

COMMISSION OF INQUIRY INTO STATE CAPTURE

HELD AT

PARKTOWN, JOHANNESBURG

10

12 AUGUST 2019

DAY 142

20

PROCEEDINGS COMMENCE ON 12 AUGUST 2019

CHAIRPERSON: Good morning Ms Gcabashe, good morning everybody.

ADV LEAH GCABASHE SC: Good morning Chairman.

CHAIRPERSON: Yes.

ADV LEAH GCABASHE SC: Chair.

CHAIRPERSON: Are you ready?

ADV LEAH GCABASHE SC: We are Chairman.

CHAIRPERSON: Yes.

- 10 **ADV LEAH GCABASHE SC:** Chairman this morning we have Ms Fourie, Anna Fourie who will be giving evidence with respect to what she knows in particular about the initial funding that was sought from the Provincial Treasury by the Department of Agriculture. However in addition to that DCJ we have asked her because of her long service in the Provincial Treasury in the Free State in particular to assist us with applying the relevant prescripts that is the Constitution, the PFMA, the Treasury Regulations to the conduct that she was involved in on that particular day and subsequent thereto because our terms of reference ask us to have regard to relevant prescripts in particular. So we will be
- 20 dealing quite a bit with the PFMA and then with Section 216, 217 of the Constitution.

CHAIRPERSON: Hm.

ADV LEAH GCABASHE SC: And of course with a few Treasury Regulations.

CHAIRPERSON: Yes. Well maybe you may just mention that the

witness who had not finished testifying last time, what is happening?

ADV LEAH GCABASHE SC: Indeed so DCJ.

CHAIRPERSON: Obviously only what is necessary to say to – say publicly.

ADV LEAH GCABASHE SC: Yes. DCJ with your leave if we – we have asked Mr Marais if he does not mind waiting for us to lead the evidence of Mrs Fourie first. She is on an early flight back home DCJ so with your guidance and with your leave if we might call her now this morning, we are sure to finish with her before lunch so that she can
10 actually get back home. Because he has an important appointment tomorrow she cannot miss.

CHAIRPERSON: Yes, okay, alright, thank you. Let us go ahead then.

ADV LEAH GCABASHE SC: DCJ.

CHAIRPERSON: She will need to...

ADV LEAH GCABASHE SC: To be sworn in.

CHAIRPERSON: To be sworn in.

ADV LEAH GCABASHE SC: Indeed so.

CHAIRPERSON: Will you please administer the oath or affirmation?

REGISTRAR: Please state your full names for the record?

20 **CHAIRPERSON:** She must stand.

MRS ANNA SUSANNA FOURIE: It is Anna Susanna Fourie.

REGISTRAR: Do you have any objections to taking the prescribed oath?

MRS ANNA SUSANNA FOURIE: No.

REGISTRAR: Do you consider the oath to be binding on your

conscience?

MRS ANNA SUSANNA FOURIE: Yes.

REGISTRAR: Do you swear that the evidence you will give will be the truth; the whole truth and nothing but the truth; if so please raise your right hand and say, so help me God.

MRS ANNA SUSANNA FOURIE: So help me God.

CHAIRPERSON: Thank you.

ADV LEAH GCABASHE SC: Thank you Chairman. Chairman just to give a very brief context. So today the evidence will be dealing with
10 term of reference 1.4 and 1.9. The focus in particular will be on the procurement of services, the appointment of implementing agents, the management of the Vrede Integrated Dairy Farm, the correct classification and description of goods and services for purposes of accounting for them. These are important elements in understanding the fundamentals that ought to have gone into all consideration with respect to the Vrede Dairy Project and the legal prescripts that bind not only the Provincial Treasury but also the Department of Agriculture. DCJ the last point is our bundle. So the bundle that Ms Fourie is using is labelled Exhibit HH11. We ask that this Exhibit be admitted into the
20 record?

CHAIRPERSON: The lever – or the file containing the affidavit of Ms Anna Susanna Fourie will be marked Exhibit HH11. Thank you.

ADV LEAH GCABASHE SC: Thank you DCJ. DCJ just as a – as a final point you – we will be using the Reference bundle, the Legislation bundle and there is a Reports bundle as well that are part of the

bundles behind you DCJ. We have added one or two pages to the Reference bundle and to the Reports bundle. The Reports bundle only bundle A Chairman. There are two, the Reports bundle is an A and a B we only need A today.

CHAIRPERSON: So in regard to the Reference bundle?

ADV LEAH GCABASHE SC: It will be A.

CHAIRPERSON: It is only A?

ADV LEAH GCABASHE SC: No Chairman the Reports bundle is A.

CHAIRPERSON: The Reports not the Reference?

10 **ADV LEAH GCABASHE SC**: Correct Chairman.

CHAIRPERSON: Okay.

ADV LEAH GCABASHE SC: And the Reference is D for Donald. D for Donald we have extended that as well. Do you have a copy?

CHAIRPERSON: There are two Report bundles.

ADV LEAH GCABASHE SC: That is correct so...

CHAIRPERSON: A and B.

ADV LEAH GCABASHE SC: Correct we are using A for reports Chairman.

CHAIRPERSON: A?

20 **ADV LEAH GCABASHE SC**: Yes.

CHAIRPERSON: And then which other one?

ADV LEAH GCABASHE SC: Reference bundle Chairman.

CHAIRPERSON: Reference bundle?

ADV LEAH GCABASHE SC: Yes Chairman and it is D for Donald.

CHAIRPERSON: And it is D for dolls. D for Dolls.

ADV LEAH GCABASHE SC: Yes correct Chairman.

CHAIRPERSON: Okay.

ADV LEAH GCABASHE SC: Then the Legislation...

CHAIRPERSON: Did you say the Legislation one as well?

ADV LEAH GCABASHE SC: Will be A.

CHAIRPERSON: Yes.

ADV LEAH GCABASHE SC: Only.

CHAIRPERSON: A for Legislation only?

ADV LEAH GCABASHE SC: For this morning's purposes.

10 **CHAIRPERSON:** Okay.

ADV LEAH GCABASHE SC: Thank you Chairman.

CHAIRPERSON: Yes.

ADV LEAH GCABASHE SC: Ms Fourie could you please look at what is called your witness bundle that is Exhibit HH11 and turn to page 1 thereof? Now the page numbering is on the top right hand corner. It goes ASF1, have you found that page that is page 1? And then if you keep your finger there and look at page 2 of the same document could you please confirm with the Chairman whose document this is, when it was signed and where it was deposed to?

20 **MRS ANNA SUSANNA FOURIE:** Thank you. Chairman that affidavit was signed by myself on the 30 July in Bloemfontein at the police station.

ADV LEAH GCABASHE SC: In paragraph 3 of that document you make reference to another affidavit that was used in a particular case. You have labelled it ASF01. Now you will find ASF01 behind Tab 1 at page

3 of the document. If you could look again at the name there, page 3 and if you go to page 5 and look at the signature and the date can you confirm that this is your document?

MRS ANNA SUSANNA FOURIE: Thank you. Chairman I confirm that it is my signature done in – on the 5 October 2017.

ADV LEAH GCABASHE SC: And this is the document that you will be referring to in your evidence.

MRS ANNA SUSANNA FOURIE: Thank you. Just a bit of background information Ms Fourie. What is your current occupation?

10 **MRS ANNA SUSANNA FOURIE:** Thank you Chairperson I am currently a pensioner. I leave service at the end of June 2018 and thereafter I have assisted on a contract basis the Department 3 days a week until the end of September 2018.

ADV LEAH GCABASHE SC: And which Department would that have been? I did not get it clearly from you?

MRS ANNA SUSANNA FOURIE: I was at the Department of Provincial Treasury.

ADV LEAH GCABASHE SC: How long were you employed by the Free State Provincial Treasury?

20 **MRS ANNA SUSANNA FOURIE:** About 38 years. I commenced duty in – on the 1 December 1979.

ADV LEAH GCABASHE SC: That is a very long time serving in one organisation Ms Fourie. If you will allow the commission just to take advantage of that and ask you which parts or which components or the Provincial Treasury you have worked in over the years?

MRS ANNA SUSANNA FOURIE: Thank you Chairperson I – as I indicated I started in 1979 as an assistant accountant. I went through the levels until February 1995 I became a director and 2001 I became the Chief Director which also have the capacity of the Provincial Accounting General. During that period from 1979 until 2018 I basically was exposed to all the financial administration components, salary administration, bookkeeping, expenditure, revenue, debtors and creditors control, trading accounts, financial statements, bank accounts, financial systems, the three [indistinct] systems used by the
10 province, in risk management and internal audit as well as municipal finance management. The only two areas that I was not directly exposed to was basically budget management as well as supply chain management.

ADV LEAH GCABASHE SC: Excellent but just from that short CV if one might call it that that you outline you are very familiar with the Provisions of the PFMA as they apply to the Provincial Treasury in the Free State?

MRS ANNA SUSANNA FOURIE: Chairperson yes I am familiar with the PFMA.

20 **ADV LEAH GCABASHE SC:** Excellent. Can you ask you to give the Chairman an idea as to what the components are of the Provincial Treasury? If – some people call it an organogram and then could you just describe briefly what each does and the purpose of the question is just really to give the Chairman an overview of a Provincial – well certainly the Free State Provincial Treasury.

MRS ANNA SUSANNA FOURIE: Thank you. Chairperson we have the political head which is the MEC of Finance in terms of the Act Section 17(1)A. She is the head of Treasury. And then we have the Provincial Department of Provincial Treasury which were at that stage in 2012 by CEO. The name was later changed in 2015/16 financial year to the Head of the Department of Treasury. Then below the Head of the Department if I can just focus on the Treasury components not the support part. We have on equal levels basically the Sustainable Resource Management component Chief Directorate which report
10 directly to the HOD of Treasury.

ADV LEAH GCABASHE SC: What do they do in that unit?

MRS ANNA SUSANNA FOURIE: Sorry Ma'am?

ADV LEAH GCABASHE SC: In the Sustainable?

MRS ANNA SUSANNA FOURIE: Sustainable.

ADV LEAH GCABASHE SC: Unit. What do they do there?

MRS ANNA SUSANNA FOURIE: Resource management.

ADV LEAH GCABASHE SC: Yes.

