation and Development Programme to request Amadlelo through its previous Chief Executive Officer, Mr Jeff Every to:

- review the status of the initiative;
- develop a Project Business Plan for the development of the Farm;
- table proposals for Amadlelo's' involvement as a Strategic Partner to develop/operate the Farm;
- establish a sustainable dairy business for the community represented by the Mantusini Dairy Primary Cooperative.

This request was not done through a formal bidding process.

2.1.3 A detailed Project Business Plan dated 23 May 2013 - **Appendix A** was, after extensive consultation with the Mantusini Dairy Primary Cooperative, submitted by the Cooperative to DRDLR *inter alia* setting out-

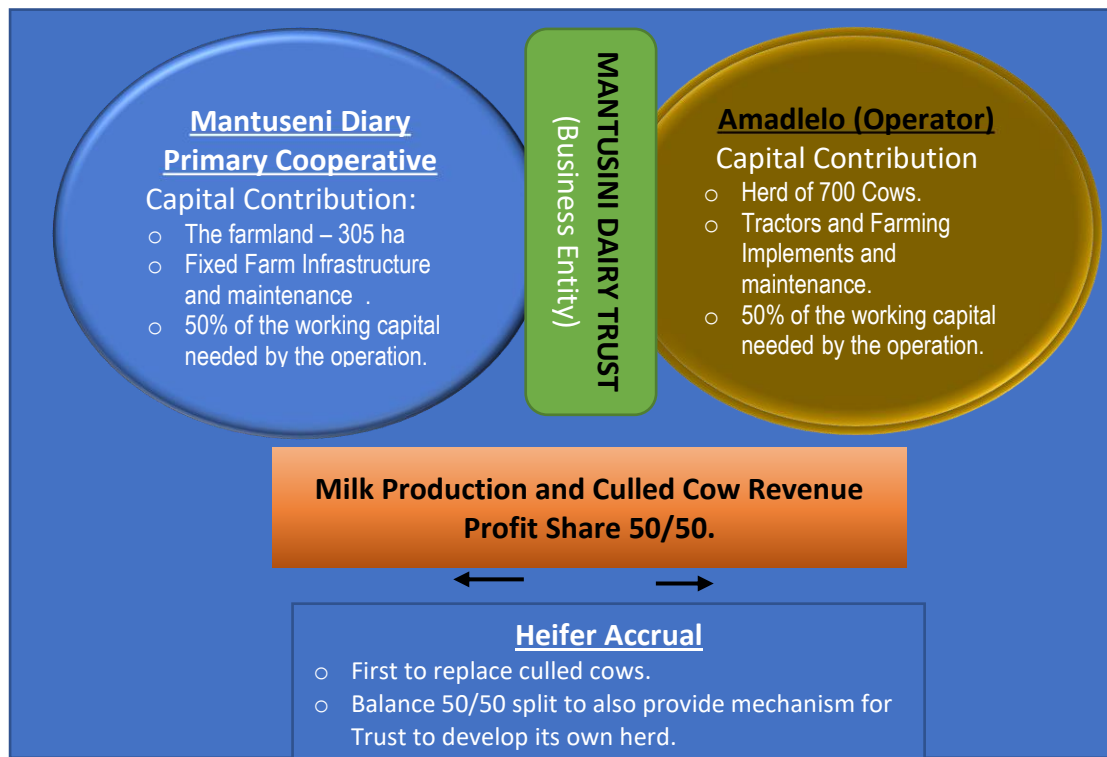


- industry standards for the development of a sustainable pasture based dairy farm;
- infrastructure development requirements to deploy a herd of 700 cows and 350 heifers on 200ha irrigated pastures and 250ha dry land;
- a Project Infrastructure Development Budget totalling R27m (based on three quotations obtained from reputable service providers);
- proposals for the structuring of a Joint Venture (JV) between the Mantusini Dairy Primary Cooperative and Amadlelo;
- the establishment of the Mantusini Dairy Trust as the Trading Entity with equal representation by the Cooperative and Amadlelo;
- proposals for the establishment of a raw milk off-take market (with due consideration to the distance to major markets and milk processing plants); and
- financial projections - forecasting an annual profit of approximately R8m per annum once fully equipped, stocked and operational.

2.1.4 Following the New Zealand Sharemilk Model (commercial industry best practice) the Project Business Plan further proposed the following joint venture business model for a period of five years (renewable):



Figure 1: Operating Model (“Sharemilk Model”)



Note: In terms of the proposal Amadlelo was also responsible to provide technical dairy operating and business management services for which Amadlelo would be compensated through a management fee.

2.1.5 Due to the inability of the Mantusini Dairy Primary Cooperative to fund the infrastructure development requirements, DRDLR indicated its willingness to engage Amadlelo as the Strategic Partner and to fund, through a departmental programme, the identified needs by means of a Project Infrastructure Development Budget (**Reduced from R27m to R18,3m**). Amadlelo indicated its unwillingness to proceed with an “underfunded” engagement to Minister Nkwinti. To resolve the matter DRDLR undertook to-

- make the shortfall in the Project Infrastructure Development Budget “good” during subsequent financial years; and
- fund/directly engage service providers to undertake the specified ground works (de-bushing, pasture area levelling/ploughing, trenching (for water pipelines and electric cabling) and internal road structure).



2.1.6 A Tripartite Agreement - **Appendix B** - was concluded on 14 January 2014 to also provide a mechanism enabling the transfer of funding in terms of the provisions of the Public Finance Management Act, 1999 to the designated Bank Account of the Mantusini Dairy Trust. Through the Tripartite Agreement, Amadlelo (Strategic Partner) was formally appointed for a period of five years as:

- The Project Manager for the Farm’s infrastructure development/upgrade (planned six months) and compensated through a specified management fee provision.
- The “Sharemilker” (Operator) once the requisite pastures have been adequately established to enable the deployment of a herd for milking.

2.1.7 The Project Business Plan clearly indicated that the success of the initiative is **highly dependent** on a sequential completion of key infrastructure development deliverables. As such the completion of the groundworks determined the start date for the installation of the irrigation system, fencing, planting of pastures and ultimately the date when the deployment of cows to the farm can commence. As such it was also critical to complete the groundworks so that pasture establishment could start during the start of the 2016 spring season. With a project start date of 1 March 2014 the following high-level project implementation plan was adopted by Stakeholders:

Figure 2: High Level Project Implementation Timeline:

Phase	Key Implementation Milestones	2014			2015			
		Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Project Set-up	■						
2	Infrastructure Development/Commissioning	■	■					
3	Pasture Establishment. (Start Pre-Ops Phase)			■				
4	Gradual deployment of cows				■	■		
5	Management Systems Implementation/Testing.				■	■		
6	Gradual staff recruitment and development.				■	■		
7	Start of Milk Production on Farm.						■	



2.1.8 The failure of DRDLR to deploy, as per the timeline, a service provider to do the groundworks resulted in a series of work stoppages, also prompted the Mantusini Dairy Trust and Amadlelo (as mitigation arrangements) to request from mid-2014 up to the second quarter of 2015 Project Budget deviations and additional funding allocations. See paragraph 5.4 *infra* for a detailed explanation(s) suffice to indicate that:

- Apart from approving a budget shift to enable Amadlelo to project manage some of the groundworks during the end of 2015/start of 2016 no approval was granted on other submissions made to put the project on track again.
- A Service Provider directly contracted by DRDLR to construct the internal roads arrived on site only late February 2015, installing inadequate drainage pipes and left the site without completing 1,2km of internal roads.
- DRDLR undertakings to “make good” on the funding shortfall **as well as** to re-imburse the Mantusini Dairy Trust for funds shifted in the Project Infrastructure Development Budget were not honoured to date.

2.1.9 Project Progress Reports and interaction between Mantusini Dairy Trust/Amadlelo with DRDLR officials, clearly highlighted that failure to complete the groundworks as scheduled, made it imperative to shift the planned August 2015 target date to start milking ultimately to August 2017. Notwithstanding the Amadlelo Project Manager raising a “red flag” notice during Q2 of 2016 that the infrastructure of the Farm is still lacking to carry a sustainable herd, DRDLR insisted that the official launch of the project be scheduled for July 2016 and that cows should be on site at the launch for milking. Due to this insistence, it was imperative to deviate from the critical/sequential implementation path to commission the milking platform and to establish winter pastures for a start-up herd. Through a cow lease arrangement, the first batch of 100 in-milk- cows was deployed to the Farm during May 2016. This was done while the Farm’s infrastructure was still not adequately developed to carry a herd and to generate income to at least cover operational expenditure.

2.1.10 DRDLR in collaboration with the Industrial Development Corporation, as per the Tripartite Agreement provision, was not able to establish an off-take market platform for the raw milk produced on the Farm. To overcome this, Amadlelo put mechanisms in place for an initial off-take during the start-up production phase as follows:



- Daily sales of 1k litres locally; and
- Sundale Dairy, which is based in East London, to collect 7k litres milk daily for pasteurizing and amasi production.

2.1.11 At the launch of the Project on 22 July 2016 Minister Nkwinti announced that the project will be changed to a “One Household – Two Cow” model thereby terminating, with immediate effect, the Tripartite Agreement and Amadlelo’s assignment as Strategic Partner (Sharemilker). No legal instrument to formalise the role of Amadlelo going forward was concluded.

2.1.12 An overview of the project’s performance- **planned vs accomplished**- up to August 2016 is provided in paragraph 5.4.1.11 *infra*.

2.1.13 Failure to bring farming activities online as planned, also resulted in:

- substantial damage to newly deployed equipment through vandalism and theft;
- price and inflation escalation (increasing the infrastructure development funding deficit to R13m by August 2016); and
- the Mantusini Dairy Trust being unable to gradually generate operational capital and/or develop a buffer to deal with emergency requirements.

2.1.14 An overview of the status of the infrastructure development activities as at August 2016 is provided at paragraph 5.5 *infra*, suffice to indicate that, subject to challenges with the infrastructure development budget deficit being immediately resolved, the Farm could only “carry” **a sustainable herd by August 2017**.

2.1.15 This Report also put on record that disbursements to the value of R1, 78m were made to Amadlelo from the bank account of the Mantusini Dairy Trust for project management services rendered up to August 2016 as provided for in the Tripartite Agreement. Amadlelo further put it on record that no payment for the provisioning of technical support or back-office support services were made from the Mantusini Dairy Trust’s Bank Account. As such Amadlelo **incurred a substantial loss** in its commitment to make the project a success by-



- deploying its Project Manager and other experts to the infrastructure development project for 20 months as to the planned six months;
- investing substantial time and energy to resolve “unnecessary” challenges, unblock lacking cooperation and follow-up on outstanding responses;
- periodically deploying a Senior Technical Advisor to the Farm since August 2016 to assess farm performance, recommend corrective action, draft business case proposals to enable the Mantusini Dairy Trust to apply for funding, etc.;
- extensively engage stakeholders to inter alia resolve community disputes threatening to derail the Project; and
- by default, provide project bookkeeping services (DRDLR responsibility as per the Tripartite Agreement).

2.1.16 It must also be noted that requests put forward by Amadlelo to DRDLR to appoint Auditors to independently assure the Financials Records of the Project were not accommodated. It is nevertheless confirmed that all relevant financial records are available should an independent review thereof be deemed appropriate.

2.2 Period 23 July 2016 to September 2020

2.2.1 The announcement by Minister Nkwinti on 22 July 2016 to change the “sharemilker” business model to a “one household – two cow” model effectively terminated the Tripartite Agreement and the 50/50 sharemilk agreement and thereby also Amadlelo’s responsibilities to:

- project manage outstanding infrastructure development deliverables on the Farm;
- provide cows for the farming venture;
- provide the requisite farming implements;
- invest 50% of the operating cost of the venture in the venture; and
- manage as an Operator the farming venture for the benefit of the parties.

2.2.2 The termination of the Tripartite Agreement also required the Amadlelo’s Trustees to resign from the Mantusini Dairy Trust. The Mantusini Dairy Primary Cooperative simultaneously resolved to appoint new Trustees. As such the 2017 constituted Mantusini Dairy Trust-



- became with effect from 1 September 2016 solely responsible for business governance practices and the day-to-day management of the farming business; and
- assumed sole signing powers on its bank account(s) with access to the bank account(s) limited to the Farm Manager and the Administrator;

2.2.3 Following requests by the newly constituted Mantusini Dairy Trust, Amadlelo (through goodwill) indicated its willingness to continue to provide technical and other support, subject to the conclusion of a legal instrument to formalise the roles and responsibilities of the parties as well as compensation arrangements. Amadlelo, at cost, developed and presented at various stages Business Plans and Legal Instruments to formalise the business relationship as follows:

- **September 2016 Service Level Agreement** requiring DRDLR to honour undertakings made to “make good on the initial Project Infrastructure Development Budget deficit and budget shift done in 2015. (Paragraph 6.1.4 *infra*)
- **January 2017 Co-management Agreement** (Paragraph 6.1.6 *infra*) proposing the appointment of Amadlelo, with effect from 1 April 2017 for a period of five years, as the Management Operator of the farming venture subject to:
 - A Service Level Agreement between DRDLR and Amadlelo be concluded to clearly define the roles and responsibilities of the parties, inclusive of the DRDLR funding requirements.
 - A MOU between the Mantusini Community and Amadlelo be concluded to appoint the latter as the “Farm Management Operator” and to specify the roles and responsibilities of the parties.
 - The SLA and the MOU jointly forms the governance structure of the business venture.
 - Amadlelo be compensated by means of a fixed management fee of R190 920 per month (inflation linked).