MRS ANNA SUSANNA FOURIE: They are – there are four components below that Chief Directorate. I can just mention them. It is Economic
20 Analysis. They are mainly responsible to conduct primary research to inform Resource Management in the province. Then Fiscal Policy. This is – they are responsible for policy advice and to optimise the Provincial Revenue resources in the Province. Then it is Budget Management. They ensure the effective allocation of Provincial Resources in line with Provincial Government Priorities and manage the

preparation of the annual as well as the adjustment budgets of the Province. Then lastly under them is the Public Finance component who is responsible to ensure the effective implementation of the budget and control over the expenditure related to the budget and also to look at the accurate reporting of expenditure and budgets. In the next Chief Directorate is the Asset and Liability Management. They consist of Asset Management and Supply Chain Management. Previously it was only Asset Management but the functions were combined and that Asset Management is basically responsible for oversight over Provincial

10 financials as well as Fiscal assets. Infrastructure coordination and PPP's is Public Private Partnerships as well as Supply Chain Management as said. Then the next component there on the Asset and Liability is Support and Interlinked Financial Systems. They manage and implement Provincial Systems that is basically the BAS, the financial system, Pastel which is the salary and personnel system and Logus which is the procurement system. They also assess as part of their responsibilities the applications for handwritten cheques. Then we have the next component is Financial Governance. That was the one in which I specifically was. It consists of accounting services

20 responsible to promote departmental accounting and implement accounting policies and procedures for graph as prescribed by National Treasury and the Accounting Standard Board. Then Risk Management and Internal Audit was responsible to oversee the Provincial Internal Audit and Risk Management. Later on it is actually since the last financial year that I was there the Forensic Audits were also placed

there but it was not yet funded at that point in time. Then the other component, the last component at the Treasury side is the Financial Municipal Financial Management and they deal with budgets, Supply Chain Asset Management of Municipalities. And then we only have our more support services which is the CFO for the Department of Treasury itself Corporate Services and then the Internal Audit for the Department of Treasury that is not functions related to the Province. Thank you.

ADV LEAH GCABASHE SC: So really what you are saying to us is all of those components were available to support departments with the
10 expertise that resided in each one of those?

MRS ANNA SUSANNA FOURIE: That is correct. In terms of Section 18 the Provincial Treasury may assist the departments and that was one of the aims of the Provincial Treasury to – to assist departments to improve financial management overall.

ADV LEAH GCABASHE SC: And then would it also be correct to summarise the broad mandate of the Provincial Treasury by saying that it is the custodian of state resources and also of the processes that control and monitor the expenditure of those resources?

MRS ANNA SUSANNA FOURIE: Yes Chairperson that is correct.

20 **ADV LEAH GCABASHE SC:** You have mentioned [intervention].

CHAIRPERSON: You said one of the components in the Provincial Treasury is Financial Management, is that correct? Is that correct, did I hear you correctly?

ADV LEAH GCABASHE SC: Would you like the Chairman to repeat?

CHAIRPERSON: Can you hear me?

MRS ANNA SUSANNA FOURIE: Yes can he just repeat?

CHAIRPERSON: Do you hear me? Can you hear me?

MRS ANNA SUSANNA FOURIE: No yes I hear you now.

CHAIRPERSON: Okay.

MRS ANNA SUSANNA FOURIE: Chairperson.

CHAIRPERSON: Did you say that one of the components or units or sections in the Provincial Treasury was called Financial Management?

MRS ANNA SUSANNA FOURIE: The Financial Management part resort under the CFO the Chief Financial Officer so they are only responsible
10 for the Department itself finances. But the other components or Sustainable Resource Management mainly related to the budgets.

CHAIRPERSON: Ja no, no I was just interested in that one of Financial Management. So it is not a unit within Treasury on its own it is simply some aspect or is it a unit or component?

MRS ANNA SUSANNA FOURIE: Ja Financial Management it is just – it is basically under the support part of the Treasury a component that actually only are responsible for the Treasury activities itself.

CHAIRPERSON: And you were Deputy Director General Financial Governance, is that right?

20 **MRS ANNA SUSANNA FOURIE:** Yes I was in Financial Governance.

CHAIRPERSON: And that is a component or unit on its own within the Provincial Treasury and it is separate from Financial Management?

MRS ANNA SUSANNA FOURIE: Ja it is – it is a component on its own reported directly to the Heads of the Department. The Financial Management for the Department is under the CFO but they deal only

with the Department finances.

CHAIRPERSON: And you were Deputy Director General from when to when?

MRS ANNA SUSANNA FOURIE: From 2001.

CHAIRPERSON: Up to the time you retired?

MRS ANNA SUSANNA FOURIE: Ja up to June 2018.

CHAIRPERSON: Okay. And was your background a financial background in terms of qualifications?

MRS ANNA SUSANNA FOURIE: Yes Chairman if I understand the
10 question correctly as from the time that I commenced duty by that time the Provincial Treasuries have not yet exist. It was only a Directorate called Financial Administration and that Directorate was responsible for the management of the whole Province Salary Administration, Expenditure, Debtors and Creditors Control. Up to the time of the implementation of the PFMA when the National Treasuries and the Provincial Treasuries were established. This is when this other components were come in and it became the Department of Treasury.

CHAIRPERSON: Yes, no, what I was asking was whether your background in terms of qualifications was a financial one or not?

20 **MRS ANNA SUSANNA FOURIE**: Yes – I – I studied B.Com.

CHAIRPERSON: B.Com?

MRS ANNA SUSANNA FOURIE: Ja.

CHAIRPERSON: Okay no thank you.

ADV LEAH GCABASHE SC: Then the last two very general questions just speak to the Provincial Revenue Fund. The Provincial Treasury is

the custodian of the Provincial Revenue Fund, is that correct?

MRS ANNA SUSANNA FOURIE: That is correct Chairperson.

ADV LEAH GCABASHE SC: What is the source of funds that go into the Provincial Revenue Fund?

MRS ANNA SUSANNA FOURIE: In terms of the PFMA basically all funds must be deposited into the Provincial Revenue Fund. The requirements for Provincial Revenue Fund is captured in the PFMA in Sections 20 until 25. So the equitable share, conditional grants are paid into it. All revenue collected by Provincial departments are also
10 paid into – must be paid into the Provincial Revenue Fund. It is only funding in terms of – for the Provincial Legislature and for the public entities that is paid in their own bank accounts.

ADV LEAH GCABASHE SC: Okay. So you are saying the equitable share that is the one you get from the division of Revenue Act that is what the equitable share would be. And then explain conditional grants very briefly so the Chairman understands. Okay so one source is from DORA. Another source is you say from conditional grants. What would those be?

MRS ANNA SUSANNA FOURIE: Conditional grants it is also published
20 in DORA but that is money that is made available and appropriated with certain conditions. So the funding must only be utilised for the specific purpose for which it was appropriated. Where equitable share the other part of the funds is discretionary so there – there can be decisions taken about.

ADV LEAH GCABASHE SC: My understanding is that conditional

grants are also tied to national departments. So if we use the example of the Department of Agriculture and Rural Development the Provincial Department. The National Department that is the Department of Fisheries and Forestry can give conditional grants to the Provincial Department of Agriculture and Rural Development?

MRS ANNA SUSANNA FOURIE: That is correct Chairperson the Provincial Department of Agriculture and Rural Development will for example submit business plans to the National Department which will then be assessed and if approved then the funding – the conditional
10 grant will be appropriated for the purpose of a Provincial Department to be used as agreed upon between the National Department and the Provincial Department.

ADV LEAH GCABASHE SC: Thank you. Can I take you immediately now to the 15 June where you deal with the Vrede Dairy Farm and could you tell the Chairman how...

CHAIRPERSON: Is that June 2012?

ADV LEAH GCABASHE SC: 2012 Chairman. Could you explain to the Chairman how you came to be involved in matters relating to the Vrede Dairy Farm?

20 **MRS ANNA SUSANNA FOURIE:** Thank you. Chairman on that specific day the afternoon there was one of our colleagues which left the Department.

CHAIRPERSON: This specific day being 15 June 2012?

MRS ANNA SUSANNA FOURIE: 15 June.

CHAIRPERSON: Yes.

MRS ANNA SUSANNA FOURIE: Yes and so there was a small farewell function arranged for her which we attended. I, myself was also there. And while we were there I was then approached by the then Chief Executive Officer she is the head of the Department of Treasury to assist two other colleagues to do an assessment on the payment that is needed by the Department of Agriculture. My understanding from the way that the instruction was given is that it was a very urgent payment that still needs to be done on that very same day and therefore he requested that we need to go to the office and do the assessment.

10 **ADV LEAH GCABASHE SC:** So can I ask you to pause? So essentially you were asked at this function to go back to the office and attend to this particular request that had come from the Department of Agriculture?

MRS ANNA SUSANNA FOURIE: That is correct Chairperson.

ADV LEAH GCABASHE SC: Can you tell the Chairperson what the quantum – what the amount of money was that was requested on that afternoon?

MRS ANNA SUSANNA FOURIE: The amount requested to be paid was 30 million.

20 **CHAIRPERSON:** Who was the CEO or Head of Treasury that asked you?

MRS ANNA SUSANNA FOURIE: At that time it was Mr Kgomongwe.

CHAIRPERSON: Do you want to give the spelling Ms Gcabashe.

MRS ANNA SUSANNA FOURIE: The spelling of Kgomongwe is Kgomongwe, Mr Kgomongwe.

CHAIRPERSON: Yes thank you. You may proceed.

ADV LEAH GCABASHE SC: Thank you Chairman. So continue what did you then do? So you are given this instruction by your immediate boss, the CEO?

MRS ANNA SUSANNA FOURIE: Yes.

ADV LEAH GCABASHE SC: Of Provincial Treasury what did you then do?

MRS ANNA SUSANNA FOURIE: We were then – awaited the Chief Financial Officer of the Department of Agriculture and Rural
10 Development to come to the venue with the documentation and then when [intervention].

ADV LEAH GCABASHE SC: Can you pause? I just want this to be very clear.

MRS ANNA SUSANNA FOURIE: Sorry.

ADV LEAH GCABASHE SC: So you did not leave the venue immediately you waited for the CFO of the Department of Agriculture to join you at the venue?

MRS ANNA SUSANNA FOURIE: That is right because the documentation that was required to be assessed was with the CFO and
20 she need to bring it for the assessment.

ADV LEAH GCABASHE SC: Yes. Continue.

CHAIRPERSON: And maybe you can just also deal with – was this function during the day or during the evening and where exactly was this function?

MRS ANNA SUSANNA FOURIE: The function was in the afternoon and

it was at a Protea Hotel in Brandwag Aerial in Bloemfontein.

CHAIRPERSON: Thank you. Okay.

MRS ANNA SUSANNA FOURIE: It is not far it is about I guess now about four kilometres from the office.

CHAIRPERSON: Okay thank you.

ADV LEAH GCABASHE SC: Can you also give the Chairman a sense of the time that you would have arrived at this function and when you would then have left to go back to the office?

MS ANNA SUSANNA FOURIE: If I recall correctly the function
10 commenced roundabout 2 o'clock in the afternoon and it was in the region of 15:30 - half past three the afternoon - which we were informed and as soon as the CFO of the Department of Agriculture arrived we then left. She also drove in her own vehicle but with us to the - to the office. So that we could then look at the relevant documentation which she had with her.

ADV LEAH GCABASHE SC: Can you also explain what was going through your mind because one wonders where exactly you were going to get this money from? I mean you do not keep money in *Provincial Treasury* I presume. How were you going to be transferring this money
20 should this money be available?

MS ANNA SUSANNA FOURIE: At - at that point in time when we were on our way to the office I was not even aware of what is the amount that - that is requested. So it means that only when we were at the office and we received the documentation it is then that we realised that it is a relative huge amount that needs to be paid out.

CHAIRPERSON: And who was the CFO of the Department of Agriculture at the time?

MS ANNA SUSANNA FOURIE: It was Seipati Dlamini - Dlamini.

CHAIRPERSON: Ms Dlamini?

MS ANNA SUSANNA FOURIE: S Dlamini.

CHAIRPERSON: Okay. Thank you.

ADV LEAH GCABASHE SC: Seipati Dlamini is what the witness said.

CHAIRPERSON: Thank you.

ADV LEAH GCABASHE SC: Yes. Continue. So you - you went back
10 to the office with Ms Dlamini. Take - take it from there and continue.

MS ANNA SUSANNA FOURIE: Yes. So it was myself, the then CFO of our Department of Treasury Mr Mabetso (?) as well as Deputy Director Modhuka (?) - Sbi Modhuka. She was at that point in time working at the Provincial Revenue Fund.

ADV LEAH GCABASHE SC: Now you mention Ms Modhuka's name here but the other chap you - what did you say his name was? Mosedi (?)?

MS ANNA SUSANNA FOURIE: Mabetso - Mabetso.

ADV LEAH GCABASHE SC: Mabetso?

20 **MS ANNA SUSANNA FOURIE:** Mabetso.

CHAIRPERSON: Are you able to give a spelling or not really? Well it can be found out if you are not able to. It can be - it can be found later.

MS ANNA SUSANNA FOURIE: Maybe just a little (intervenes).

CHAIRPERSON: Ja, okay. Yes continue.

ADV LEAH GCABASHE SC: You can take a sip of water. We should not rush you.

MS ANNA SUSANNA FOURIE: So when we then arrived at the offices the CFO Dlamini handed over to us the document.

ADV LEAH GCABASHE SC: Do you recall what documentation she gave to you?

MS ANNA SUSANNA FOURIE: *Ja*. It was the normal payment advice that departments used to prepare payments to be - to be processed on as well as an agreement which was attached to the payment. An
10 agreement between the Department of Agriculture Rural Development and Estina.

ADV LEAH GCABASHE SC: Do you recall the date of that agreement?

MS ANNA SUSANNA FOURIE: The agreement was signed on two dates. One party signed on the 5th and the other party on 7 June.

ADV LEAH GCABASHE SC: Yes. Continue. Any other document you were given?

MS ANNA SUSANNA FOURIE: No. That was - that was basically the information that we received.

CHAIRPERSON: So you were having this function on 15 June 2012
20 and the agreement between the Department of Agriculture and Estina that you were being given was signed by the one party on 5 June and by the other on 7 June.

MS ANNA SUSANNA FOURIE: That is ...

CHAIRPERSON: So it was about a - a week old agreement?

MS ANNA SUSANNA FOURIE: *Ja*. More - yes, more or less.

CHAIRPERSON: More or less, *ja*.

ADV LEAH GCABASHE SC: Continue.

CHAIRPERSON: Yes you may continue.

ADV LEAH GCABASHE SC: Yes (intervenes) thank you.

CHAIRPERSON: And the documents and what happened?

MS ANNA SUSANNA FOURIE: Yes. Thank you. So it is then at that point in time that I realised that it is actually not a normal small amount but a huge amount that needs to be paid. So the first document that I then looked at to see if it is attached to that payment advice was the
10 financial report which indicates normally the budget and expenditure already incurred and commitments.

ADV LEAH GCABASHE SC: Hold on. By whom? By which department?

MS ANNA SUSANNA FOURIE: By the Department of Agriculture.

ADV LEAH GCABASHE SC: Good. So you looked at your first source document. What have they got left? What have they spent?

MS ANNA SUSANNA FOURIE: Yes.

ADV LEAH GCABASHE SC: Continue.

MS ANNA SUSANNA FOURIE: So at that point in time unfortunately
20 that report was not attached to the documentation provided to us. So I indicated to the CFO of the Department of Agriculture as it is normally required that before you do a payment you must confirm that you have the funds available. We actually should need the confirmation of that but then in the meanwhile we also - she did not have it with her.

So she could not provide it. That report also it must be

withdrawn from the system. So that was not available but then we go further I broadly looked at the agreement - the content of the agreement that was provided because that was basically the source on which the payment we made was based on and when - I browsed through that one.

I realised that in terms of the content on page 3 of that agreement there was a sentence stated that Estina submitted a proposal on 15 May 2012. So from that I then asked the CFO of the Department of Agriculture that means then that there was not a tender
10 process followed for the appointment but the appointment was done based on the proposal that was submitted which she confirmed.

ADV LEAH GCABASHE SC: Can I just ask you for - to pause for a second? Chairman just for your purposes when you look at the documentation later. That particular agreement can be found in reference file - we will not look at it now Chairman because it is common cause - in Reference File B at page 6-1-9. It is part of the bundle.

CHAIRPERSON: Thank you.

MS ANNA SUSANNA FOURIE: So I - because there was not an official
20 tender process followed the next requirement then was in terms of Treasury Regulation 16A 6.4.

“In certain circumstances at Provincial Department may deviate from the procurement processes but then there must be a submission approved by the relevant accounting officer of the department and

then the reasons for the deviation must be stated in
that submission.”

Unfortunately ...

ADV LEAH GCABASHE SC: Did you have that? Did you have that
submission?

MS ANNA SUSANNA FOURIE: Unfortunately there was no such
submission attached to the document and it could also not be provided
at that stage by the Chief Financial Officer of the Department of
Agriculture.

10 **ADV LEAH GCABASHE SC:** Yes.

MS ANNA SUSANNA FOURIE: Then based on the last two facts the
fact that the procurement process were not - was not followed and in
the absence of a deviation approval I then indicated that should the
payment proceed that will result in irregular expenditure because the
normal procedures were not followed and what was not clear is because
we could not prove that the funding was or was there available and
appropriated.

If the funds were not available then it could result in
unauthorised expenditure. Further the next matter that I just asked
20 because we do not know if - to hear if there was a feasibility study
executed for the implementation of the project. That was also not
available at that stage to us. Looking at the contract or not - apology
not contracts an agreement.

At that agreement the obligations of Estina was really not
very clear. Linked to timeframes, exactly deliverables what is expected

from them. Furthermore it was indicated that Estina will contribute a phase in investment of 228 million towards this project. However there were no specific timeframes linked to when that will be done. Although in terms of the 342 million which the Government, the Department of Agriculture needs to - to contribute that was in detail specified how and when it must be paid.

ADV LEAH GCABASHE SC: Can I - can I ask you to pause just for one minute?

MS ANNA SUSANNA FOURIE: Sure.

- 10 **ADV LEAH GCABASHE SC:** And - because you are dealing with the issues that concerned you as you were looking at the two documents you were given and trying to see how you could advance this money to the department. So your concerns you are noting for the Chairman now. Can I also ask you to pick up reference bundle - Estina Reference Bundle D for Doris?

MS ANNA SUSANNA FOURIE: D?

ADV LEAH GCABASHE SC: D and if you could go to page 1-3-2-8?

MS ANNA SUSANNA FOURIE: Yes. It is an ...

ADV LEAH GCABASHE SC: Yes.

- 20 **MS ANNA SUSANNA FOURIE:** It is a letter.

ADV LEAH GCABASHE SC: And just hold onto that. So as soon as you are finished tabulating all your concerns I want us to look at that letter. I do not know if you have got more concerns that you want the Chairman to note.

MS ANNA SUSANNA FOURIE: The last one Chairman that I have

raised was in the absence of not knowing if this 342 million was available over the MTF period as appropriated. I verified but the contract or the agreement also did not make provision that this project could be terminated if there is no funds in later years.

So it means that it actually indicated that it can only be terminated if there is breach of contract and if that - if it is terminated for any other reason then the breach of contract - then the Government will be liable - the Department of Agriculture Rural Development for the remainder - to pay the remainder of the contract amount. Thank you.

10 That is my last.

ADV LEAH GCABASHE SC: Can I then ask you to - you have got your finger at 1-3-2-8. Can you then go further back to 1-3-6-6, same document? *Ja*, just go further back in the file.

MS ANNA SUSANNA FOURIE: 1-3?

ADV LEAH GCABASHE SC: 66 and could you read into the record - maybe you should start at 1-3-6-6. The concerns that were raised by the state law advisors on exactly the same matter.

MS ANNA SUSANNA FOURIE: Okay. I read the letter from the Department of the Premier to Mr Peter Thabethe Head of Department
20 Agriculture.

“Agreement between Department of Agriculture and Estina. We refer to the meeting with the Director-General to discuss the above mentioned matter. In order to finalise the agreement we request the following information. What are the

interrelationships between the parties? What are the details of the business model on which this relationship is premised? A costed project plan. Full details of the obligations and the rights of the respective parties. A copy of the results of a detailed study mentioned in paragraph 2.2 of the Executive Council Memorandum. Full details of milestones, deliverables and timeframes. Lastly Memorandum of Incorporation of Estina Investments and its current shareholding. Immediately we receive this information we will commence with the drafting of this agreement.”

ADV LEAH GCABASHE SC: Now I will say just in the interest of summarising the evidence that the letter at page 1-3-2-8 deals with more or less the same concerns. Those concerns appear to be very similar to the concerns you have tabulated - your own concerns. What did you then do when you picked up these issues if one might call them that?

MS ANNA SUSANNA FOURIE: It was my view after the assessment that we cannot proceed with the payment based on the reasons already mentioned but the CFO of the Department of Agriculture indicated that they met the next morning already - the other party and they need the payment by then. So it is very crucial.

ADV LEAH GCABASHE SC: Hold on. Just slow down. So as you were going through the material you had before you. The CFO then

indicated that she needed the money before meeting ...

MS ANNA SUSANNA FOURIE: Estina.

ADV LEAH GCABASHE SC: Estina (Pty) Ltd the following day?

MS ANNA SUSANNA FOURIE: Yes.

ADV LEAH GCABASHE SC: So she wanted it immediately.

MS ANNA SUSANNA FOURIE: Ja.

ADV LEAH GCABASHE SC: Continue.

CHAIRPERSON: Before that you - you told me the concerns that you noted okay. Did you articulate these concerns to the CFO and what
10 was her response or was the response that you have just told us the response he gave - she - she gave you when you ...?