Note: The development of the Co-management agreement was prompted by the inability of the Mantusini Dairy Trust to service its ESKOM account resulting in the Farm not irrigating the newly established pastures/destruction of the pastures leaving the recently deployed cows starving and in a substantial decline in volumes compromising the off-take arrangement with Sundale Dairies.



- 2.2.4 Despite the adoption of the above-mentioned proposed instruments by the Mantusini Dairy Trust, DRDLR declined the endorsement thereof.
- 2.2.5 Following a 2019 resolution by the Mantusini Dairy Trust and DRDLR to abandon the “One Household- Two Cow” operating model, the Mantusini Dairy Trust approached Amadlelo to further explore options for cooperation to revive and develop the dairy venture to its full capacity also with due consideration to extensive damage caused by the May-2019 floods in the area and indications that the business venture is on the verge of collapsing.
- 2.2.6 Following the development and presentation of a detailed new Business Plan to the Mantusini Dairy Trust, the DRDLR and ECDRDAR committed to avail a new package of infrastructure development funding to the amount of **R25,7m** to the Trust. A Profit-Share Agreement was consequently concluded by the parties to formalise the engagement of Amadlelo on 22 October 2019 (Paragraph 6.1.11 *infra*). Apart from specifying the responsibility of the government departments to make available infrastructure development funding (R25,7m) to the Trust, the Agreement specified the responsibilities of Amadlelo, vested 100% ownership of fixed and moveable assets (inclusive of the cows) in the Trust on behalf of 374 beneficiaries and made provision for a 70% Trust/30% Amadlelo profit share arrangement.
- 2.2.7 As part of the Profit Share Agreement implementation methodology Amadlelo proposed to the Mantusini Dairy Trust and DRDLR the “leasing-out” of the herd to other farms to enable infrastructure development and the proper establishment of the planned 200ha irrigated pastures as well as the development of 250ha dry land. In the opinion of Amadlelo the non-availability of qualitative pastures and other food supplements made such a de-stocking of the Farm imperative to-
- improve the deteriorating condition of the herd;
 - prevent long-term negative impact on the-
 - quality of the herd;
 - health status of the cows to produce cost effective and viable milk volumes;
 - reproduction capabilities of the cows (conception rate and production of a quality heifer genetic pool);
 - prevent the starvation of animals;
 - prevent the need to cull cows and heifers thereby depleting the herd numbers; and



- generate some income for the Farm through the lease arrangement.

2.2.8 The Mantusini Dairy Trust was unfortunately not willing to approve the proposed temporary de-stocking of the Farm with subsequent devastating consequences on herd numbers.

2.2.9 Failure by the said government departments to release infrastructure development funding to the Mantusini Dairy Trust, unfortunately again, rendered the Profit-Sharing Agreement null and void thereby also setting the table for the total collapse of the farming venture during 2020.

2.2.10 Amadlelo nevertheless continued to provide technical and back-office support to the Mantusini Dairy Trust up to **5 September 2020** when MEC Meth introduced a new Investor (Cream Top) to support the Trust with the revival of the farming and business venture.

2.2.11 Amadlelo did not receive any compensation from the Mantusini Dairy Trust for the period August 2016 to September 2020 and as a gesture of goodwill even wrote-off managing fees to value of R1,265m with the signing of the Profit Share Agreement on 22 October 2019.

2.2.11 During the period August 2016 to September 2020 Amadlelo continue to provide technical and bookkeeping/tax services to the Mantusini Dairy Trust inclusive of:

- conducting regular site inspections, issuing of findings and recommendations reports to advise the Trust on appropriate corrective action;
- developing of Business Plans to support funding applications;
- developing Annual Operating Budgets for adoption by the Trust to assist it to manage the farming venture and to keep it on a “profit seeking” trajectory;
- submission of monthly financial management reports detailing all transaction to the Trust;
- assisting the Trust to secure the services of suitably qualified and experienced Farm Managers;
- advancing “credit lines” to the Trust during 2019/20 to cover critical expenditure items such as staff salaries when funds were not available in its Bank Account. An amount of R170k had to be written off during 2020 as a donation; and
- providing, on request, technical support to the Trust during stakeholder engagements.



Notes:

- Amadlelo officials had at no time since September 2016 signing powers on the Trust's Bank Account(s).
- Amadlelo officials had no excess to the electronic banking facility of the Trust.
- Amadlelo's CFO was mandated to release EFT payments only after it was authorised by the Trust's delegatee and captured on the EFT banking facility by the Farm's Administrator.
- The facility to do electronic transactions and extract Bank Statements was restricted to the Farm's Administrator.
- ACS, an Accounting Firm was contracted by the Trust to provide accounting services/prepare Workbooks for auditing.
- Due to cash flow challenges and the refusal of DRDLR to fund external auditors, the financials of the Trust were never audited. Workbooks are nevertheless available for scrutiny.
- Because of its precarious financial position the dairy could not afford an experienced Senior Farm Manager.

2.2.12 It is Amadlelo's viewpoint that a chain of events since the start of the initiative on 1 March 2014 resulted in the failure of the Mantusini Dairy Farming Venture to realise benefits for the local community. This chain of events is extensively reasoned in Parts A and B of the Report and can be summarised as follows:

Table 1: Chain of Events: Project Failure

Event #	Period	Event Description
1	2013/14	Reduction of the Infrastructure Development Budget (R9m)
2	2014 to 2020	Failure of DRDLR to complete infrastructure development deliverables (de-busing, land levelling and trenching).
3	2014 to 2020	Failure of the Trust to forcefully drive the implementation of the farming venture in line with business operating principles, adequately accept responsibilities to resolve community issues and exercise its governance responsibilities.
4	March 2014	Failure of DRDLR to complete infrastructure development deliverables in line with the project's critical implementation timeline stretching the timeline for the pre-production phase to the outer years.
5	2014/2015	Ignoring by stakeholders of "red flag" notices issued by Amadlelo. Failure to establish planned pastures (quantity and quality) as per the critical implementation timeline "pushing" the deployment of the herd from the planed August 2015 date to August 2016 and then again to August 2017.



Event #	Period	Event Description
6	End 2014 to September 2020	Failure of DRDLR in conjunction with the EDC to develop and commission an off-take market for the Farm by means of a local processing platform. (Role requirement in the Tripartite Agreement)
7	April 2015 up to 2020	Failure of DRDLR to honour its undertaking to “make good” on the deficit in the Project Infrastructure Development Budget.
8	August 2014 to August 2020	Non-commissioning of the farming venture leading to vandalism, theft and losses totalling approximately R2m .
9	October 2015	Budget deviation approval based on an undertaking by DRDLR to reimburse the Trust to the amount of R8,8m for funds shifted from other deliverables to do DRDLR groundworks. Undertaking was not honoured.
10	February 2016	Failure of the DRDLR Service Provider to complete the internal roads (1,2km) and to construct the drainage system according to specification.
11	March 2016	On the insistence of DRDLR to launch the project during July 2016, the deployment of the first batch of 100 cows to the Farm while adequate pastures were not established.
12	March to July 2016	Diverting infrastructure development funds to, out of sync, ready the Farm to produce milk at the launch. (R3,5)
13	22 July 2016	Pre-mature launch of the farming venture and the chance of the business model to a “one household – two cow” model not aligned to industry production trends and without adequate resourcing of the model, especially provision for the Y1 production overheads.
14	September 2016	Deployment of an additional 100 cows to maintain production as the first batch of cows had to be dried-off for their next breeding cycle. Adequate pastures were still not established.
15	September 2016	Failure to formalise technical and business development/administration support arrangements for the Trust.
16	November/ December 2016	Predicted cash-flow challenges prevented the Trust to service its ESKOM account resulting in sporadic disruptions in the provisioning of electricity needed to irrigate pastures during the hot summer period.



Event #	Period	Event Description
		Newly established pastures were destroyed requiring re-planting in the absence of a funding envelope.
17	January 2017	Inability/reluctance of DRDLR to extend a lifeline to the Trust to re-establish the pastures, fund all outstanding infrastructure development needs and to formalise technical and business development/administration support arrangements for the Trust.
18	January 2017 to September 2020	Gradual accumulation of operational losses peaking at R100k per month during July 2017 and continuing thereafter to September 2020.
19	March 2017 to April 2019	Deployment of additional cows to the farm by DRDLR, ignoring “red flag” notices that pastures and infrastructure are not adequate to carry the deployed herd.
20	April 2019	Untimely death of the Farm’s talented Farm Manager in a car accident leaving the farm rudderless up to September 2019 and thereafter inability of the Farm to appoint an experienced manager due to its precarious financial position.
21	13 May 2019	Flooding in the area resulting in severe damage to infrastructure/the Eskom Transformer/Switchgear/Farm’s Generator and drowning/destroying of the Farm’s pastures.
22	May 2019	Inability of DRDLR to release the specified quantum (R3,5m) of emergency funding to re-position the operation after the flood damage. Only R2,3m was released to the Trust.
23	June 2019	Incorrect re-connection to the electricity grid by Eskom (following the flood damage to the Farm’s Substation and high voltage switchgear) resulting in damage to the farming plant estimated at approximately R1m .
24	July 2019	Inability of the Farm to ensure delivery of the required raw milk volumes to Sundale Dairies for processing in East London (Amasi) and the termination of the up-take agreement.
25	September 2019	Failure of the DRDLR and ECDRDAR to honour an undertaking to avail infrastructure development funding (R27,2m) to the Trust to activate the Profit Share Agreement concluded with Amadlelo.



Event #	Period	Event Description
26	September 2019	Failure of the Trust to approve the temporary de-stocking/leasing-out of the Farm's herd to ensure the "integrity/quality" of the herd while outstanding infrastructure development deliverables are completed, and pastures are properly established to carry the herd.
27	September 2019 to September 2020	Inability of the Trust to service its ESKOM account leading to disruptions to irrigate pastures and over-grazing leading to the destruction of the pastures and starving of animals on the Farm.
28	September 2019 to September 2020	Inability of the Trust to settle long overdue creditors, totalling R1,2m technically rendering the business venture insolvent. (ESKOM R506k and Staff Wages R300k).

2.3 Key Lessons

Based on the insights gained by Amadlelo the following lessons need to be recorded:

- The start-up of community based agricultural business ventures needs to be preceded by the implementation of extensive governance and business management capacity development programmes and the empowerment of communities/traditional leadership to take-up full ownership of such initiatives.
- Due to the specialised nature of farming ventures, especially in the dairy space, project implementation needs to follow a clearly defined sequential infrastructure development timeline with a funding envelope in place to ensure **on-time** procurement and deployment of service providers.
- Quality assurance responsibilities need to be vested in only the Project "Implementer".
- Public Service procurement practices are not geared to support critical milestones specified in agricultural project implementation timelines.
- Vigorous risk management practices need to be maintained throughout the lifespan of agricultural development projects **also setting indicators** to prompt participants to "pull the plug" on an initiative.



- Agriculture development projects require the deployment of industry recognised project management toolkits such as Prince2 and the adequate resourcing of a Projects Office.
- Change management and communication requirements should be clearly addressed in Project Implementation Plans.
- Mechanisms need to be deployed to ensure that unrealistic expectations are not at any stage of the implementation timeline created amongst stakeholders.
- The relationship between the Funding Entity, the Project Owner, Project Sponsor, Implementation Agent, Stakeholders need to be formalised in a clearly defined legal instrument. Likewise, failure by a party to comply with specified conditions should not be allowed to “nurse” relationships but timely trigger specified dispute resolution/termination provisions.
- Implementation monitoring and evaluation cannot be done at “arm’s length” and project specific reporting “loops” need to be established and maintained.
- Critical project implementation timelines cannot be disturbed to accommodate external interests and political expediency requirements.



PART A: PERIOD 2013 TO 23 JULY 2016

3. PROJECT BACKGROUND AND INITIATION

3.1 Background

- 3.1.1 The Mantusini Dairy Farm is situated in **Ward 7, Port St Johns Local Municipality** alongside the Umngazi River.

Figure 3: Farm Location



Source: Google Earth

- 3.1.2 The establishment of the Dairy Farm (as a government initiative) started around 2005. A gradual implementation approach, as funding became available within the then EC Provincial Department of Agriculture and Agrarian Reform, was followed.