MS ANNA SUSANNA FOURIE: As ...

CHAIRPERSON: Told her your concerns.

MS ANNA SUSANNA FOURIE: As - while I was assessing the document - as I identified the concern I immediately shared it with both the other two colleagues as well as the relevant CFO. Also to allow her that maybe if she could provide the relevant information to us ...

CHAIRPERSON: Yes.

MS ANNA SUSANNA FOURIE: Which was just not there that we have
20 the opportunity to obtain that. That was the purpose of it. Yes.

CHAIRPERSON: And - and her response was that ...

MS ANNA SUSANNA FOURIE: She ...

CHAIRPERSON: It was crucial that payment be made?

MS ANNA SUSANNA FOURIE: Ja. She indicated that the payment is very, very urgent and because of the agreement and the agreement is

officially signed. We just need to do the payment. So it was at that time then that I see we are going to have some difficulty. So I phoned our CEO of Provincial Treasury Mr Kgomongwe.

I briefly indicated to him that the - where we are at that stage I foresee a problem that we will not be able from Provincial Treasury to do the payment except if the - it will be made an instruction then - but in that case then it means he will have to also come to the office so that we can brief him also and depending on what the decision or he can then inform our MEC of Finance so that decisions can be made in
10 terms of Section 64 ...

CHAIRPERSON: (Intervenes).

MS ANNA SUSANNA FOURIE: Of the PFMA. Section 64 of the PFMA indicated that if an executive authority wants to give an instruction for a payment to be made which may result in unauthorised irregular expenditure then it should be in writing. The reason why we followed that route is that we by that time already know it is a very critical payment for the Department of Agriculture and we see our risk involved in that and we were of opinion that we will then escalate it up to our MEC if needed.

20 So that when the Department of Agriculture MEC then informed that we do not want to pay that our MEC will be aware of the situation and also have the detail the facts so that they can communicate with each other.

CHAIRPERSON: But before you - you proceed.

MS ANNA SUSANNA FOURIE: Hm.

CHAIRPERSON: You - you told the CFO of the Department of Agriculture here are concerns. I do not think we can pay.

MS ANNA SUSANNA FOURIE: Hm.

CHAIRPERSON: She says to you it is crucial because it is urgent and there is a meeting that ...

MS ANNA SUSANNA FOURIE: Hm.

CHAIRPERSON: Had already been held in the morning. I would expect you to say but you know we cannot pay. Did you say something like that and what did she say? I want that conversation.

10 **MS ANNA SUSANNA FOURIE:** Okay.

CHAIRPERSON: The whole of that conversation.

MS ANNA SUSANNA FOURIE: I indicated to her but based on all these matters that we raised it will not be possible but still she insisted that she must have the payment and that is on that point in time that I then asked Ms Modhuka this was the colleague from - that is working with the revenue fund to verify if have 30 million in any case in the Provincial Revenue Fund.

Reason being that normally the Provincial Treasury invests money so to - to earn interest. So we do not keep that amount of
20 money in the account. It is on investment and then I just thought by myself that if the money is not available we cannot pay because that time it was already after 4 o' clock in the afternoon. So the banks were closed and everything ...

CHAIRPERSON: But ...

MS ANNA SUSANNA FOURIE: And I thought that would be also a

further motivation not to do the payment and to explain to the CFO then in any case we will not be able to pay.

CHAIRPERSON: Yes. You see the person who you were talking to is a Chief Financial Officer ...

MS ANNA SUSANNA FOURIE: Yes.

CHAIRPERSON: Of a Government Department.

MS ANNA SUSANNA FOURIE: Yes.

CHAIRPERSON: And a Chief Financial Officer of a Government Department should be knowing the PFMA very well. Is it not?

10 **MS ANNA SUSANNA FOURIE**: I totally agree Chairperson.

CHAIRPERSON: So you are the Deputy DG Financial Governance for the Provincial Treasury. You are talking to the Chief Financial Officer of the Department of Agriculture who wants you to make a payment that appears to you on the basis of concerns that you have articulated to her. She wants you to make a payment nevertheless.

My expectation is that the conversation would go along the lines Ms So and so on what basis do you say I must pay when you do not have this and that and that. So - so I am - I am interested - I expect the conversation to go along those lines.

20 **MS ANNA SUSANNA FOURIE**: Yes. I ...

CHAIRPERSON: What is the basis? You know the PFMA.

MS ANNA SUSANNA FOURIE: Ja.

CHAIRPERSON: You know the processes. I have told you the concerns. On what basis do you say we must pay? I expect - I want to hear what - whether that - even if it is not in those words - in those

terms whether that was said and what was the response.

MS ANNA SUSANNA FOURIE: Well I clearly stated to her that based on our concerns we cannot do the payment and they indicate to her she also as Chairman you already stated she knows the PFMA and the rules that apply but this is when she - she stressed the fact that their appointment is already arranged and the people are coming from abroad.

CHAIRPERSON: Yes but I guess you have to say why do you make arrangements for payments to be made in breach of the PFMA.

10 **MS ANNA SUSANNA FOURIE:** We - we raised ...

CHAIRPERSON: Hm. **MS ANNA SUSANNA FOURIE:** Ja, we raised that question. We even - you see the payments processes are - if I can just say in terms of the PFMA and the operations. Every department makes its own payments. So at the stage we even indicated that if they are aware - if they - they were aware of this arrangement with Estina why did they not make the payment through their own system in time but now it is that late on a Friday afternoon.

They come with the information. Our normal arrangement at Treasury is that if they want handwritten cheques to be issued
20 unfortunately that is true. We do not allow or by that time and I believe still now the Provincial Treasury did not allow provincial departments to issue handwritten cheques. If they want a handwritten cheque they must apply to the Treasury but then ...

ADV LEAH GCABASHE SC: Can you pause for - can you pause for one minute? So they were expecting to get a handwritten cheque from

you?

MS ANNA SUSANNA FOURIE: (No audible reply).

ADV LEAH GCABASHE SC: The mic will not pick up a nod.

CHAIRPERSON: *Ja*. If you nod the mic will not ...

MS ANNA SUSANNA FOURIE: Yes.

CHAIRPERSON: Record that.

MS ANNA SUSANNA FOURIE: Yes because that is our only way that we could make a payment which they can take with them to have a document - a cheque for the Saturday.

10 **ADV LEAH GCABASHE SC:** And you are saying they did not use their own funds in their own departmental account?

MS ANNA SUSANNA FOURIE: No. What I am saying is we did - departments make their own payment. So as they prepare the payment document and they check it and they authorise the payment. They capture it on the financial system called BAS and the payment is processed and it will be done. So Treasury is not normally involved in payment procedures.

20 However if they want a handwritten cheque to be issued it is only then where the Provincial Treasury came involved in but then also we have arrangements in place to say at least the department must submit proper submissions. So they must prepare a submission requesting the handwritten cheque, motivate the reasons for it and submit it before 10 o' clock in the morning and it must be submitted to that component called Assets and Liability Management Interlink and Financial Systems.

ADV LEAH GCABASHE SC: That is in terms of our procedures?

MS ANNA SUSANNA FOURIE: It is in terms of Treasury instruction.

ADV LEAH GCABASHE SC: Ja.

MS ANNA SUSANNA FOURIE: Yes. Provincial Treasury instruction.

ADV LEAH GCABASHE SC: And if I am not wrong assets are dealt with in Treasury Regulation 10?

MS ANNA SUSANNA FOURIE: It is - we issued the instruction in terms of Treasury Regulation 18.

ADV LEAH GCABASHE SC: 18?

10 **MS ANNA SUSANNA FOURIE:** 18, yes.

ADV LEAH GCABASHE SC: Thank you. So ...

CHAIRPERSON: Ms Gcabashe I interrupted her before she could tell us what the COO said.

ADV LEAH GCABASHE SC: She responded.

CHAIRPERSON: So maybe you can take it from there.

20 **ADV LEAH GCABASHE SC:** The - the - so there are two matters you have raised in your discussion with the CFO. The first one relates to the concerns you had. You pointed those out to her and my understanding of your evidence is she said I have to have that money by tomorrow morning.

MS ANNA SUSANNA FOURIE: Huh-uh.

ADV LEAH GCABASHE SC: Is that correct?

MS ANNA SUSANNA FOURIE: That is correct Chairman.

ADV LEAH GCABASHE SC: You then also indicated that you asked Ms Modhuka to check in the Provincial Revenue Fund to see if there

was money in case you could assist the department. Take it from there please.

MS ANNA SUSANNA FOURIE: Okay.

ADV LEAH GCABASHE SC: And then tell the Chairman what your discussion was in relation to whether the money was available in the Provincial Revenue Fund and what you communicated to the CFO.

CHAIRPERSON: And maybe before that there was the COO part if I understood correctly. I do not know if I understood correctly. I understood you earlier on - and I think I interrupted you - to say while
10 you were having this meeting with the CFO you called the COO of the Provincial Treasury and I think I interrupted you before you could tell us what he or she said because you said you were reporting that there was this situation and there would have to be an instruction if you were to pay.

MS ANNA SUSANNA FOURIE: Yes. I - it was a telephone call to the Chief Executive Officer Mr Kgomongwe of the Provincial Treasury because I saw ...

CHAIRPERSON: Oh I am sorry. It was CEO not COO?

MS ANNA SUSANNA FOURIE: CEO, yes.

20 **CHAIRPERSON:** Okay alright. Thank you.

MS ANNA SUSANNA FOURIE: Because I was seeing where this thing edged to because ...

CHAIRPERSON: Was is going?

MS ANNA SUSANNA FOURIE: Where it is going to we could see that the CFO of the Department of Agriculture is adamant she wants the

payment and I could see that we will not be able to do the payment based on the information with us. So then the CEO indicated that we must continue with our assessment and as soon as we finish the assessment I can call him.

Then he will come and he will then based on our findings we will brief him and from there then he can consider and take a further decision.

CHAIRPERSON: Hm.

MS ANNA SUSANNA FOURIE: Yes. So we were ...

10 **CHAIRPERSON:** Then there was the issue of you phoned Ms ...

ADV LEAH GCABASHE SC: Modhuka Chairman.

CHAIRPERSON: *Ja*, yes.

ADV LEAH GCABASHE SC: The Provincial Revenue Fund for you.

MS ANNA SUSANNA FOURIE: Modhuka was with me.

ADV LEAH GCABASHE SC: Yes.

MS ANNA SUSANNA FOURIE: Yes.

CHAIRPERSON: Okay.

MS ANNA SUSANNA FOURIE: She was with me in the meeting.

CHAIRPERSON: Okay.

20 **MS ANNA SUSANNA FOURIE:** She also went from that venue with us.

CHAIRPERSON: Okay.

MS ANNA SUSANNA FOURIE: So I just requested her. She was there in the meeting to verify the status of the funds for us.

ADV LEAH GCABASHE SC: What was - what did she find out and what then happened? What communication happened between yourselves

and the ...

MS ANNA SUSANNA FOURIE: *Ja.*

ADV LEAH GCABASHE SC: CFO of Agriculture?

MS ANNA SUSANNA FOURIE: She came back with a report which she drew from the Provincial Revenue Fund bank account indicating there are less than six million in the bank account - in the Provincial Revenue Fund bank account which then I indicated then to the CFO with the proof because we have the proof of the account. Saying that based on the time where we are it must now be clear to her that there
10 is no possibility that the Treasury can pay R30million if they only have less than six million because the money must be transferred from the South African Reserve Bank to the Revenue Fund if we wish and they are closed. Then I ...[intervention].

ADV LEAH GCABASHE SC: No stop, just explain that, so what was in the Provincial Revenue Fund was just below six million.

MS ANNA SUSANNA FOURIE: *Ja.*

ADV LEAH GCABASHE SC: But now you've also given further evidence to say that must be transferred from the South African Revenue Service, I want you to explain the word "that", what you are
20 referring to?

MS ANNA SUSANNA FOURIE: As I earlier indicated, if we have, if I can call surplus funds or funds that's not immediately used in the Provincial Revenue Fund, then the Provincial Treasury is allowed to invest that money and normally they invest at the South African Reserve Bank and then they could also invest in the relevant bank like

Standard Bank where that bank account was. So if we draw money then from the investment it needs to be done through the processes and the Reserve Bank needs to transfer the money but by that time the Reserve Bank was also closed. So there's no possibility that, that could happen, that time at the Friday afternoon. Now based on my discussion earlier with my own CEO Mr Gemonwe, I then indicated to the CFO of the Department of Agriculture that we, at that time I think we were already together for more than an hour and she's very – she's in a hurry because she said she still needs to drive to, I think it was

10 Sasolburg. Then I said to her, as she now say, we provide her with the reasons why we can't pay, we provide her with evidence that we do not have the R30million, so for me now to call our CEO she need to indicate, if the CEO, after he have now been briefed are prepared to pay R5million which is available will they then be satisfied with it, and her response to me was she wants R30million or nothing and to be honest I was so relieved because that actually resolved the problem for me. Because then I said to her, because you are in a hurry then it means you can leave because if you don't want the R5million to be considered it's also not worthwhile wasting the CEO's time and then

20 she was not happy but she left and I then called the CEO Mr Gemonwe and informed him, this is the situation so he don't have to come into the office but I will just brief him on the Monday, the 18th on the issues that we find and why we could not make the payment – recommend the payment to be made. Which on the Monday I then briefed the CEO and he gave me permission to consult the State Law Advisors.

ADV LEAH GCABASHE SC: That's in the Premier's office?

MS ANNA SUSANNA FOURIE: In the Premier's office yes, so I got an appointment on that [indistinct] Monday with Mekoenie from the State Law Advisors and that's...[intervention].

CHAIRPERSON: Hang on, I'm sorry, before you proceed to your discussion with the State Law Advisors, the meeting that you were having with the CFO of the Department of Agriculture was on a Friday afternoon.

MS ANNA SUSANNA FOURIE: Yes.

10 **CHAIRPERSON:** Did I understand you correctly that what she said to you was that she needed the money for the following morning, is that correct?

MS ANNA SUSANNA FOURIE: Yes the Saturday morning.

CHAIRPERSON: So she needed the money to be paid to Estina on a Saturday morning, is that right?

MS ANNA SUSANNA FOURIE: Yes.

CHAIRPERSON: Was that usual for a Government Department do you know is it usual for people – Government departments to make payments on weekends?

20 **MS ANNA SUSANNA FOURIE:** No it's not usual.

CHAIRPERSON: Yes okay, thank you.

ADV LEAH GCABASHE SC: We will deal a little later after tea with the nature of this payment, you know we'll deal with advanced payments and different types of payments but maybe just to tidy up the evidence you're giving at this point in time, before tea, can you just take us

through your discussion with the State Law Advisors and advised by Mr Gemonwe?

MS ANNA SUSANNA FOURIE: I indicated to the Advocate that I'm concerned that the content of the agreement, although it was signed, that it's not for the best interest of the Government and I provide to her the same reasons that I already explained which were my concerns and I – she then agrees that I can provide her with a copy of that agreement and she will then do an assessment on that, which she really give to it immediate attention, because on the 19th, it's just the
10 following day, she already provide us with a letter whereby she indicated that she agreed that the procurement process it was not followed and she put it that it seems that the contract is invalid.

ADV LEAH GCABASHE SC: Is that the letter that is found on page seven of your bundle of your witness bundle, if you look at page seven of your bundle Exhibit HH1, there's a letter at page seven.

MS ANNA SUSANNA FOURIE: That's correct, do you want me to read it?

ADV LEAH GCABASHE SC: No the Chairman as I understood that she then communicated to you, just tell the Chairman what she, exactly
20 communicated to you again?

MS ANNA SUSANNA FOURIE: She –

“It appears that the procurement process was not followed, the contract may be invalid due to a number of reasons”,

And then suggest,

“We suggest that you propose to the Treasury Committee that

the agreement and the procurement document be sent to us for review”,

Which then, when that was discussed with Mr Gemonwe, our CEO he indicated that because of the urgency of the matter, he will actually directly consult with the Head of the Department of Agriculture Rural Development, he don't foresee a problem that it be officially referred to the State Law Advisors, which he then did and the Head of the Department of Agriculture Rural Development referred it then to the State Law Advisors.

10 **ADV LEAH GCABASHE SC:** Chairman I don't know if you want us to continue or if you would like to break for tea at this point in time?

CHAIRPERSON: We, I think still have about four minutes before the tea break, I do want to go back to the meeting involving yourself, Ms Fourie and the CFO. You were taken out of a function that you were attending and you were asked to go to the office to assess whether payment should be made in regard to, effectively a request that was coming from the Department of Agriculture. Other than the fact that the Chief Financial Officer of the Department of Agriculture said she needed the money for the following morning, were you ever told exactly
20 why they couldn't wait until the following week, what was going to happen that was – that would be so bad that it shouldn't happen, why they wanted it to be on Saturday, what was going to happen if they got it the following week on Monday, on Tuesday, on Wednesday or Friday, what made this whole thing so urgent, were you ever told that?

MS ANNA SUSANNA FOURIE: Chairman, no I was never given the

factual reasons for that, except as I indicated, we indicated the Department could have made the payment through the normal process which I think she also, the CFO also alluded to the fact that the contract was only signed a week ago, so it is an urgent matter. I tried also to explain to her that in – but that is my personal view it's not somewhere stated or prescribed, I just indicated to her that to pay R30million as an advanced payment upfront, to any company is a huge amount for nothing. By that time there was no service or things, so it's a pre-payment. Now the rules – the PMFA provides for pre-payments,

10 but I mean you need to be careful on what you paid but she just indicated that, that's part – and it was true, it was part of the negotiations and it was stated in the agreement and that's true, the agreement stated that the R30million must be paid upfront.

CHAIRPERSON: In terms of the PFMA do you recall what requirements are laid down for a pre-payment or is that something you wouldn't recall?

MS ANNA SUSANNA FOURIE: There's just a...[intervention].

CHAIRPERSON: Or some of them.

MS ANNA SUSANNA FOURIE: In Treasury Regulation 15 (10), I think

20 they speak about – so what is important in terms of the Regulation is that each department must have manual or their own procedures for cash management requirements and I just want to check if I can quickly get that instruction, under 15(10), banking and cash management- 15(10), 1.2 (c) indicated then,

“For the purpose of this Regulation sound cash management

includes avoiding pre-payments for goods or services, example payments in advance of receipt of goods and services unless required by a contractual arrangement by the supplier”,

You see and this is why I say, unfortunately the Department agreed in the agreement...[intervention].

CHAIRPERSON: Oh so that particular Regulation allowed it if it was agreed between...[intervention].

MS ANNA SUSANNA FOURIE: That’s right.

CHAIRPERSON: Which I guess doesn’t help much if you allow it to be
10 agreed but there may have been certain circumstances that or requirements that must be met before you can even agree, you would not remember or would you, you can’t just agree, willy nilly to make advance payments.

MS ANNA SUSANNA FOURIE: The normal procedure for advanced payments should, at least be that, if the department needs to do advanced payments that, say through the CFO, a submission be written to the – submitted to the head of the Department as the accounting officer and he then approved but then that they motivate, you know, just provide at least reasons for that advanced payment, specifically for the
20 amount to be paid but as I said that was agreed in the agreement and we...[intervention].

CHAIRPERSON: But in terms of how – what this amount was going to be used for, was that clear from the agreement or were you told what it was going to be for, apart from that it had been agreed in the agreement?

MS ANNA SUSANNA FOURIE: There was no detail in the agreement specifying what the R30million – if I can just verify then I can say where it's stated.

CHAIRPERSON: Ja no that's fine, you can check during the break but also in terms of what you were told, you were not given any details by the CFO what the R30million was going to be used for?

MS ANNA SUSANNA FOURIE: No she just referred me to the agreement and say that was signed and that is in order in terms of the Treasury Regulations which I could not dispute.

10 **CHAIRPERSON:** When you mentioned that one of your concerns was that there was no feasibility study, did the CFO not say anything like, no, no there is actually a feasibility study and we can give it to you?

MS ANNA SUSANNA FOURIE: Each of the concerns I basically asked if she can provide us with the document and for none of it does she indicates that she could be able to give it to us.

CHAIRPERSON: Okay thank you.

ADV LEAH GCABASHE SC: Just for the record Chairman, the feasibility study was only conducted in October of 2012 and this request was placed before Provincial Treasury in June of 2012.

20 **CHAIRPERSON:** Yes, okay no that's fine, I think we can take the tea break now, lets resume at twenty-five to twelve, we'll adjourn for tea.

INQUIRY ADJOURNS

INQUIRY RESUMES

CHAIRPERSON: Yes let us proceed once Ms Fourie is ready. Thank you.

ADV LEAH GCABASHE SC: Mr Fourie can we proceed, are you ready?

MRS ANNA SUSANNA FOURIE: [Not audible – microphone off].

ADV LEAH GCABASHE SC: Can you switch your microphone on? Thank you. I just want to tease out one or two matters with you. You – one of your concerns related to the Project Costing and it is certainly a concern that was raised by the State Law Advisors as well. Why would it be important for you to understand the Project Costing for this particular project before you gave money?