3.1.3 Amadlelo was approached by Minister Nkwinti of DRDLR in 2012/13 to take on the role of a Strategic Partner to fast-track the development of the Farm through the DRDLR's newly introduced Recapitalisation and Development Programme. As far as we could establish, no formal tendering procedures were followed by the Department in this regard and the request was based on Amadlelo's involvement as a "Sharemilker" for the Fort Hare Dairy, Seven Stars Dairy, Middledrift Dairy, etc ventures in the Eastern Cape.

3.2 Situational Assessment

3.2.1 Following a comprehensive situational assessment during 2013 of the existing operation and available infrastructure, Amadlelo developed and submitted a detailed Project Business Plan dated 23 May 2013 to DRDLR to take the initiative forward. **Appendix A**

3.2.2 This situational assessment *inter alia* took into consideration-

- expectations and interests of the local community and "landowners";
- options for an operating business model and governance structure(s);
- the "gap" between the existing infrastructure provision and industry/biosecurity requirements for a **viable pasture based** dairy operation;
- topography, climate and soil features of area;
- legislative and industry standards for the production of raw milk;
- industry standards dictating a herd size of 700 cows to ensure a **sustainable** pasture-based business entity;
- production input requirements (fertilizers, electricity, labour, etc.) and more especially local availability of feeding supplements (maize, lucerne and hay) to establish a healthy herd producing required volumes;
- the "remote" location of the Mantusini Dairy and the cost implications (high transport cost) to "penetrate" the raw milk processing market; and
- damage caused to the existing infrastructure by the floods in the area on 19 and 20 April 2013.

3.2.3 The assessment also indicated that through funding provided by the then Eastern Cape Department of Agriculture and Agrarian Reform, a dairy parlour, slurry dams, feed/fertiliser shed, workshop, single staff quarters and the Junior Manager's Flat have been provided/constructed.



4. 2013-PROJECT BUSSINESS PLAN

4.1 Key Features of the Project Business Plan

4.1.1 The Project Business Plan (**Appendix A**) envisaged the establishment of a dairy operation for an initial herd of 450 cows and highlighted the need to, in line with industry sustainability imperatives, develop infrastructure to gradually “carry” 700 cows and 350 heifers on 200ha irrigated pastures and 50ha dry land.

4.1.2 Project Implementation Challenges identified in the Project Business Plan are as follows:

- Gradient of the farmland limiting development to areas near the Umngazi River.
- Drainage of the land earmarked for irrigated pasture development.
- Risk of flooding along the Umngazi River.
- Securing of an Irrigation Water Extraction Authorisation from the then Department of Water Affairs and Forestry.
- Transporting of raw milk over long distances and the state of the access road.
- Low soil fertility.
- Lack of funding for the identified critical infrastructure and production needs.
- Limited raw milk of-take opportunities (limited to local sales).

4.1.3 To ensure a **sustainable** business venture and to maintain a dairy herd able to produce on average 17 litres per day per cow, the Project Business Plan *inter alia* also indicated that as a minimum:

- 50ha need to be planted annually with maize to produce 90 tons of feed.
- 200ha need to be under irrigation and planted with Kikuyu/Rye grass to provide 2,430 tons of green pasture annually.
- 50ha of dry land are required to provide 270 tons dry pasture annually.



4.2 Proposed Business Model

4.2.1 The New Zealand “Sharemilk” model was identified as a “best practice model” to take the Mantusini initiative forward. This model is underpinned by the following:

- The landowner(s) party makes available and maintains the fixed assets (land, milking parlour, irrigation, fencing, stock water and other related fixed infrastructure.)
- The Sharemilker provides and maintains moveable assets (livestock, tractors, implements) and provides farm management resources.
- Specific profit share arrangements (normally on a 50/50 basis).
- A formal Sharemilk Agreement defining roles, responsibilities, obligations, etc.
- Registration of a fit for purpose trading entity to leverage tax and other rebates as a vehicle to increase profit margins.

4.2.2 With the Mantusini Dairy Primary Cooperative (Registration No 2009/2007304/24) established on 16 November 2009 being identified as the legal entity representing the landowners, the Project Business Plan proposed a similar approach to take the initiative forward. The key features being:

- The establishing of a Joint Venture (JV) between Amadlelo (the Sharemilker) and the Mantusini Dairy Primary Cooperative (Landowner).
- The registration with the Master of the High Court of a Business (Operating) Trust with equal representation by Amadlelo and the Cooperative.
- Conclusion of a Sharemilk Agreement between the parties *inter alia* formalising a 50/50 profit sharing arrangement.
- **Mantusini Dairy Primary Cooperative contribution to the JV:**
 - Fully developed farmland – 305 ha and farm infrastructure to carry a sustainable herd.
 - 50% of the working capital needed by the operation.
- **Amadlelo contribution to the JV**
 - The setup livestock (700 cows).
 - Tractors and implements required.
 - 50% of the working capital needed by the operation.
 - Provisioning of technical dairy operating and business management expertise.



4.3 Critical Infrastructure Requirements

4.3.1 The critical infrastructure development requirements for a **sustainable and viable** dairy farm, to be provided by the Landowners are defined in paragraphs 11.1 and 11.2 of the Project Business Plan.

4.3.2 Based on 2013 market trends (determined by obtaining three quotations per line item from reputable service providers), the capital requirements, to repair vandalised farm assets and to develop infrastructure to **carry the herd required for a viable (profit-making) business operation**, were stated in the Project Business Plan as indicated here-under:

Table 2: Capital Requirements

#	Project Budget Item	Amount
1	Project Planning and Design	R 124 100
2	Project Implementation Management	R 1 260 000
3	Institutional Arrangements/Registration	R 34 000
4	Fencing	R 1 179 542
5	Irrigation Material and Installation Labour	R 4 680 000
6	Roads, Trenching and Leveling	R 4 966 650
7	Diesel for ground works	R 1 200 000
8	Water Pump Station (Flood Proof)	R 300 000
9	Stock Water System	R 522 900
10	Equipment and Upgrade Milking Parlour	R 2 800 000
11	Grain Handling Facility (Storage)	R 1 500 000
12	Calf Camps	R 318 473
13	Feed Paddocks	R 210 000
14	Tools	R 33 000
15	Electrical Connections and Connection Fees	R 1 600 000
16	Concrete Floor for Storage Shed	R 260 000
17	Seed Storage Facility (Container)	R 59 800
18	Repairs and upgrading of staff housing	R 890 000
19	Seed and Fertiliser to establish pastures	R 1 912 500
Sub Total		R 23 850 965
VAT @ 14%		R 3 339 135
TOTAL REQUIREMENT		R 27 190 100



4.4 Proposed Project Business Plan Timeline

A **sequential implementation timeline** (phased) is indicated by the Project Business Plan, clearly indicating that the transition to a next project phase is dependent on the completion of the activities of a specific phase. Likewise, activities within a project phase need to be completed sequentially as for example indicated in the figure here-under:

Figure 4: Critical Implementation Path in the Agricultural Space

Activity	Sub Phase Implementation Months								
	M1	M2	M3	M4	M5	M6	M7	M8	M9
Sub Phase Initiation, Planning, Design	■	Plan Alignment and risk mitigation							
Land surveying and soil testing.		■							
Bush Clearing			■						
Leveling of land and digging of trenches				■					
Installation of pipeline, cabling and fencing					■				
Procurement and delivery of Pivot System				■	■				
Installation of Pivot System						■			
Testing of Pivot System							■		
Ploughing of land.								■	
Administering of fertiliser									■
Planting of pastures.									■
Implementation of irrigation schedule									■
Monitor pasture growth/ invader cleaning.									■
Cow deployment									■

Note: If a critical milestone is not reached all subsequent activities are “pushed” to the outer period of the implementation path.

4.5 Project Business Plan: Ancillary Matters

4.5.1 The Project Business Plan also extensively dealt with:

- Fodder Production Planning, Processes and Standards.
- Animal Production Planning, Processes and Standards.



- Raw milk off-take and marketing arrangements.
- Accounting Arrangements and Practices.
- Staffing structure and arrangement.
- Employee and Stakeholder Development.
- Implementation Risk Identification and Mitigation.
- Financial Viability and Profit Analysis (once operations)
- The need to engage an Independent Accounting Entity to provide assurance services to the envisaged Trust.

4.5.2 Important to note that given the high cost associated with the transport of raw milk to the nearest processing facilities, the Project Business Plan also proposed the establishment of a separate local processing/retail business entity selling raw milk in the surrounding communities and/or set up of a small-scale Amasi Production Facility.

4.5.3 Following extensive consultation with Members of the Mantusini Dairy Primary Cooperative on the Project Business Plan content, the proposal was adopted on **06 September 2013** and submitted to DRDLR by the Cooperative as a framework *for inter alia* the engagement of Amadlelo as the Strategic Partner for the implementation of the initiative. The Cooperative also clearly indicated that as **the landowners it is not in a financial position** to fund the infrastructure development required for a viable and sustainable dairy operation on the farm. It also indicated that own resources to contribute towards the working capital requirements are limited and will initially have to be done by raising short term production loans to be serviced from the initial profit share of the Cooperative.



5. PROJECT IMPLEMENTATION

5.1 Project Adjudication and Approval

5.1.1 Following a due diligence review by DRDLR during the second half of 2013, project implementation and engagement of Amadlelo as the Strategic Partner (Implementing Agent and Operator) was formally approved by Minister Nkwinti.

5.1.2 Despite indicating in the Project Business Plan the minimum funding requirements for **infrastructure development** to make the Farm a viable business, DRDLR approved a **reduced** budget for the Project as follows:

Table 3: Approved Project Infrastructure Development Budget

#	Project Budget Item	BPB Budget	DRDLR Budget	Deviation
1	Project Planning and Design	R 124 100	R 20 500	-R 103 600
2	Project Implementation Management	R 1 260 000	R 420 000	-R 840 000
3	Institutional Arrangements/Registration	R 34 000	R 34 000	R 0
4	Fencing	R 1 179 542	R 1 055 542	-R 124 000
5	Irrigation Material and Installation Labour	R 4 680 000	R 4 320 000	-R 360 000
6	Roads, Trenching and Leveling	R 4 966 650	R 296 100	-R 4 670 550
7	Diesel for ground works	R 1 200 000	R 500 000	-R 700 000
8	Water Pump Station (Flood Proof)	R 300 000	R 300 000	R 0
9	Stock Water System	R 522 900	R 522 900	R 0
10	Equipment and Upgrade Milking Parlour	R 2 800 000	R 2 800 000	R 0
11	Grain Handling Facility (Storage)	R 1 500 000	R 1 500 000	R 0
12	Calf Camps	R 318 473	R 318 473	R 0
13	Feed Paddocks	R 210 000	R 150 000	-R 60 000
14	Tools	R 33 000	R 33 000	R 0
15	Electrical Connections and Connection Fees	R 1 600 000	R 1 600 000	R 0
16	Concrete Floor for Storage Shed	R 260 000	R 240 000	-R 20 000
17	Seed Storage Facility (Container)	R 59 800	R 59 800	R 0
18	Repairs and upgrading of staff housing	R 890 000	R 440 000	-R 450 000
19	Seed and Fertiliser to establish pastures	R 1 912 500	R 1 512 500	-R 400 000
Sub Total		R 23 850 965	R 16 122 815	-R 7 728 150
VAT @ 14%		R 3 339 135	R 2 257 194	-R 1 081 941
TOTAL		R 27 190 100	R 18 380 009	-R 8 810 091



5.1.3 As indicated in paragraph 4.4 *supra* the successful implementation of the project was highly dependent on the sequential completion of deliverables. In this regard the completion of the ground works **represents a key deliverable** to enable the planting and irrigation of the pastures during the spring season of 2014 so that cows could be deployed to the Farm by August 2015 having adequate and well-established grazing pastures in place. Specifications developed in this regard indicated that the listed heavy equipment to be sourced from a reputable construction service provider at **2013 cost levels** will be required as follows:

Table 4: Equipment Requirements for Ground Works.

Type	Number	Days Required	Cost Estimate	Remarks
20t Excavator	3	132	R 1 013 760	Exc Diesel
TLB	2	132	R 464 640	Exc Diesel
Grader	2	99	R 651 420	Exc Diesel
Tipper Trucks	4	99	R 891 000	Incl Diesel
Tractor Ripping	3	77	R 646 800	Incl Diesel
Tractor Discing	3	77	R 369 600	Incl Diesel
Tractor Leveling	3	77	R 462 000	Incl Diesel
Tractor Transport	2	132	R 316 800	Incl Diesel
Pasture establishment and Transport			R 150 630	
TOTAL			R 4 966 650	

Provision was also made in the Project Infrastructure Development Budget for the purchase of diesel at the 2013 bulk price to the amount of R1,2m.

5.1.4 The substantial reduction of **R8,8m** in the Project Budget and the impact thereof to establish a viable dairy operation (in a remote area), prompted Amadlelo to indicate to Minister Nkwinti that without the Project being fully funded, successful implementation is highly doubtful and requested withdrawal from the Project.