MRS ANNA SUSANNA FOURIE: Thank you Chairman. For – it is not
10 that it is really that important to myself before I paid out but it is important for the Accounting Officer and the CFO of the relevant department so that they can exactly know what they are going to be paid for, what will it cost them because in terms of the – one of the responsibilities of the PFMA of the Accounting Officer it stated that you need to ensure the efficient utilisation of your resources. So it is important for them to have that done.

ADV LEAH GCABASHE SC: So you would say that it is part of the responsibility of an Accounting Officer to know exactly what expenses he is committing a department to.

20 **MRS ANNA SUSANNA FOURIE:** Yes.

ADV LEAH GCABASHE SC: Was the CFO able to explain to you why such a large amount of money was being sought from you?

MRS ANNA SUSANNA FOURIE: Unfortunately not. She did not provide – she – I – can I say she? She did not provide she only indicated that the agreement requires them to pay the upfront payment

of 30 million.

ADV LEAH GCABASHE SC: Did she [intervention].

CHAIRPERSON: So – I am sorry Ms Gcabashe. So Ms Fourie have you got all your documents that you want to look at? I think you were looking for something I want you to – I want to give you a chance to look for that and be ready for my question. You are ready?

MRS ANNA SUSANNA FOURIE: Yes Chair.

CHAIRPERSON: Ja. I get the impression you are struggling to hear me, is that correct?

10 **MRS ANNA SUSANNA FOURIE:** A little bit ja.

CHAIRPERSON: I wonder whether that may be because of any technical issues and Ms Gcabashe I do not think it should be that you need to switch off yours because in the past when yours was on and all were on there did not seem to be a problem. I think we will continue but if the problem persists and it is serious we might have to take a break and ask the technicians to attend to it. But we will try and avoid that in the hope that they can do that during the lunch break. But I wanted to say in other words when you asked the CFO why there had to be this advanced payment in affect her answer was because we agreed

20 to make an advanced payment?

MRS ANNA SUSANNA FOURIE: That is correct Chair.

CHAIRPERSON: Yes, okay.

ADV LEAH GCABASHE SC: Now I have also understood from the reading I have done of statements and the PFMA that there is a format to asking for money from the Provincial Treasury. So if a department

needs funds there is a set format for doing so, am I correct?

MRS ANNA SUSANNA FOURIE: Yes Chairman.

ADV LEAH GCABASHE SC: Could you please explain that norm to the Chairman what the convention is, what the practice is?

MRS ANNA SUSANNA FOURIE: Thanks. Chairman based on the approval of the appropriation what normally happens by the end of February each year a department submits what we call the cash flow projection for the next financial year. That is to provide the indication of how the appropriation – appropriated funds will be spent throughout
10 the year. To also give an indication to Provincial Treasury how they will draw the money appropriated. Then on a monthly basis all departments submit it is called a Fund Requisition. It depends on the timeframe set by the Treasury and normally it differ from the 20th until the 25th or 26th of a month prior to the next month. They submit the form indicating their required funds for the next month. Both for voted funds, the equitable share part and then separately for conditional grants if they need conditional grant payments to be made in the next following month. They also specify normally salaries separately because salaries are paid on specific dates. That assist just a flow of
20 money and assist with the investment of money by the Revenue Fund. Then after that the Treasury assesses the Fund Requisitions received and they communicate back to the – to all departments – financial departments if they agree if the money will be available and they will then be able to transfer into the departments bank accounts called the Paymaster General Accounts. On a weekly basis then there is another

form that a department also submits to the Provincial Revenue Fund within Treasury to say for each week this is the amount that they will need for the – for the week and if they need to – to amend it during the month that there is something unforeseen then they will also communicate that to the Provincial Revenue Fund to indicate they have estimate to use say for example 5 million in week 3 but they now determine they will need 12 million then they will also communicate it. And then the transfer of the actual funding took place – takes place every week. They transfer the – the Revenue Fund transfer it into the

10 bank account of the departments.

ADV LEAH GCABASHE SC: So what you have just told us really also supplements the answer you gave to the Chairman earlier when the Chairman wanted to know why this money could not have been dispersed the following week. Why the CFO could not have waited for Monday or Friday or whatever day. Because what you are explaining to the Chairman is that there was a system for drawing – for a department to draw down funds as long as they had those funds of course. So there ought not to have been any urgency knowing that there was a weekly mechanism in place for them to ask you for these funds. Is that

20 correct?

MRS ANNA SUSANNA FOURIE: Ja that is correct. So because they can facilitate and do their own payments they could have requested the funding for the next week and then they could make a normal payment through their own processes.

ADV LEAH GCABASHE SC: And they would not have to come to you

because the money would be in their bank account?

MRS ANNA SUSANNA FOURIE: That is correct Chairperson. They will do it without any intervention or – of – from Provincial Treasury.

ADV LEAH GCABASHE SC: Can I – can I move onto a related aspect? Now evidence will be led that at best R30 million had been budgeted for the 2012/2013 financial year for what is called the Mohuma Mobung Initiative or Strategy. Now my understanding is that the Vrede Dairy Project fell within that broader strategy but we are still trying to get a full explanation on what that strategy was. Be that as it may. If for
10 present purposes we accept that this R30 million was budgeted for under the Mohuma Mobung and if we accept again just for current purposes that the contract with Estina committed a R114 million per annum over three years would it be correct to say that in this first year 2012/2013 there would have been a shortfall of R84 million because only R30 million had been budgeted for?

MRS ANNA SUSANNA FOURIE: That is correct except if that money could be [indistinct] from somewhere and be appropriated in the Adjustment Budget but the normal requirements are that before you basically enter into an agreement you need already to confirm that the
20 funds are available.

ADV LEAH GCABASHE SC: In fact that is one of the responsibilities of the Head of Department of a Department such as Agriculture and those responsibilities you find in Section 38 to 45 of the PFMA, am I correct?

MRS ANNA SUSANNA FOURIE: That is correct.

ADV LEAH GCABASHE SC: Could...

MRS ANNA SUSANNA FOURIE: Chairperson.

ADV LEAH GCABASHE SC: Could you just look at Section 38 it is rather important. 38.1 and 38.2 and in respect of 38.1 just point out the more important responsibilities of an HOD and then if you could just very quickly look at 38.2 and read 38.2 into the record?

MRS ANNA SUSANNA FOURIE: Okay.

ADV LEAH GCABASHE SC: So in relation to 38.1 I just want you to highlight one or two important aspects.

10 **MRS ANNA SUSANNA FOURIE:** Okay.

ADV LEAH GCABASHE SC: That really would be relevant to these monies that were being sought from you to monies that were or may have been budgeted for and monies that would indicate that there would have been a shortfall in any event yet a commitment of 114 million was made per annum over three years.

MRS ANNA SUSANNA FOURIE: Thank you Chairman. I just want to highlight say as the question raised it posed specifically in relationship with this matter so I will do it that way. But my belief is that all responsibilities listed under Sections 38, 39 and 40 is equally
20 important. Also if we would look at Section 81 it will – stated that if an Accounting Officer do not comply with any of the provisions of these three sections wilfully or negligently that can result in financial misconduct. However – or to respond to the specific questions I will highlight 38.1.3 which required an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive

and cost effective. Also ...

ADV LEAH GCABASHE SC: Can I just ask you to pause there? So that particular provision speaks to Section 217 of The Constitution?

MRS ANNA SUSANNA FOURIE: That is correct Chairperson.

ADV LEAH GCABASHE SC: Continue.

MRS ANNA SUSANNA FOURIE: Then C2 indicate that appropriate must take effective and appropriate steps to prevent unauthorised irregular and fruitless expenditure.

ADV LEAH GCABASHE SC: Again if I ask you to pause there? Your
10 concerns – your concerns relating to the agreement and to the terms of that agreement would speak to somebody not paying enough attention to how state resources were going to be applied because they agreed to an advanced payment that had no specification to it or milestones or deliverables to it.

MRS ANNA SUSANNA FOURIE: Yes. The next one is I skip it was B it is responsible for the effective, efficient, economic and transparent use of resources of the department. Then 38.2 is also very relevant to this matter. It is an Accounting Officer may not commit a department to any liability for which money has not been appropriated.

20 **ADV LEAH GCABASHE SC:** Yes now where an Accounting Officer fails to comply with these prescripts what is the correct action to take and whose responsibility is it to take such action? And I am asking you just to again just ground us in the provisions of the PFMA and the Treasury Regulations.

MRS ANNA SUSANNA FOURIE: Yes. May I just before I answer just

indicate in terms of the requirements for the – of the CFO the responsibility because that is very important for the support to be provided to the Accounting Officer is the execution of his responsibilities. In Treasury Regulation 2 it is stated that each department must have a CFO and then it goes further to indicate a Chief Financial Officer is directly accountable to the Accounting Officer without limiting the right of the Accounting Officer to assign specific responsibilities. The general responsibilities of the Chief Financial Officer is to assist the Accounting Officer in discharging the duties

10 prescribed in part 2 of Chapter 5 of the Act and the Annual Division Revenue Act. These duties relate to the effective management – financial management of the institution including the exercise of sound budgeting, budgeting control purposes and the operation of internal controls and timely production of financial reports. I just want to [indistinct] that. Coming – Chairperson coming to the question related to if there are non-compliance in terms of Section 81 of the PFMA if it is the Accounting Officer the matter needs to be investigated by the Executive Authority. I just want to get it here. But as it say it should be – there should be proof that it happened – there was negligence or

20 wilfulness in the non-compliance. Then if we move to the Regulations which are a little more in detail in Chapter 4.

ADV LEAH GCABASHE SC: There is Regulation 9 which deals with unauthorised irregular and fruitless and wasteful expenditure of course.

MRS ANNA SUSANNA FOURIE: In Chapter 4 is the investigation of financial management – ag financial misconduct. Normally it should be

done within 30 days to determine if it is indeed financial misconduct.

ADV LEAH GCABASHE SC: But here again you referring to which particular regulation?

MRS ANNA SUSANNA FOURIE: Um.

ADV LEAH GCABASHE SC: In Chapter 4.

MRS ANNA SUSANNA FOURIE: The – I am referring to 4.1.2.

ADV LEAH GCABASHE SC: Yes. It is in – yes I have seen that.

MRS ANNA SUSANNA FOURIE: You see.

ADV LEAH GCABASHE SC: The ...

10 **CHAIRPERSON:** I know that you wanted her to only highlight the important ones.

ADV LEAH GCABASHE SC: Yes Chairman. Maybe...

CHAIRPERSON: Which she can do but we should not spend too much time because we can read the Act and Regulations ourselves.

ADV LEAH GCABASHE SC: Yes Chairman the idea is to tie in the behaviour, the conduct that she observed, that she was exposed to and the conduct she is familiar with within Treasury to the conduct of the officials who we are dealing with here.

CHAIRPERSON: Okay.

20 **ADV LEAH GCABASHE SC:** Can I ask you this question to assist you? Because the Chairman is right we do not need to dwell too long on pointing out some of those misaligned forms of conduct.

MRS ANNA SUSANNA FOURIE: Yes.

ADV LEAH GCABASHE SC: For present purposes would you be aware of the remedial measures that a Provincial Treasury can take to prevent

overspending of a vote such as a vote within the Department of Agriculture? Again here I am looking to how you would be assisting a HOD or a CFO in the manner in which they are conducting the business of government in their department?

MRS ANNA SUSANNA FOURIE: Thank you Chairperson. Just on the previous question because the question was related to financial misconduct – possible financial misconduct by the Accounting Officer itself the relevant instruct – relation is 1.3. You can refer to that. In terms of the ...

10 **ADV LEAH GCABASHE SC:** Remedial action.

MRS ANNA SUSANNA FOURIE: Processes and the ...

CHAIRPERSON: Ja.

MRS ANNA SUSANNA FOURIE: Oversight of budget versus expenditure departments submit on monthly basis expenditure control reports to – they report to the Provincial Treasuries. Provincial Treasury that is the Sustainable Resource Management Chief Directorate. They did the assessments of the reports and they also prepare a report then based on the information to the National Treasury to report on the expenditure – implementation of the budget as far as

20 expenditure for both voted funds equitable [indistinct] as well as conditional grants are concerned. In terms of Section 39 of the PFMA if a department projected any overspending for a particular financial year they need to indicate it in that report that they submit. They further also need to indicate measures that they – remedial actions that they will take to prevent an over-expenditure and then Provincial Treasury

that revenue component could also prescribe certain measures that the department needs to implement so that they can curb down the expenditure. So for example in Provincial Treasury that component had for example not only for agriculture but for all Provincial departments issued cost containment measures because of the limited financial resources in the Province. And the fact that the indications are there that if not careful they will overspend.

ADV LEAH GCABASHE SC: Are you aware at all of any budget that had been allocated to this Vrede Dairy Project?

10 **MRS ANNA SUSANNA FOURIE:** Fortunately because I – I am not in that specific component I cannot really provide the detail of the budgets related to it.

ADV LEAH GCABASHE SC: That is fair – that is a fair answer. But can we go a little beyond that and talk to your oversight of implementing agents. So Estina would have been an implementing agent but it of course was also a management agent. Now what oversight role would Provincial Treasury play in trying to resolve a particular service provider being both the management agent and an implementing agent? I would like to think it is a governance issue that

20 would fall within your area of expertise.

MRS ANNA SUSANNA FOURIE: No there is – that is actually part of the oversight role that is done by the Asset and Liability Management under Supply Chain. They do assessments of some unfortunately they cannot do all of it so on the sample base they do some assessments and then they communicate to the relevant departments on their

findings.

ADV LEAH GCABASHE SC: But would it be usual for a service provider to be appointed as both the managing agent and an implementing agent?

MRS ANNA SUSANNA FOURIE: No that will not be usual because it means you are a referee and a player so you actually monitor yourself. So it will not be usual.

ADV LEAH GCABASHE SC: So you are supposed to implement but at the same time you are managing what you are implementing and there
10 is an incongruence there?

MRS ANNA SUSANNA FOURIE: Yes that is correct.

ADV LEAH GCABASHE SC: Can I ask a little beyond – you know this particular commission is not just looking at the relationship between the Department of Agriculture and Estina but it is looking at everything that happened at the Vrede Dairy Farm. In that context we know that the Free State Development Corporation took over when the Estina Management left in August of 2014. And again the Free State Development Corporation was appointed as both as I understand matters an implementing agent and a service provider. Why would this
20 way of doing things persist yet you have told us that it ought not to because it means that service provider is a referee and a player?

MRS ANNA SUSANNA FOURIE: Ja unfortunately I – I will not be able to say why it happened because I was not part of that decision making but my understanding was from – from the financial statement perspective that FDC managed the project on behalf of the Department

of Agriculture and Rural Development.

CHAIRPERSON: One second. Yes you may proceed.

ADV LEAH GCABASHE SC: So you are saying you do not have any personal knowledge of that particular appointment?

MRS ANNA SUSANNA FOURIE: No Chairperson I do not have.

ADV LEAH GCABASHE SC: But did you at any point get involved in dealing with the difficulties that arose in relation to the assets, in relation to the governance issues that tended to occur at the Vrede Dairy Farm because we are really looking at the operations at the farm?

10 **MRS ANNA SUSANNA FOURIE:** Yes from – as I said from the financial statement perspective I – I have some experience and engagements. Because when the FDC the year when they reported after they were appointed there was questions raised and disagreement between FDC and the Department of Agriculture on who should report the assets in the financial statements.

ADV LEAH GCABASHE SC: Now can I ask you to pause just to explain the assets. So you are talking about the buildings on the farm. You talking about the cattle that had been purchased. You are talking about the equipment that had bought. That is what you are calling the
20 assets?

MRS ANNA SUSANNA FOURIE: Yes and then there was also the immovable asset that is the farm itself. But the immovable asset, the farm that we have determined because it was registered in the deed of the Province that was reported by the Department of Public Works in their financial statements which means any improvements that affected

the value of the farm should be communicated to Public Works so that they can incorporate it there. But the main matter was related to the equipment, the cattle, that type of assets which we then provide clarity to indicate because the assets were only managed by FDC but it is actually the assets of the Department of Agriculture and Rural Development until such time that it is being donated and transferred to beneficiaries. It should be reported in the financial statements of the Department of Agriculture and Rural Development.

ADV LEAH GCABASHE SC: So are you saying that it was not – those
10 assets were not reported as departmental assets but as FDC assets?

MRS ANNA SUSANNA FOURIE: It was indeed not reported by any of the two. So there was no reporting on those assets in the financial statements. Neither by FDC nor by the Department.

ADV LEAH GCABASHE SC: And yet the law clearly provides that where the department had furnished the money - had provided the money. Those are departmental assets?

MS ANNA SUSANNA FOURIE: Yes and if - if there were assets for example that were not yet completed - let us say the diary was still in process of completion then it must still be reported by the department
20 as work in progress in the financial statements.

ADV LEAH GCABASHE SC: But if the department was not reporting on the assets they held at the farm who took responsibility for securing those assets?

MS ANNA SUSANNA FOURIE: Just.

ADV LEAH GCABASHE SC: What would the norm be?

MS ANNA SUSANNA FOURIE: The norm should have been that at the time that they terminate the agreement with Estina that the - because the agreement was between Estina and the Department of Agriculture Rural Development. The Department of Agriculture Rural Development should have taken over the assets. So they should have verified, did the risk, confirm that this is what they had taken over.

At the point in time that they then appointed FDC to manage those assets there should again be a verification between the department and the FDC. So that the FDC can confirm that the assets
10 that the department says these are the assets that they manage. That it actually exists and they are going to manage those assets.

ADV LEAH GCABASHE SC: Yes. There has been evidence led in - at this hearing that cattle were stolen. So those are the assets that ought to have been secured by somebody just to - to illustrate the point that you are making.

MS ANNA SUSANNA FOURIE: Hm.

ADV LEAH GCABASHE SC: Would you agree with that?

MS ANNA SUSANNA FOURIE: I agree Chair.

ADV LEAH GCABASHE SC: But the ultimate responsibility for securing
20 those assets really would be with the Department of Agriculture and Rural Development?

MS ANNA SUSANNA FOURIE: That is correct Chair.

ADV LEAH GCABASHE SC: You see because the important point is that if - if one looks at the picture very holistically it is one thing to delegate responsibilities to another but accountability for certain things

remain with the department. Am I correct about that?

MS ANNA SUSANNA FOURIE: That is correct. It is only the responsibility that is delegated. Accountability remains.

ADV LEAH GCABASHE SC: With the department?

MS ANNA SUSANNA FOURIE: Yes.

ADV LEAH GCABASHE SC: So the department should be able to answer all the questions that I am raising with you ...

MS ANNA SUSANNA FOURIE: That is ...

ADV LEAH GCABASHE SC: Because the accountability remained with
10 the - with the department?

MS ANNA SUSANNA FOURIE: That is correct.

ADV LEAH GCABASHE SC: Can I move onto a slightly different aspect and this just in helping us understand transfer payments. My understanding is that when monies were paid to the service providers whether it was to Estina or to the FDC in this instance these payments were done by way of transfer payments as opposed to being classified as payments for goods and services.

Are you able to assist the Commission at all to understand the difference in the accounting treatment between a transfer payments
20 what it is and how you treat it in - in the accounts and goods and services. What those are and how those would then be treated in the accounting system?

MS ANNA SUSANNA FOURIE: Thank you. Chairperson in terms of goods and services that is where you procure goods or pay for services to be used by the Government for Government purposes and with

regard to transfer payments I need to indicate that there was at a certain stage a lot of confusion because in the previous period also as far as the requirements for reporting was financial reporting was done according to the classification done by the budget.

So if an amount was budgeted as a transfer then in the expenditure side of it, it was also reported as a transfer payment but unfortunately I do not have the date now with me but at a certain stage it is after this 2012 period. I think it was roundabout 2014/2015 2015/2016 the National Treasury amended the modified cash standard
 10 whereby they then indicated that the reporting of expenditure in financial statements must be done according to the accurate reporting classification of the relevant goods or services that were used or procured and this is where the - the main confusion then came in because if the budget was then - the information from a budget perspective was budget as a transfer but the expenditure incurred against that budget was for goods and services it has this difficulty that your expenditure versus your budget is not aligned.

So in the past the departments also looked at and that was not only in Free State. It was across the country more or less. They
 20 rather look at the end result of the goods that were procured and if those goods for example if it was for a beneficiary it should have - it was accepted that it is not for the department. So it was - say it is unrequited.

So then it was regarded as a transfer payment that was made. So originally years back there was not really - implementing

agents were not utilised. The pay - the money budgeted for was transferred mainly to the relevant beneficiary for farmer support and so forth. The difficulty that the Department of Agriculture and even others experienced with payments directly to beneficiary was - beneficiaries was that the money was then not used for the purpose it was provided to them.

Instead of for example buying cattle they buy - bought a car or something like that and that created also a lot of audit queries. In an attempt to improve the controls the department then got to this
 10 appointment of implementing agent with the aim that the implementing agent will assist the beneficiary to utilise the funds more effectively and for the correct purpose.

So in the Free State the agreement was - there was - the agreement was prepared as an agreement between the department, the implementing agent and the beneficiary and that is why at that point in time the - the view was that although the payment is done to the implementing agent it is spent for the benefit of the beneficiary and ultimately the project is for the beneficiary and it is regarded as transfer payments.