5.1.5 During further interaction with Minister Nkwinti, he indicated that the withdrawal of Amadlelo as the Strategic Partner cannot be accepted and DRDLR management made an undertaking to-

- “make the budget shortfall good” in subsequent financial years; and



- arrange for “other” DRDLR Units/Programmes to undertake specified infrastructure development work such as bush clearing, levelling of land earmarked for irrigated pasture establishment, digging of trenches and construction of the internal road network and paths for the herd to “commute” between the grazing fields and the milking parlour.

5.1.6 DRDLR management also undertook to drive processes with the Economic Development Corporation to put in place a product processing and offset platform for the Mantusini Dairy. Amadlelo was thus **not tasked** to undertake work in this regard. Amadlelo nevertheless emphasised the requirement for such a platform to be established **in tandem** with the project implementation timeline. All stakeholders were alerted to the risk that failure to do so will, as and when milk production started, have a severe impact on the dairy business to generate income for positive cash flows (cover operational expenditure such as staff salaries, production consumables, electricity, etc.).

5.1.7 To ensure appropriate project performance, financial oversight and for the DRDLR’s Accounting Officer to account, in line with the provisions of the Public Finance Management Act, 1999, for funds appropriated to the Project, approval for the Project was, to the best of our knowledge, made subject to the adoption and conclusion of a Tripartite Agreement between the DRDLR, the Mantusini Dairy Primary Cooperative and Amadlelo as mandated in the DRDLR’s Recapitalisation and Development Programme.

5.1.8 Work commenced on the Project in March 2014 following the conclusion of the Tripartite Agreement dated 14 January 2014 (See paragraph 5.2 *infra*) with a target to start milking on the Farm during August/September 2015. The period September 2014 to July 2015 being set aside as the pre-production period to *inter alia* ensure well established pastures before herd deployment is initiated.

5.2 Governance Arrangements

5.2.1 Tripartite Agreement

5.2.1.1 The Tripartite Agreement was, as a “Sharemilk Agreement”, concluded between DRDLR, the Mantusini Dairy Primary Cooperative and Amadlelo on 14 January 2014 to also put in place a



mechanism enabling the transfer of funding in terms of the provisions of the Public Finance Management Act, 1999 to the designated Bank Account of the Mantusini Dairy Trust. **Appendix B**

5.2.1.2 In essence the Tripartite Agreement made provision for:

- DRDLR to fund the infrastructure development requirements as set out in the **amended** Project Budget.
- Amadlelo to invest operational capital to the amount of R15,5m.
- A 50% profit sharing arrangement (after 1st production cycle) between Amadlelo and the Beneficiaries.
- DRDLR to appoint a financial service provider to support the project through managing disbursements and keeping financial records for the allocated development fund.
- DRDLR to arrange independent auditing of the allocated infrastructure development fund.
- The quantum of the development fund and the conditions for the transfer thereof to the **bank account of the Mantusini Dairy Trust** in tranches.
- Mechanisms for DRDLR to monitor project implementation and to account for infrastructure development fund transfers made in line with PFMA imperatives.
- Amadlelo to submit monthly project implementation progress reports.
- The Trust to submit funding certificates to enable transfers.
- An engagement arrangement of five years (14 January 2014 to 13 January 2019).
- Dispute resolution arrangements.
- The termination of the Agreement.

5.2.2 Mantusini Dairy Trust

5.2.2.1 The Trust Deed established a business (operating) entity for the Joint Venture and was registered on 30 August 2013. **Appendix C.**

5.2.2.2 Prior to the registration of the Trust, the Mantusini Dairy Primary Cooperative designated (from their mist) Trustees as the representatives of the Community Landowners. The Master of the High Court subsequently issued an Authorisation Certificate for the appointment of **three** Trustees representing the Cooperative, **two** Trustees representing Amadlelo and **one** Independent Trustee. **Appendix D**

5.2.2.3 During the set-up phase of the project, Amadlelo provided technical assistance to the Trust to-



- Open a Bank Account.
- Comply with statutory registration requirements (Tax, VAT, etc.)
- Develop an understanding of its-
 - fiduciary responsibilities towards members of the MDPC;
 - business governance roles;
 - project implementation oversight and support responsibilities;
 - community mobilisation responsibilities to ensure a secure environment for the operation;
 - business and market development responsibilities; and
 - responsibility to approve and control project expenditure.
- Secure the services of the Farm Management Team and Administrator.
- Procure office systems and other consumables.
- Draft documents and correspondence to give effect to resolutions made by the Trust.

5.2.2.4 Failure by the DRDLR to appoint, as provided for in the Tripartite Agreement, an Accounting Firm to perform income, expenditure, asset management and bookkeeping services to the Project resulted in Amadlelo (by default) taking on the responsibility to provide back-office services to the Project.

5.2.2.5 Apart from presenting Project Progress Reports during Trust meetings, the rationale for business and other resolutions to take the project forward were extensively explained and recorded in the Minutes Book of the Trust which was kept by the Dairy Administrator who also played the role of “Minute Taker”.

5.3 Critical Project Implementation Timeline

5.3.1 Based on the **assumption** that funding for the Project will flow in line with critical milestone requirements (paragraph 4.1.1 supra) (also in line with the “red flag” indicator that cows can only be deployed to the Project when adequate quality and quantity levels of pasture production is reached), Amadlelo provided the Mantusini Dairy Trust and DRDLR the critical project implementation timeline as follows:



Figure 5: High Level Critical Project Implementation Timeline

Milestone	2014											2015						
	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A
Project Setup																		
Structure Upgrade																		
Pasture Establish																		
Pre-Production																		
Cow Deployment																		
Start Milking.																		

Note: The Pre-production period is a critical implementation mechanism to make adequate provision for the proper establishment of the newly planted pastures and roughage thereby also providing a start-up buffer for the feeding of the animals during the dry season(s), deploy and train staff and to test equipment. It was envisaged to gradually deploy cows to the farm during this period.

5.4 Project Implementation Performance and Mitigation Arrangements

5.4.1 Project Implementation Performance and Challenges.

5.4.1.1 An amount of **R12m** was deposited into the Mantusini Dairy Trust's Bank Account as the first tranche of the approved infrastructure development budget allocation. In line with the required project management methodologies, the Strategic Partner submitted its first Progress Report for the period 1 March 2014 to 30 June 2014 and there-after monthly to the Trust and DRDLR.

5.4.1.2 The above-mentioned first Project Progress Report (**end June 2014**) identified delays in the accomplishment of key project deliverables as follows:

- Planned fencing activities could not started due to the delay to de-bush 106ha of land as per the undertaking of DRDLR.
- Irrigation material to the value of R1,9m was procured but land surveying and installation work is delayed because of the failure of the DRDLR Programme to deploy a service provider to do the road construction, de-bushing and trenching work.
- Amadlelo finalised the de-busing of the old irrigation areas at a cost of R361k (R65k overrun) but the deployment of a DRDLR service provider to de-bush the additional 106ha is still outstanding.



- Amadlelo finalised work to the value of R2,4m to upgrade the milking parlour but the commissioning of the second bulk tank (electrical connection and plumbing) was delayed due to the failure DRDLR Programme to deploy a service provider to do trenching work.
- Capital funding for the procurement and planting of pasture seed to the value of R1,5m was not spend because of the delay to commission the irrigation system and the failure of the DRDLR Programme to deploy a service provider to do the de-bushing and land preparation for planting.

5.4.1.3 In presenting the Report to the Trust and DRDLR, stakeholders were alerted that delays to accomplish key deliverables (falling outside Amadlelo's control) will prevent the Project to deploy cows to the Farm as planned and to start milking operations by August 2015.

5.4.1.4 Failure to complete the groundworks as per the DRDLR undertaking resulted in funds in excess of R6m not being utilised at the end of 2014. A Project Budget Deviation Request was submitted by the Trust and Amadlelo to DRDLR on **23 January 2015** to enable Amadlelo to "take over" the responsibility to project manage the de-bushing and pasture area preparation activities, thereby resolving challenges to accomplish the key deliverable on the ground works. The Submission also indicated that:

- A DRDLR Service Provider deployed an Excavator to the Farm during November 2014, but the machine was recalled after 20 days whilst the work specification required three Excavators for 132 days. Limited de-bushing and trenching work was done.
- A TLB was deployed to the Farm for 20 days whilst the work specification required two TLBs for 132 days.
- Tippers were deployed to the Farm but could not be used as no Excavators were on site.
- A Grader was deployed to the Farm but could not be used as the land first need to be de-bushed, ploughed and disked before the Grader can do the levelling.
- No Tractors were provided to do the ploughing and disking of the new development.
- Notice was received that the Service Provider responsible for the construction of the roads will be on site during February 2015 (A year after work should have started according to the Critical Project Implementation Timeline).



5.4.1.5 The Project Budget Deviation Submission also provided DRDLR with a financial performance overview (spending) and requested the allocation of additional funding (R5,7m) to complete critical project deliverables “in-house” as follows:

Table 5: 2015 Proposed Project Budget Alignment

#	Project Budget Item	2013 DRDL D Approved Budget	January 2015 Deviation Request	Adjustment Approved by DRDLR 12 August 2015	Spend Up to January 2015	Balance	Additional Budget Requirments	New Total
1	Project Planning and Design	R 20 500	R -2 204	R 18 296	R 18 296	R 0	R 0	R 18 296
2	Project Implementation Management	R 420 000	R 0	R 420 000	R 456 000	-R 36 000	R 913 800	R 1 333 800
3	Institutional Arrangements/Registration	R 34 000	R -22 016	R 11 984	R 11 984	R 0	R 0	R 11 984
4	Fencing	R 1 055 542	R 147 776	R 1 203 318	R 0	R 1 203 318	R 0	R 1 203 318
5	Irrigation Material and Installation Labour	R 4 320 000	R 0	R 4 320 000	R 3 681 707	R 638 293	R 2 261 867	R 6 581 867
6	Roads, Trenching De-bushing and Leveling	R 0	To be undertaken by DRDLR					
7	De-bushing, leveling, ploughing and discing	R 296 100	R 1 236 944	R 1 533 044	R 434 084	R 1 098 960	R 0	R 1 533 044
7	Diesel for ground works	R 500 000	R 0	R 500 000	R 218 925	R 281 075	R 98 925	R 598 925
8	Water Pump Station (Flood Proof)	R 300 000	R -131 144	R 168 856	R 54 856	R 114 000	R 0	R 168 856
9	Stock Water System	R 522 900	R -148 288	R 374 612	R 89 612	R 285 000	R 0	R 374 612
10	Equipment and Upgrade Milking Parlour	R 2 800 000	R 0	R 2 800 000	R 2 476 899	R 323 101	R 392 000	R 3 192 000
11	Grain Handling Facility (Storage)	R 1 500 000	R -1 500 000	R 0	R 0	R 0	R 1 710 000	R 1 710 000
12	Calf Camps	R 318 473	R -33 703	R 284 770	R 170 770	R 114 000	R 0	R 284 770
13	Feed Paddocks	R 150 000	R 111 608	R 261 608	R 204 608	R 57 000	R 0	R 261 608
14	Tools	R 33 000	R 4 260	R 37 260	R 22 414	R 14 846	R 0	R 37 260
15	Electrical Connections and Connection Fees	R 1 600 000	R 0	R 1 600 000	R 1 445 458	R 154 542	R 253 008	R 1 853 008
16	Concrete Floor for Storage Shed	R 240 000	R 56 730	R 296 730	R 296 730	R 0	R 0	R 296 730
17	Seed Storage Facility (Container)	R 59 800	R -59 800	R 0	R 0	R 0	R 79 800	R 79 800
18	Repairs and upgrading of staff housing	R 440 000	R 0	R 440 000	R 99 654	R 340 346		R 501 600
19	Seed, Fertiliser and establishment of pasture	R 1 512 500	R 339 837	R 1 852 337	R 0	R 1 852 337	R 2 253 784	R 4 106 121
	Sub Total	R 16 122 815	R -	R 16 122 815	R 9 681 997	R 6 440 818		R 24 147 599
	VAT @ 14%	R 2 257 194		R 2 257 194	Additional Requirement			R 5 767 590
	TOTAL	R 18 380 009		R 18 380 009				

5.4.1.6 Notwithstanding regular interaction with DRDLR officials the shifting of funds as indicated above was only approved on 12 August 2015 **with an undertaking that the Mantusini Dairy Trust will be reimbursed accordingly (R4,7m)**. No additional funding, as requested, were approved. The Trust and Amadlelo also had to engage officials from September 2014 onwards to secure the second tranche transfer of funding (R6,38m). This was only done **six months after** the scheduled transfer date on 30 March 2015.

5.4.1.7 The Project Progress Report submitted to the Trust and DRDLR on **10 June 2015** indicated that the budget alignment was still not approved and none of the delays referred to above and more specifically to deploy a service provider to do the de-bushing, trenching and pasture land levelling activities have been resolved and stakeholders were alerted to the fact that, if not immediately resolved so that pasture planting and irrigation can start during the spring season, **the target date to start milking on the farm will have to be “pushed out” to August 2017.** Without engaging the Trust



nor Amadlelo on the specifications/industry standards for the internal roads, the service provider contracted by DRDLR, abandoned the site without finishing 1,2km and rectifying identified shortcomings in especially the water drainage system. The Report also highlighted challenges experienced with ESKOM to connect the additional sites to the grid to test newly installed equipment. The delay was caused by the inability of Trust to service the Farm's arrear account accumulating prior to March 2014.

5.4.1.8 The Progress Report dated **6 October 2015** alerted Stakeholders to the reality that the target date to have the Farm in production, as planned, has now been "**pushed out**" to **August 2017**. Due to a lack of progress by the relevant DRLR Unit to establish an offset platform for the raw milk produced, Amadlelo also reported that arrangements, **as a start-up**, have been made to sell 1k litres milk locally per day and for Sundale Dairies located in East London, to collect loads of 7k litres milk for pasteurizing and amasi production.

5.4.1.9 Following a project status review exercise, the Amadlelo Project Manager tabled a report to the Trust and DRDLR at the end of **October 2015** indicating a detailed breakdown of a capital deficit of R13,2 in the Project Infrastructure Development Budget to complete the Project. No additional funding to complete the Project was allocated by DRDLR in this regard.

5.4.1.10 In a report dated **15 June 2016** and presented to the Trust and DRDLR, the Amadlelo Project Manager indicated that:

- The implementation of the project hit an immediate crisis as DRDLR only supplied part of the road network required. None of the other critical services have been provided/completed.
- The total budget for trenching, roads, land levelling and initial soil preparation was removed from the Project Budget. This has been a major challenge from the start for the project because the final design and installation of the irrigation system require that de-bushing to be done first.
- The initial de-bushing of the old (existing) irrigation area was done with a limited budget of R296k provided for in the Project Budget.
- To date nothing has been provided for trenching or land levelling or initial soil preparation and this had to be done out of the irrigation budget.
- There was no assistance forthcoming from DRDLR as far as de-bushing was concerned and this threatened the project to such an extent that the work had to be stopped for prolonged periods.



Despite numerous engagements and e-mails to both the DRDLR Regional and National Offices, nothing was done to ensure alignment with the sequencing of project deliverables and to mitigate this serious implementation risk.

- Progress was made when approval was granted by DRDLR in **August 2015** for the Project to shift some budget line items for the de-stumping and removal of roots in the land earmarked for the establishment of new irrigated pastures.
- Part of the roads needed has been done by a Service Provider appointed and **supervised** by DRDLR but the outstanding 1.2km and structural (drainage defects) still need to be done.

5.4.1.11 The following figure provides a high-level overview of the operational performance of the Project to “ready” the Farm through infrastructure development for the planned production by August 2015.

Figure 6: 2014 Project Implementation Plan: Key Project Milestones: Planned vs Accomplished.

Legend:

Planned	
Completed	
Partially Completed	
Not Completed	

Status as at 22 July 2016: Official Launch

#	Activity	2014				2015				2016				Sept 2020
		Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	
		1	2	3	4	1	2	3	4	1	2	3	4	
	Schedule for the transfer of Funds for project infrastructure development activities. (Tranches)													
1	Project Start-up. Design, Specification Development and Planning.													
2	Legal Instruments Development, Bank Account and Business Registration Processes.													
3	De-bushing and preparation of old irrigation areas.													
4	DRDLR De-bushing of <u>planned</u> irrigated pasture areas. Started Sept 15 after budget shift													



#	Activity	2014				2015				2016				Sept 2020
		Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	
		1	2	3	4	1	2	3	4	1	2	3	4	
5	<u>DRDLR</u> Ploughing and Leveling of new pasture areas. Started Sept 15 after budget shift													
6	<u>DRDLR</u> Trenching water reticulation and cable network. Started Sept 15 after budget shift													
7	Construction of internal roads and cow pathways. DRDLR Responsibility													
8	Internal Fencing Dependent on 4.													
9	Upgrading Water Pumping Station													
10	Repair of Old Irrigation System.													
11	Installation of planned irrigation system. Dependent on 4, 5 and 6													
12	Upgrading of milking parlour inclusive of water purification system and standby generator.													
13	Installation of Stock Water Facilities old area.													
14	Installation of stock water system new pasture and dry land areas.													
15	Installation of Grain Handling Facility (Storage) Funds shifted for work not being done by DRDLR													
16	Construction Calf Camps													
17	Construction of Feed Pads													
18	Installation of Electrical Connections and Switchgear (Partially dependent on 6)													
19	Construction Concrete Floor for Storage Shed													
20	Management Staff Housing repairs and house for Senior Manager (Budget Reduced)													



#	Activity	2014				2015				2016				Sept 2020
		Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	
		1	2	3	4	1	2	3	4	1	2	3	4	
21	Commissioning of Seed Storage Facility (Container)													
OPERATIONAL PLANNING AND IMPLEMENTATION														
22	Ground preparation and administering of fertilisers. <u>Old Irrigation Area</u>													
23	Planting of pastures <u>Old Irrigation Area</u>													
24	Ground preparation and administering of fertilisers <u>New Pasture Areas.</u>													
25	Planting of <u>New Pastures</u> and initiation of irrigation schedule.													
26	Deployment of Management Staff													
27	Deployment of Farm Administrator and capacitation													
28	Deployment of operational staff													
29	Capacitation of operational staff													
30	Deployment of first batch of cows													
31	Pre-Operating Period													
32	Start of operations (milking)													
33	Projected Net Operating Profit													
34	Fully operational 700+ Cow Dairy Farm													



5.4.1.12 Apart from the abovementioned implementation challenges, Progress Reports submitted to the Mantusini Dairy Trust and DRDLR also highlighted further challenges and budget shortfalls due to:

- Structural design flaws discovered later in the pumping station.
- Vandalism causing damage to newly installed pivots (all the tyres of the irrigation pivots on the farm had to be replaced at a cost of R240k).
- Theft of electric cabling.
- Inadequacy of the outside fence (erected prior to 2013) to prevent goats from accessing the farm thereby compromising the biosecurity of the farm's herd.
- inflationary and supplier price increases due to critical project milestones not being accomplished as per the planned timeframes.

5.4.2 Mitigation Arrangements

5.4.2.1 At an operational level Amadlelo and the Farm Manager had to initiate various mitigation arrangements to keep project implementation progressing and to curtail cost escalations while waiting for the appointment and deployment of a DRDLR Service Provider to do the planned/specified ground works (de-bushing, trenching, land levelling and roads).

5.4.2.2 The ability of Amadlelo to ensure a synchronized completion and quality assurance of key project deliverables was curtailed by the decision of DRDLR to reduce the Project Budget and to directly engage service providers to do the groundworks for the Project. Various engagements with DRDLR emphasising the need to put in place mechanisms to resolve lacking progress to complete the ground works unfortunately had limited impact (substantial work in this regard is still not completed after eight years).

5.4.2.3 Following a series of work stoppages during the latter part of 2014 because of ground works not starting, but to prevent a collapse of the Project, Amadlelo proposed a deviation from the Project Budget to enable it to develop a "nucleus" unit on the Farm's old irrigation land as well as to ready some new areas for pasture establishment as follows:

- Part of the fencing provision to be utilized to de-bush the fencing lines.



- The budget provision for the procurement of a grain handling facility (R1,5m) being re-allocated to do de-bushing (R1,2m) and land preparation (R300k) on the old irrigation land and part of the new pasture areas.

5.4.2.4 The Trust and Amadlelo submitted a Project Deviation Request to DRDLR on 23 January 2015 (**See paragraph 5.4.1.5 *supra***) detailing the requirements to finalise the groundwork and to get implementation on track again. This request was not approved.

5.4.2.5 Because the Farm was not operating, a serious vandalizing and theft risk emerged at the start of 2015. To mitigate this emerging risk, it became imperative to take the farm to some form of a working farm. Due to a lack of progress to resolve the impasse on the completion of the ground works, Amadlelo recommended to the Trust that land already developed for pasture establishment (168ha) be utilized for an interim period for maize production. As an “off spin” such initiative also provided an opportunity for the Farm to:

- generate revenue to partially fund operations; and
- bale plant residue for a feed bank to be utilised once cows have been deployed to the Farm.

5.4.2.6 The Mantusini Dairy Trust approved the proposal but indicated that it was not able to provide the production capital, estimated at R2,6m (R15k/ha). To overcome the lack of production capital, Amadlelo engaged DRDAR for financial and other support. A support package was structured and approved by the Trust whereby:

- DRDAR and Amadlelo jointly fund the production input costs (ploughing, fertilisers, mechanization, planting, insecticides, herbicides, etc.).
- The maize crop yield be sold off to the Ncora Dairy at the prevailing SAFEX rate.
- Input costs incurred/management services provided by Amadlelo, labour and irrigation (electricity) be subtracted from the revenue generated by the sale of the maize and the profit be shared on a 50:50 basis between the Trust and Amadlelo.

5.4.2.7 The maize production project realised a yield of 838,56 tons and 314 bales of teff. 250 tons of maize were not sold off but kept instore by Mantusini realising a nett benefit of R400k for the Trust. There was no profit sharing on this initiative as the maize was produced at a loss of R474k. Maize



not sold-off but later used as animal feed for three months for the first two batches of 200 cows deployed to the Farm assisted to keep the operation “floating” following the extensive damage to pastures in November/December 2016.

5.4.2.8 An adjusted Project Budget to mitigate the risk associated with the underfunding of key infrastructure requirements also tabulating in detail the rationale therefore was submitted as early as April 2014. Likewise amended Project Business Plans were submitted through the Mantusini Dairy Trust to DRDLR in January 2015, October 2015 and April 2016 setting out new targets for key deliverables and budget requirements to put the Project on track to enable the start of operation for August 2016 and August 2017, respectively. Notwithstanding extensive and protracted engagements with DRDLR officials by the Trust and Amadlelo, approval was not granted nor was the undertaking to “make the initial budget shortfall good” in the outer financial years honoured.

5.5 Infrastructure Development Project “Close-out” August 2016

5.5.1 Despite regular Project Reports and interaction by the Mantusini Dairy Trust and Amadlelo with DRDLR officials clearly indicating that the Farm will, subject to delays in completing the ground works being resolved, only be ready for milking by August 2017, DRDLR insisted that the official launch of the Project be scheduled for July 2016 and cows be deployed to the farm for milking during the launch.

5.5.2 At the official launch of the Project on 22 July 2016, Minister Nkwinti announced that the nature of the Project will, going forward, be changed to a “**one household - two cow**” project whereby government will donate dairy cows to participating families in the community for milking at the Farm. Participating families will also in future share on an equal basis in the profits generated by the Farm under the management of the reconstituted Mantusini Dairy Trust.

5.5.3 As a direct result of the Minister’s announcement, the Tripartite Agreement with Amadlelo as the Strategic Partner, and its obligations to provide the specified production capital, tractors/implements, deploy 700 cows to the farm, manage the operation and to mentor the Trust to take over the operation was thus cancelled with immediate effect. **No legal instrument was entered into to**



formalise the future involvement of Amadlelo in the development and operation of the Mantusini Dairy Farm.

- 5.5.4 Due to DRDLR insistence that cows should be on the Farm at the official launch, 100 cows were deployed to the Farm in May 2016 through a lease arrangement. These cows were in late lactation and due for “dry-off” in November and December to calve again January 2017. To satisfy the local market that was established it was imperative to continue producing milk after the official opening. The Trust, in consultation with DRDLR, resolved that an additional 100 cows (recently calved) should also be deployed (leased) as soon as possible.
- 5.5.5 The insistence to launch the project pre-maturely and without making provision for a pre-production period, set off a chain reaction of costs which had to be incurred otherwise the Farm would not have been able to start and able to continue milking. Expenditure totalling R3,5m had to be incurred on an “emergency” basis to ready the Farm for the official launch. These include the procurement of pasture seed, fertilisers, ploughing, etc. to establish pastures on the 147ha of land developed for irrigation.
- 5.5.6 Funds from the Project Infrastructure Development Budget had to be diverted to fund day-to-day operations and to carry the start-up 200 cow herd **which were not adequate** to generate income to sustain other operational expenditure such as staff salaries, electricity, animal medicine, consumables, etc.
- 5.5.7 The Figure here-under provides and overview of the land infrastructure developed during the period March 2013 to August 2016:



Figure 7: Irrigation Land Prepared/Commissioned August 2016



Legend:

No	Description	Size ha	DRDLR Funded	DRDAR Funded	Operational August 2016
1	New Pivot System	27	Yes	-	
2	New Pivot System Half Circle	15	Yes	-	
3	Dry Land Not Cleared by DRDLR.	-	-	-	
4	Pre-2013 Permaset System (Upgrading)	15	Yes	-	
5	Pre-2013 Pivot System (Upgrading)	16	Yes	-	
6	Pre-2013 Permaset (Upgrading)	9	Yes	-	
7	Dryland Cleared.	7	Yes	-	
8	Pre-2013 Permaset (Upgrading).	9	Yes	-	
9	Pre-2013 Pivot System (Upgrading).	23	Yes	-	
10	Pre-2013 Pivot System (Upgrading).	23	Yes	-	
11	Pivot System Procured not commissioned. (2016)	30	-	Yes	
12	Pivot System Procured not commissioned. (2016)	30	-	Yes	



- 5.5.8 All infrastructure development project expenditure is supported by payment vouchers/service provider invoices and were, with the Mantusini Dairy Trust's Bank Statements, tabled and handed over to the Trust and DRDLR upon the expiry of Amadlelo's tenure as the Strategic Partner at Mantusini. Financial Management Reports were presented during scheduled Trust meetings to be noted and adopted. (Reference: Trust Minutes Book).
- 5.5.9 On the termination of the Tripartite Agreement the following infrastructure development deliverables were not completed:
- Grain Storage Facility not erected due to the shift in the budget to do DRDLR's incomplete groundworks.
 - 1,2km of internal roads not completed, DRDLR Service Provider abandoned the site.
 - Internal roads constructed not done according to drainage specification requirements.
 - Internal fencing incomplete due to the shift in budget to do DRDLR's incomplete groundworks.
 - Two Pivot Systems not procured and commissioned due to budget shift and utilisation of funds to ready a start-up unit to carry 200 cows for the official launch of the project.
 - Land levelling for new irrigation land not done due to undertakings to "make good" on the budget deficit and to re-imburse the Mantusini Dairy Trust for funds shifted to do DRDLR's incomplete groundworks not being honoured.
 - Accommodation for Senior Farm Manager.
- 5.5.10 The Project nevertheless succeeded to complete the deliverables as indicated in paragraph 5.4.1.11 *supra* and to establish, for the official launch on 22 July 2016, 137ha start-up pastures of a good mix as indicated by the photo's here-under:



Figure 8: Pasture Development July 2016



Figure 9: Start-up Herd Grazing: July 2016
Newly Established Pastures





PART B: PERIOD SEPTEMBER 2016 TO SEPTEMBER 2020

6. OVERVIEW OF AMADLELO'S ROLE

6.1 Contractual Arrangement(s)

6.1.1 As indicated in paragraph 5.5.2 *supra*, the announcement on the change of the business model to a “one household – two cow” initiative terminated the Tripartite Agreement between DRDLR, the Mantusini Dairy Primary Cooperative and Amadlelo inclusive of the obligations of the Sharemilker (Amadlelo) to:

- stock the farm with cows;
- deploy tractors and other farm implements (non fixed);
- fund 50% of the Farm's Operational Costs; and
- “operate” the Dairy on behalf of the Joint Venture up to February 2019.

6.1.2 Likewise, this announcement-

- assigned the day-to-day management of the Farm to the Mantusini Dairy Trust;
- constitute an undertaking by DRDLR to stock the Farm with cows (allocation to participating households);
- requires the Trust to immediately and wholly fund the operation of the Farm (running costs such as: staff salaries, electricity, feed supplements, fuel, animal medicine, farm consumables, etc.); and
- placed the responsibility on the Trust to “compensate” participating households for the milk produced by the allotted cows.

6.1.3 Limited in-house technical capabilities to manage the dairy operation prompted the then Chairperson of the Mantusini Dairy Trust to request Amadlelo to, going forward, provide *interim* technical and back-office support services, subject to a suitable Service Level Agreement being concluded to formalise roles, obligations, and compensation arrangements between the parties.



Amadlelo, due to the importance attached to the project and to ensure the transformation of the dairy industry in South Africa, confirmed its willingness to continue with the provisioning of the requested support services.

6.1.4 In an effort to formalise arrangements for Amadlelo to complete outstanding deliverables under the 2014 Tripartite Agreement and to continue providing management support, a Service Level Agreement was (at cost) drafted by Amadlelo to be effective from 1 September 2016. - **Appendix E** Apart from specifying the roles and responsibilities of Amadlelo and the Mantusini Dairy Trust, the proposed Service Level Agreement in Clause 4.3 specifically requires DRDLR to:

“Provide the necessary funding for the completion of the project including supply of the required number of cows.”

6.1.5 The proposed SLA was presented to the Trust who forwarded it to DRDLR for consideration. No official response on the proposal was received from DRDLR. Following inadequate irrigation during November and December 2016, extensive damage was done to the pastures on the Farm. In an effort to mitigate the lacking technical capability of the Trust to manage the day-to-day operation, prevent further “damage” to the operation, generate income to cover day-to-day operational costs and to formalise Amadlelo’s further involvement in the Project, a detailed Co-management Agreement dated 7 January 2017 was presented to the Mantusini Dairy Trust for consideration and submission to DRDLR. **Appendix F**

6.1.6 The proposed Co-management Agreement alerted the Trust and DRDLR to the following:

- Lacking production capital prevented the Farm from servicing its Eskom account, the electricity supply was terminated on several occasions during the end of 2016.
- Newly established pastures died because of the Farm not being able to pump irrigation water.
- The Farm is milking far too few cows to carry its overhead costs.
- Winter pastures need to be established as a matter of urgency.
- Community issues spilling over to the Farm and high number of incidences of fence cutting, vandalism to gates, destruction of pivots, damage to pivot tyres (R50k), etc.



- The off-take arrangement with Sundale Dairies in East London not being a sustainable arrangement and the establishment of an amasi processing facility at a cost of R8m is a critical requirement for the success of the business venture.
- The projected profit margins for the Farm will only be reached after two years of operation, allowing 400 households to share dividends out of R370k per annum (with a herd of 600 cows) or alternatively R1,3m per annum (with a herd of 800 cows).
- A possibility that the “one household – two cow” model raised unrealistic community expectations. If **fully operational**, the projected benefit for a participating household will be 1 litre of milk per day and R925 per annum (with 600 cows being miked) or alternatively R3,250 per annum (with 800 cows being milked).

6.1.7 The proposed Co-management Agreement further proposed the appointment, with effect from 1 April 2017 for a period of five years of Amadlelo as the Management Operator of the farming business and that:

- A SLA between DRDLR and Amadlelo be concluded to clearly define the roles and responsibilities of the parties, inclusive of the DRDLR funding requirements.
- A MOU between the Mantusini Community and Amadlelo be concluded to appoint the latter as the “Farm Management Operator” and to specify the roles and responsibilities of the parties.
- The SLA and the MOU jointly forms the governance structure of the business venture.
- Amadlelo be compensated by means of a fixed management fee of R190 920.00 per month (inflation linked).

6.1.8 The DRDLR declined to adopt/approve the proposed Co-management Agreement. The above initiatives to formalise the support relationship by Amadlelo is a clear indication of its commitment to facilitate the establishment of a sustainable business venture. Suffice to note that the proposals were subject to DRDLR honouring past undertakings to “make good” on the 2013 Project Infrastructure Development Budget deficit (plus escalation) and to refund the Trust for expenditure incurred as a result of the 2015- budget shift. **Amadlelo on an ongoing basis clearly stated to the Trustees and DRDLR Officials that without the requisite infrastructure being put in place to carry a herd of 700+ cows, the business venture is at risk of being a failure.**



- 6.1.9 Following a 2019-resolution by the Mantusini Dairy Trust and DRDLR to abandon the “One Household- Two Cow” operating model, the Trust approached Amadlelo to further explore options for cooperation to revive and develop the dairy venture to its full capacity. A detailed Business Plan was developed analysing the current status of the Farm and requirements to develop it to be a sustainable business venture. **Appendix G**
- 6.1.10 Considering damage to infrastructure due to the May 2019 floods in the area, vandalism and theft the 2019-Project Business Plan specified critical infrastructure development requirements totalling R19,3m inclusive of providing for the procurement of an additional 300 cows. It also specified the need to develop a processing facility at a cost of approximately R11,5m on the Farm. Escalated transport cost to sell raw milk to the Sundale processing facility in East London rendered this arrangement redundant as a substantial reduced “gate price” applied to the arrangement not covering production costs adequately. Based on an appropriately equipped pasture dairy farm, the 2019-Project Business Plan also provided detailed financial projections indicating that the Farm will be able to realise a positive cash flow of approximately R8m per annum **after at least two years** of operation.
- 6.1.11 Following a presentation of the 2019-Project Business Plan to the Mantusini Dairy Trust and an undertaking by DRDLR and ECDRDAR to make available grant funding totalling R25,7m to complete the outstanding infrastructure, a Profit Share Agreement was concluded on 22 October 2019 to again formalise the business relationship between the Trust and Amadlelo. **Appendix H**
- 6.1.12 The key features of the Profit Share Agreement are:
- 100% Ownership of the dairy enterprise (farm, infrastructure, cows, equipment, etc.) to be vested in the Mantusini Dairy Trust on behalf of some 374 beneficiaries whose land was used for the establishment of the enterprise.
 - DRDLR to develop a Tripartite Agreement between the Trust, DRLR and Amadlelo to formalise funding arrangements for the remaining infrastructure needs.
 - Amadlelo *inter alia* to:
 - Write off outstanding management fees as a gesture of goodwill.
 - Operate and manage the farming business to a profitable business entity.
 - Secure reliable off-take markets for the business.



- Mobilise external funding for ongoing work capital and additional infrastructure development.
- Provide technical support and carry out all remaining development tasks.
- Account to the Trust on all aspects of the farming operation.
- **Receive a 30% profit share in the farming operation.**

6.1.9 Due to the failure of DRDLR to develop and conclude a new Tripartite Agreement, the Profit Share Agreement could not be implemented.

6.1.10 In conclusion it must be stated that since the termination of the Tripartite Agreement on 22 July 2016 no legal instrument existed to formalise the business arrangement between the Mantusini Dairy Trust and Amadlelo. Support service rendered to the Trust up to September 2020, when a new Investor was announced by the Member of the Executive Council for ECDRDAR, was a gesture of goodwill and due to Amadlelo's believe that the venture has the potential to-

- be developed into a profit-making business venture;
- substantially contribute to the transformation of the dairy industry;
- contribute to the economic empowerment of the local community; and
- create direct and indirect job opportunities in an area lacking any real job opportunities.

6.2 Business Entity Governance

6.2.1 Due to the termination of the 2014 Tripartite Agreement and the joint venture business structure, Amadlelo's representation on the Mantusini Dairy Trust also had to be reviewed. As such Amadlelo representation on the Trust was legally terminated on 14 December 2017 following the resignation of its Representatives and nomination of new Trustees by the Mantusini Dairy Primary Cooperative. Important to note is that the newly elected Trustees informally became involved in the management of the farm as from the launch of the Project in July 2016. The composition of the newly constituted Trust is reflected in the Amended Trustee Authorisation Certificate. **Appendix I**

6.2.2 In line with the above arrangement the newly constituted Trust assisted by the Farm Manager effectively became **solely** responsible for the day-to day operation and management of the Farm. When invited or requested Amadlelo, provided technical advisory services with the final decision-making powers vested in the Trust.



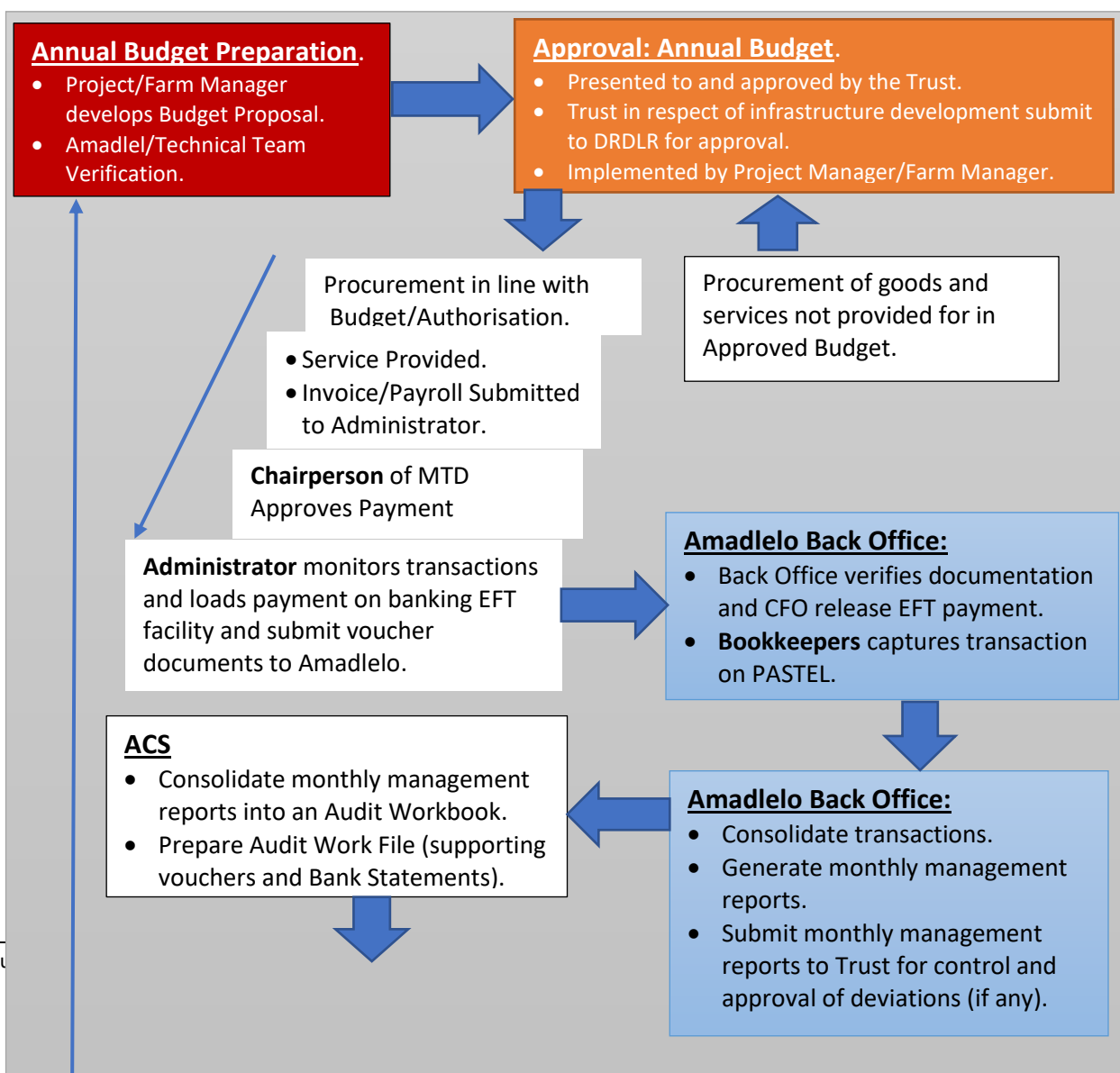
6.3 Financial and Accounting Governance

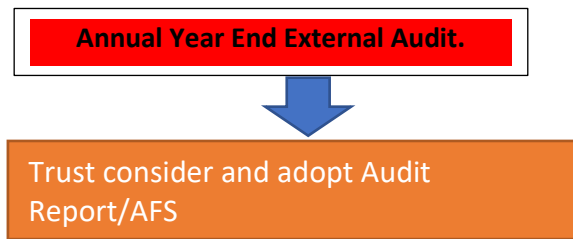
6.3.1 Trustees of the 2013 and the 2017 Trust were appointed as signatories to the Trust's Bank Account and as such Amadlelo representatives had no authority in relation to the management of the Trust's Bank Account(s).

6.3.2 Since 2014 Amadlelo (by default) provided bookkeeping support services to the Trust. ACS (Port Elizabeth) was engaged by the Trust to provide accounting services for the same period.

6.3.3 In line with best financial management practices and to ensure segregation of powers, the following procedures were followed prior to the establishment of the 2017-Mantusini Dairy Trust:

Figure 10: 2013 to 2016 Financial Management Process Flow





Note: Due to the lack of funding DRDLR declined requests to engage the services of External Auditors and as such the Trust was unable to perform its fiduciary responsibilities to obtain assurance on the financial transactions of the business entity.

6.3.4 A similar process, as indicated above, was followed since the establishment of the 2017- Trust Structure with the exception that the **Farm Manager** was responsible for the development of the Annual Budget, received instructions from the Trust and approved claims for payment. In all instances, "red flag" transactions identified by the Amadlelo CFO were first clarified with the **former** Project Manager and/or the Farm Manager before releasing the EFT payment.

6.3.5 Following the announcement by MEC Meth that a new Investor will assist the Trust with the development of the business entity, Amadlelo on 26 October 2020 presented its financial management close-out report to the Trust and cease all activities to provide bookkeeping services. File Bundles containing the financial and business entity documents/certificates covering the period 2013 to 2020 were handed over to the Chairperson of the Trust. **Appendix J**

6.4 Other Support Services Provided

6.4.1 As part of the back-office support services the following support services were also provided:

- Recruitment of management staff members and resolving of performance issues.
- Training and development of the Farm's Administrator.
- Submission of Tax Returns and resolving of tax issues.
- Statutory registration processes (UIF, IOD, Etc.).
- Drafting of Trust Resolutions.
- Drafting of Business Plans to support funding applications.
- Drafting of correspondence to DRDLR and ECDRDAR.



- Engagement with service providers to secure favourable conditions or to resolve delivery/quality/payment issues (i.e. arrears ESKOM Account).
- Drafting of Infrastructure Development/Equipment Specifications.
- Technical advisory support to the farm management team on animal health challenges, pasture management and quality issues.

6.4.2 The pre-mature deployment of cows to the Farm, critical requirements to “ready” the Farm for the launch and the cancellation of Tripartite Agreement whereby Amadlelo *inter alia* had to provide 50% of the production input capital, left the Farm from the start of milking operations with severe cash flow problems. Amadlelo assisted the Trust to develop a Business Case to secure funding from DRDLR. Although the Business Case indicated a funding requirement totalling R26,7 to complete the infrastructure development and production capital up to when a break-even point is reached. **DRDLR only approved R9,2m** that was released into the bank account of the Trust **during January 2017**. This funding provision was also for the purchasing of cows for the new operating model (R4,8m), offset costs incurred for the pre-mature commissioning of the operation (R3,5m) leaving the Farm with R1,1m to cover production costs starting August 2016.

6.4.3 Amadlelo also assisted the Trust to develop a business case requesting funding from the ECDRDAR for the procurement of two pivot systems to enable the Farm to carry the additions made to the herd. These were not procured as a result of the 2015-budget shift. This application was successful, the pivots were delivered but could not be commissioned as DRLR undertakings fund the installation of the pipelines and electrical infrastructure were not honoured.

6.4.4 As indicated in paragraph 2.1.15 *supra* Amadlelo only received compensation for the project management work done on infrastructure development during the set-up phase. An invoice to the amount of R1,265m was generated later for subsequent management services provided. - **Appendix K** - This Invoice was, as a further gesture of goodwill, reversed in 2019 with the signing of Profit Share Agreement.

6.4.5 During the period September 2016 to September 2020 Amadlelo raised Invoices/Claims for disbursements such as travel costs, stationary or in instances where critical stock items had to be procured without the Trust having adequate cash reserves. Amadlelo also advanced R120k to the Farm on 29 June 2020 to enable payment of staff salaries. – **Appendix L** - Due to the Trust’s



inability to refund Amadlelo for the credit line provided to bridge cash flow challenges, Amadlelo further had to write off an amount of R170k in September 2020 with the introduction of an Investor by the then MEC for DRDAR.



7. OVERVIEW: FARM PERFORMANCE ISSUES

7.1 Start-up and Initial Production Phases

- 7.1.1 Whereas the initial implementation plan provided for a pre-production phase of approximately 12 months to establish pastures, gradually deploy cows to the Farm, provided on the job training of newly appointed staff members and test/align production processes, this had to be done within a period of three months (May to July 2016).
- 7.1.2 Milking of 100 cows started in July 2016 without funding to cover production costs, immediately creating severe cash flow challenges for the Mantusini Dairy Trust. This for instance resulted in it not being able to serve its ESKOM account from October 2016 onwards. ESKOM sporadically disconnected the electricity supply to the Farm. As a result of these cuts, during the hottest summer period, newly established pastures could not be irrigated and died off “plunging” the Farm in a crisis to feed the 200 cows already deployed to the Farm by January 2017.
- 7.1.3 In an effort to overcome the above-mentioned challenges, Amadlelo assisted the Trust in January 2017 to develop an Operating Budget setting the period March 2017 to February 2018 as the start-up phase for the Farm also clearly stating that a break-even point can only be reached when a herd of 291 milking cows has been deployed, producing 1,479,771 litres of milk for the year at a price of R5,00 per litre. Likewise, the need was emphasised to complete infrastructure development work for the Farm to carry 700+ cows to make the business venture sustainable and generate dividends for the beneficiaries. The Operating Budget was developed to assist the Trust to manage the Farm and to solicit financial support from DRDLR.
- 7.1.4 Lessons learned, especially the finding that due to the climate of the area there is a diminished need for winter feed supplements and a lower milk yield per cow, informed budgetary development processes for 2018/19 and 2019/20.



7.1.5 The table here-under provides a summary of the Annual Operating Budget Proposals developed with the assistance of Amadlelo for the Trust to consider, adopt, and manage the farming enterprise:

Table 6: Operating Budgets

Projected Income 2017/18			Projected Income 2018/19			Projected Income 2019/20		
Cows in Herd	Litres Produced	Projected Income	Cows in Herd	Litres Produced	Projected Income	Cows in Herd	Litres Produced	Projected Income
291	1,479,771	R 7 396 853	361	1,141,906	R 4 436 104	553	2,648,372	R 10 992 490
Variable Costs			2017/18	2018/19	2019/20			
Feed Concentrates			R 1 750 671	R 699 441	R 1 798 900			
Heifer Rearing (0 to 6 months)			R 180 000	R 248 936	R 278 412			
Dry Cow Feed			R 32 040	R 86 738	R 88 751			
Roughage Bought-in			R 0	R 0	R 792 000			
Pasture Seed			R 234 000	R 89 500	R 89 500			
Urea/Nitrogen			R 612 000	R 557 505	R 1 034 403			
Phosphate			R 241 080	R 47 370	R 85 256			
Potassium			R 170 000	R 153 041	R 275 444			
Gibb Acid and Boron			R 44 100	R 54 657	R 98 373			
Vet Services/Medicine			R 388 595	R 543 323	R 677 142			
Water Licence Fees			R 24 000	R 0	R 0			
Levies/Transport			R 14 797	R 0	R 1 766			
Total			R 3 691 283	R 2 480 511	R 5 219 947			
Fixed Costs			2017/18	2018/19	2019/20			
Salaries			R 845 000	R 468 000	R 728 000			
Wages			R 780 000	R 608 200	R 888 200			
Student Stipends			R 36 000	R 0	R 0			
Repairs and Maintenance			R 360 000	R 240 000	R 380 000			
Fuel and Oil			R 270 000	R 140 000	R 210 000			
ESCOM			R 720 000	R 524 000	R 804 000			
Licenses and Insurance			R 125 000	R 28 000	R 42 000			
Miscellaneous			R 360 000	R 144 000	R 216 000			
Total			R 3 496 000	R 2 152 200	R 3 268 200			
Total Projected Expenditure			R 7 187 283	R 4 632 711	R 8 488 147			
Projected Profit before Capital Deductions			R 204 369	-R 196 607	R 2 504 343			

7.1.6 The 2017/18 budget proposal was presented to the Mantusini Dairy Trust for submission to DRDLR to secure additional support clearly stating that the Farm will only be able to perform as per the budget proposal **on condition** that undertakings to “make good” on the infrastructure development budget deficit and to refund the 2015-infrastructure development budget shifts are honoured.



- 7.1.7 With the presentation of the said budget proposals to the Trust and interaction with DRDLR/ECDRAR officials, Amadlelo consistently raised the need to develop an amasi processing facility on the Farm. In this regard stakeholders were alerted to the unsustainable arrangement whereby raw milk is sold to Sundale Dairies in East London at a low price of R 4.50 per litre. Likewise transport cost for loads of 5k litres were “flagged” as an unviable arrangement for both the Farm and the Processor.
- 7.1.8 The Mantusini Dairy Trust was not able to secure assistance from the DRDLR to fund the 2017/18 operating budget of the Farm **nor were past undertakings honoured** to replenish the Farm’s Infrastructure Development Budget to ready it to carry the required 700+ cows.
- 7.1.9 The DRDLR subsequently proceed to, in line with departmental procurement processes, deploy more cows to the Farm. Amadlelo played no role in animal selection and the development of a deployment schedule ensuing the availability of adequate/quality pastures on the Farm. As such cows were deployed to the Farm whilst pastures were inadequate, and funds were not available to procure animal feed resulting in the cows in herd **never being able to produce the required volumes to ensure the sustainability of the Farm.** The industry norm is 5,000 to 5,600 litres per cow per annum or when in milk 17 litres per day. The best production volume attained by the Farm was an average of 9 litres per during July to November 2016.
- 7.1.10 Although not reaching the required production levels, the Trust with the technical assistance of Amadlelo and efforts by the Farm Manager (under very taxing circumstances) succeeded to keep the farming operation afloat during 2017/18. The ECDRDAR also, on an ad hoc basis, provided support to the Farm with the deployment of Tractors and other implements to assist with pasture development.
- 7.1.11 As indicated in paragraph 7.1.2 supra, pastures had to be re-established during the first half of 2017. The operating costs over this period have been extremely high due to cows having to be fed high volumes of lucerne, maize and other pasture supplements while space had to be created for the newly planted pastures to established itself. This situation unfortunately impacted on the condition of the cows and resulted in the decline of milk production volumes.



7.1.12 Amadlelo assisted the Trust to secure the services of a seasoned Farm Manager (Mr. Abulele Mtambeka) who assumed duty on 1 April 2018. Through this arrangement it was, with the limited available resources possible to substantially improve the quality of the Farm's pastures during 2018 with a resultant increase in the raw milk volumes produced by the Farm.

7.1.13 The Amadlelo Technical Advisor continue to regularly visit the Farm after the assumption of duty of the new Farm Manager and issued Farm Visit Reports to the Trust with key observations and recommendations for corrective action as indicated in the examples here-under:

7.1.13.1 Farm Visit Report 1 May 2018

- Key Findings/Observations

- The herd deployed to the Farm consists of 284 Cows and 76 Heifers.
- Cows are producing extremely poorly.
- The hammermill for milling maize is in for repairs.
- Cows are not getting any supplementary feed.
- Pastures are in a poor condition with 40ha of usable pasture and 105ha to be re-vitalised.
- Only 32% animals tested pregnant while the rest tested "empty".
- Inadequate drainage system installed by the DRDLR Service Provider and dams forming in the pasture areas impacts on the quantity/quality of the pastures as well as animal health (causing mastitis and liver fluke). **Figures 11 and 12** here-under.
- Land previously de-bushed are overgrown. **Figure 13.**
- Business currently runs at a loss of R100k per month.

- Recommendations/Corrective Action

- A detailed 12-months' Fodder Flow Programme was developed for implementation.
- A Work Plan for the Farm Manager was developed.
- Critical support needs were highlighted for the Trust to engage the DRDLR and DRDAR.



Figure 11



Figure 12



Figure 13



7.1.13.2 Farm Visit Report 9 July 2018

- Key Findings/Observations
 - The herd numbers were maintained with 15 deaths since May 2018.
 - Pasture development is in line with the Plan developed in May 2018.
 - Farm Manager inherited a disaster but is making progress with corrective action.
 - Dry cows and older heifers are in a poor condition as cash flow challenges prevent the introduction of feed.
 - DRDLR not providing support as indicated in the May 2018 Report.
 - Drainage challenges not resolved, and the Trust was alerted to the possibility that this is also going to cause damage to the pivot irrigation systems already installed.
 - Soil is acidic requiring application of lime.



- Recommendations/Corrective Action
 - Trustees need to assume their portfolios and actively engage in the business and its challenges.
 - Dryland areas previously ploughed need to be disked and dryland pastures planted.

7.1.14 Herd management practices are supported by a computer software package (4th Quadrant) deployed to the Farm and maintained by the Farm Manager/Administrator. The table here-under provided an overview of the herd status as captured on the system as from February 2017:

Table 7: Herd Stock

Mantusini Dairy Trust Stock Movement from 2017-2020						
	Feb-17	Feb-18	Feb-19	Feb-20	Aug-20	Total
Cows in Herd	147	257	309	885	373	394
Cows in Milk	125	240	225	467.5	249	261
Dry Cows	22	16	84	418	124	133
Died/Culled/Sold/...	8	26	40	101	138	313
Drycows Culled		0	2	1	0	3
Cows in Milk Died	8	19	29	78	50	184
Drycows Died		7	8	22	88	125
Dryscows Sold		0	1	0	0	1
Purchased	0	147	94	0	0	241
Cows in Milk Purchased		145	94	0	0	239
Drycows Purchased		2	0	0	0	2
Heifers / Calves	11	94	137	192	96	530
Calves (0-6 months)	11	44	47	84	16	40
Born	34	32	91	131	51	339
Stillborn	2	10	14	39	12	77
Sold	6	0	0	9	0	15
Died	0	8	8	109	20	145
Heifers (6+ months)	0	9	62	22	8	102
Purchased		34	0	0	0	34
Died		0	9	2	50	61
Heifers Bulling	0	0	0	48	72	119
Died		0	0	2	50	52
Heifers In-Calf	0	42	28	38	0	108
Purchased	0	0	81	91	0	172
Died	0	0	2	13	0	15
Bull Calves	-1	1	-1	7	1	1



7.2 2019 Operation Setback(s)

7.2.1 Despite the challenges and severe cash flow problems highlighted above, an upward performance trajectory was accomplished since April 2018, but this unfortunately lasted only up to-

- the untimely death of the Farm Manager in a car accident during April 2019 and the simultaneous deployment of additional cows by DRDLR whilst the pasture development was still not adequate/ funding not provided to commission two pivots provided to the Farm by ECDRDAR; and
- 13 May 2019 when flooding caused severe damage to the Farm's infrastructure.

7.2.2 On request, Amadlelo deployed a Senior Technical Advisor to the Farm to assess the flood damage and to recommend corrective action. A detailed report was submitted and presented to the Mantusini Dairy Trust.

7.2.3 The following key findings were reported:

- Pastures were flooded and due to the inadequate drainage system constructed by the DRDLR Service Provider pastures drowned in the water.
- The generator room was flooded causing estimated damage of R28k to the generator.
- The ESKOM installation was damaged and the electricity supply severed for several weeks.
- Milking came to a halt due to the non-availability of electricity.
- Foot valves in the irrigation system were washed away.
- One Pivot collapsed with damage thereto and pumps estimated at R800k.
- The farmland was completely flooded by the river and water coming out of the surrounding hills washed away newly planted pasture seeds and leached fertilisers administered.



7.2.4 The following figures provide an indication of the damage caused by the floods:

Figure 14: Pasture Flooding



Figure 15: Collapsed Pivot



7.2.5 Following a detailed assessment of the damage to the Farm's infrastructure, requirements to feed the herd that has since grown to 667 animals and to again commence milking, a detailed emergency budget totalling R3,5m was developed for the Mantusini Dairy Trust to engage DRDLR and ECDRDAR for the provisioning of emergency funding.

7.2.6 Subsequent to the publishing of the Report, ESKOM caused severe damage to irrigation pumps, the drive motors of pivots and the parlour installation when the power was incorrectly connected after the flood.

7.2.7 Apart from Amadlelo assisting the Trust to submit an insurance claim and thereby securing the replacement of the pivot system damaged by ESKOM, government funding of only R2,3m was made available to repair some damage and to re-establish pastures. This unfortunately did not address the accumulated losses and provide operational operating capital going forward. Likewise past undertakings to "make good" on the Project Infrastructure Development Budget and shifting of funds were still not honoured.

7.2.8 Due to the inability of the Farm to produce the required raw milk volumes for collection, Sundale Dairies subsequently terminated the arrangement to collect raw milk from the Farm.

7.2.9 The Trustees and DRDLR officials were consistently alerted to the inability of the venture to generate income to fund its day-to-day operations. The following are examples of e-mail



communications from the Amadlelo Back-office to the Chairperson of the Trust and the DRDLR Programme Managers:

9 October 2018 11:38

"I would like to bring to your attention that the financial situation at Mantusini Dairy is at a point where we are now forced to spend the grant funding. I am flagging this issue for the third time now. The reality of the situation is that the current operations at Mantusini do not cover operating costs. The average spending in the past six months is R220k on variable costs and R283,714 on fixed costs. The total average expending is R504k. The average revenue for the past six months is R235,430. The shortfall is funded by the grant funding.

The current bank balance is R304k. Commitments on the table are much higher than the available funds. There is R130k already committed to do bailing (leaving R174k). Urgent steps must be taken to make sure the project is at least at a break-even point. The costs keep rising in trying to maintain the farm. The worst is yet to come if economies of scale are left unattended.

- The second important item is the audit at Mantusini. I have not been given permission to go ahead and arrange audits."

23 April 2019 18:18

"I have decided to drop this email as a result of some cashflow challenges being experienced at Mantusini Dairy Trust. Problems emanate from general maintenance of equipment, pumps damaged due to electricity connectivity by Eskom that is now costing us dearly. Inability to milk cows on time as a result of electricity problems, Feed challenges etc.

The main problem is that the farm has run out of funds and we need money to pay Salaries on 25th April 2019. I request authorisation to use grant funding as this is the last option. There is an additional R150k required to pay Nova Feeds'."

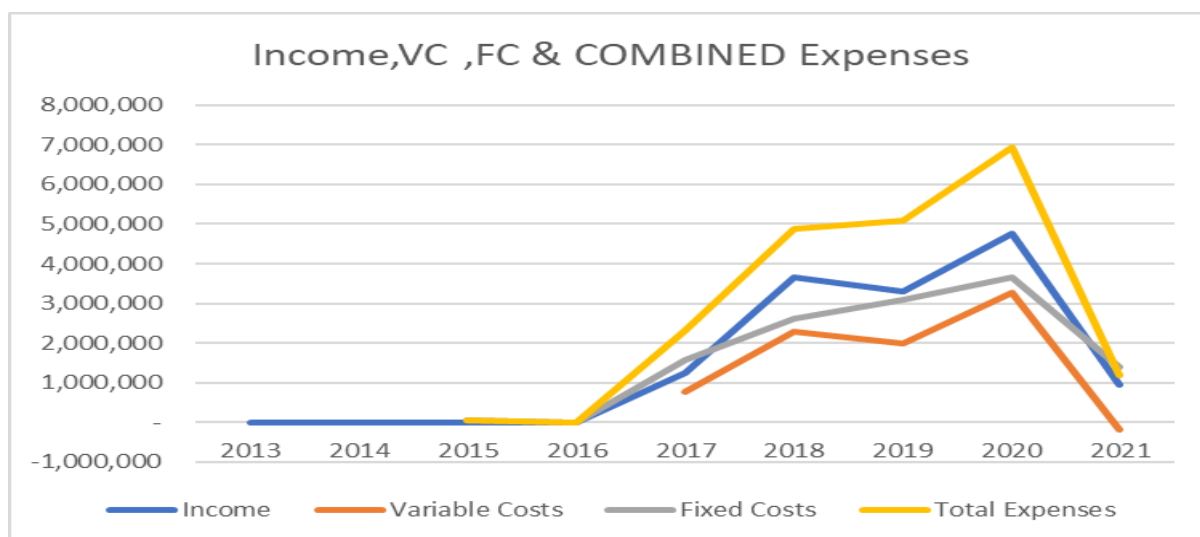
7.3 2019/2020 Downward Trajectory

7.3.1 Amadlelo, on request, assisted the Mantusini Dairy Trust to secure the services of a new Farm Manager with effect from 1 September 2019. The ability of the newly appointed management team to re-establish the pastures and ready the farm for production was severely hampered by the total lack of production capital and this gradually resulted in a situation where staff could not be remunerated. This also led to the resignation of the Farm Manager and the Junior Farm Manager in September 2020.



7.3.2 The graph in Figure 16 here-under provides an indication of the Farm's inability to generate income to reach a break-even point:

Figure 16: Financial Performance of the Farm (excluding grant funding "ring-fenced for infrastructure development).



7.3.3 Accumulated losses made since 2016 resulted in unpaid Creditors to the amount of R1,2m by August 2020. See the table here-under for a detailed analysis:

Table 8: Unpaid Creditors

001 MANTUSINI DAIRY TRUST (Printed on: 2020/09/13 at 12:37) cr3050							
Creditor's Age Analysis up to 2020-08							
Options: From First To Last Low-Bal 0 Dr-Bals Y Ignore-Zeros Y							
Acc-Num	Name	Tot-Balance	Current	30-Days	60-Days	90-Days	Over-90-Days
ACS ACC	ACS ACCOUNTING TRUST	27,842.95	368.00	-	4,370.00	2,203.40	20,901.55
AGRICO	AGRICO	23,846.94	468.77	-	451.03	-	22,927.14
AMADL	AMADLELO AGRI (PTY) LTD	7,843.00	7,843.00	-	-	-	-
AMS	AMS TRUST	116,280.00	-	-	-	-	116,280.00
BOR001	BORDER IRRIGATION	794.10	-	-	-	-	794.10
BORDER	BORDER SEED	74,541.35	-	-	-	-	74,541.35
EMP201	SARS EMP201	9,192.00	6,436.87	922.94	980.29	994.40	142.50
ESKOM	ESKOM HOLDINGS	506,051.27	98,458.85	114,825.65	112,219.57	100,520.19	80,027.01
FORT	FORT HARE DAIRY TRUST	29,680.00	-	-	-	-	29,680.00
GENIMEX	GENIMEX	72,983.60	-	-	-	-	72,983.60
KOMGA	KOMGA MOTORS	0.20	-	-	-	-	0.20
MCB	MCB AGRONOMY	4,539.00	-	-	-	-	4,539.00
PROV	PROVIDENT ANIMAL HEALTH	29,036.85	729.01	832.51	22,534.39	371.06	4,569.88
	SALARIES & WAGES ESTIMATE	300,000.00	100,000.00	100,000.00	100,000.00	-	-
	Grand Totals	1,202,631.26	214,304.50	216,581.10	240,555.28	104,089.05	427,101.33



7.3.4 Business Plans developed on request of the Trust by Amadlelo in October 2019 and August/September 2020 to arrest the downward trajectory of the Farm were not approved by DRDLR leading to the situation where average milk production per cow declined from a high of nine litres to a mere two litres per day, cows started to starve towards the end of 2019 due to the non-availability of pastures and/or non-availability of funds to procure feed.