20 With that change in the modification cash standards then it came to the attention through the audit processes that that classification according to the Auditor-General was not correct. That was in 2015/2016. At Treasury with the attempt to support departments we have established an Audit Invention Committee whereby departments could raise issues for us to assist with and also the

Auditor-General could raise issue where they did maybe not receive timely responses from departments or any such.

So that matter was then referred to that committee and myself referred that classification matter to the National Treasury. So that they can give us clarity. In 2015/2016 unfortunately it was only in the Free State that the audit reports have highlighted this problem and if I recall correctly it was in about five departments. So for - looking from a National Treasury perspective I just take it that it did not seem for them that crucial and the problem was not resolved in the next year
 10 but here in the 2016/2017 financial year because also from an auditor's perspective they try to be consistent in their approach across the country.

They raised similar issues in eight of the nine provinces and then the National Treasury also became aware that it is really an urgent matter that needs to be resolved. They appointed the working committee which had worked on this matter but only in May 2018 the National Treasury issue Circular 21 in which they then clearly state the difference and the interpretation of this transfer payments which basically boiled down to the fact to say the immediate use of the money
 20 must be used for the classification and not the end use of the money.

So, and that being a total different interpretation because if a department paid in cash and the beneficiary will utilise it him or herself it means it will be a transfer payment but if the department utilise an implementing agent to procure these goods on behalf of a department and then handover the goods to the beneficiary it will be a transfer

payment.

It was also then stated that there must be a clear differentiation in terms of transfers. If a department transferred to for example a public entity and the money transferred is for the mandate of that entity then it is a transfer payment but if they transfer money to an entity and it is for the entity to perform functions on behalf of a department it is goods and services. I hope I explained.

ADV LEAH GCABASHE SC: You see ...

CHAIRPERSON: One second. I see that there are certain cameras
10 that have been put up. I take it they are TV cameras. Other than those that I authorised when we started last year. There are only three TV cameras that I have authorised. There should not be any others without any request having been made and authorisation having been granted. So those should be put down.

At the time that I granted the authorisation an arrangement was made that everyone would be able to have access to the recordings of those that were authorised. I take it that that is still possible. So please let us stick to the ones that are authorised. If that works out any particular prejudice to anybody they must follow the right
20 processes to make a request and not just put up cameras anywhere in the venue. Okay. Let us proceed.

ADV LEAH GCABASHE SC: Thank you Chairman. Ms Fourie you see I - I asked the question and really your - you - you have pointed to all the issues that arise in relation to how implementing agents are expected to conduct themselves and at the same time how the monies

that and I am moving on from your first scenario. Your first scenario was when beneficiaries were given funds.

There was a bit of a difficulty there. You then revised it by giving - well Government revised it by giving the money to implementing agents and there I pause to point out Estina was an implementing agent and it was supposed to hold the assets or manage the assets at the Vrede Dairy Farm on behalf of the beneficiaries but even there the monies that were paid to Estina were paid as transfer payments.

10 Those transfer payments were used to purchase goods and services. So in this instance cattle, cattle feed etcetera. The difficulty that arises even on that model is that nobody is able to account properly for those goods and services that were purchased because they were given a lump sum money - basket of money as a transfer payment.

 Now my understanding is when you are given money to purchase goods and services you can produce invoices with ease to prove that those goods and services were purchased with the money allocated to goods and services but not so with these transfer payments
20 that are paid in lump sum. Have I understood the system correctly or - or am I putting too many issues into one summary?

MS ANNA SUSANNA FOURIE: It is - it is correct Chairman that if - if you make a transfer payment you - you basically pay an amount and the institution whoever is receiving it will utilise it and you will not check what it is for.

ADV LEAH GCABASHE SC: In fact you at Treasury cannot really monitor how that money is being spent?

MS ANNA SUSANNA FOURIE: No. We cannot do that, *ja* but as I had already indicated the - so the classification I - I trust that it is not after National Treasury had clarified that definitions and interpretations that from the budget perspective those budgets will in future or in 2018 - the current financial year 2019/2020 I trust that that was now also amended.

So, that instead as in the past it was budgeted as transfers.

10 It should now be budgeted as goods and services because if that - it needs to be rectified from the budget perspective because if it is correctly budgeted the departments must apply the basic principles. It will just be easier for the departments then also to do they correct classification.

ADV LEAH GCABASHE SC: Is it possible for an HOD or for the CFO usually - I suppose it is the CFO - to say to the Auditor-General who asks them to rectify the system of payment that they will not do that. They will not correct what they are being asked to correct and I am really talking about transfer payments and accounting for goods and
20 services and the payments. The accounting - the way you account for these.

MS ANNA SUSANNA FOURIE: In normal circumstances Chairperson the audit - the Auditor-General audit, they have their findings. They communicate the findings to the accounting officer for management to do their assessment and the department will then respond to the

Auditor-General indicating either they agree or they disagree with the finding of the Auditor-General and then if they agree normally they will do the amendments that - that is agreed.

If they disagree this is where they will then not implement the amendments. So - and in this case what - what happened as I strive to - to explain that because of the way that transfer payments in the past were interpreted it was done on the end result of what was done by the money and then it was related as transfer payments and because of the agreement that they had been the department, the implemented agent
10 as well as the beneficiary it was seen that the - it is not the department's assets. It is for the beneficiary.

So based on that the department disagrees with the - with the view of the Auditor-General and they also stated that and that is why it was referred to the National Treasury for conclusion and you will - Chair you will understand the fact that that was already reported with the audit of the 2015/2016 but it was ultimately only resolved in May 2018. It does illustrate that it was not that straightforward matter and - so that is really what happened.

ADV LEAH GCABASHE SC: So what might have been some form of
20 misconduct between 2012 and you say about 2018 when National Treasury ultimately issued its directive. That conduct cannot be called misconduct of any kind because of the confusion that reigned during that period?

MS ANNA SUSANNA FOURIE: Chairperson, yes I will say that the classification issue in my view cannot be regarded as misconduct.

However that does not mean that all the other activities that take place or took place could not be possible misconduct because there are still requirements in terms of assets. Now in terms or specifically Vrede Dairy if we can take that as an example.

The cattle, their equipment and so forth was on the farm. It was not yet given to a beneficiary and because of that there should be control over the assets.

ADV LEAH GCABASHE SC: Yes.

MS ANNA SUSANNA FOURIE: Ja. So I just say we need to
10 differentiate between the - the difficulty on the classification and the more practical matters.

ADV LEAH GCABASHE SC: So where there was a failure to have control over those assets you are saying that may be characterised as some form of misconduct?

MS ANNA SUSANNA FOURIE: That is right.

ADV LEAH GCABASHE SC: It depends on the facts.

MS ANNA SUSANNA FOURIE: Ja.

ADV LEAH GCABASHE SC: On the objective facts. One of my last questions Ms Fourie just relates to again these transfers.
20 Infrastructure transfers, what are these?

MS ANNA SUSANNA FOURIE: (No audible reply).

ADV LEAH GCABASHE SC: If you do not know that is fine.

MS ANNA SUSANNA FOURIE: Ja.

ADV LEAH GCABASHE SC: I can raise it with another witness.

MS ANNA SUSANNA FOURIE: Infrastructure assets or ag

infrastructure transfers means that funding that is budgeted is budgeted to improve infrastructure. So it will be roads or buildings. Infrastructure in the province.

ADV LEAH GCABASHE SC: Oh so not necessarily on the farm if we take the Vrede Dairy Farm ...

MS ANNA SUSANNA FOURIE: Hm.

ADV LEAH GCABASHE SC: But the roads around the farm outside of the borders or perimeter fence of the farm?

MS ANNA SUSANNA FOURIE: *Ja.* Infrastructure if we just relate it to
10 - to the Vrede - Vrede Dairy. Remember the dairy itself is consist - it is a building. So that will be an infrastructure because it improves the - the value of the (indistinct).

ADV LEAH GCABASHE SC: So a specific payment could be made just for the buildings under the heading infrastructure transfers?

MS ANNA SUSANNA FOURIE: *Ja.*

ADV LEAH GCABASHE SC: Thank you. I will - I will explore that further with the - with the HOD.

MS ANNA SUSANNA FOURIE: Indeed.

ADV LEAH GCABASHE SC: When - when he - he appears before the
20 Commission because provision was made for that infrastructure transfer on the annual performance plan for the Vrede Dairy Farm but you have no personal knowledge of any of that?

MS ANNA SUSANNA FOURIE: No that will be the sustainable resource ...

ADV LEAH GCABASHE SC: The HOD.

MS ANNA SUSANNA FOURIE: Part of it.

ADV LEAH GCABASHE SC: Yes. Are there any other matters you would like to bring to the Chairman's attention and really here I speak again about your monitoring, your oversight of departments but if we could be very, very specific here and deal with the Department of Agriculture and Rural Development and specifically again with the Vrede Dairy Farm. Are there matters you want to raise with the Chairman in connection with these?

MS ANNA SUSANNA FOURIE: Chairman I think we have dealt with all
10 - all the matters. I think the only matter that I can perhaps highlight is as also briefly indicated. We have struggled since 2015/2016 till 2018 to resolve the transfer goods and services classification which basically also contributed to the adverse audit opinion given to - to the department but there were other matters like the non-reporting of the assets which could have been addressed while the classification matter is still under - under review but despite our recommendations in that regard the department decided they continue not to report that. Thank you.

ADV LEAH GCABASHE SC: Chairman I - those are the questions I will
20 raise with this witness.

CHAIRPERSON: Yes. Okay, thank you. Just in case I missed this. You had this meeting with the CFO on the Friday when there was a function and it ended on a certain basis and the CFO of the Department of Agriculture left to go to Sasolburg or wherever she was going and you said the - you talked about what happened on Monday. You

consulted with the state law advisor and so on and so on but was that the last part in which you were involved with regard to the R13 million?

MS ANNA SUSANNA FOURIE: Chairman yes. That was the last when I was involved because then the matter was - (clearing throat) sorry - further dealt with between the department and the state law advisors with regard to the agreement and I was not involved in any further payments that they have made thereof.

CHAIRPERSON: Okay no. Thank you. If you are done then you are done.

10 **ADV LEAH GCABASHE SC:** Thank you Chairman I am.

CHAIRPERSON: Ja. Thank you very much Ms Fourie for coming to give evidence. We appreciate it you are excused.

MS ANNA SUSANNA FOURIE: Thank you Chair.

CHAIRPERSON: Thank you.

ADV LEAH GCABASHE SC: Chairman if we might just adjourn for five minutes while Ms ...

CHAIRPERSON: Yes.

ADV LEAH GCABASHE SC: Molefe prepares to come and continue leading the evidence of Mr Maree.

20 **CHAIRPERSON:** Yes. Okay. We will adjourn and you will let me know once you are ready.

ADV LEAH GCABASHE SC: Thank you Chairman.

CHAIRPERSON: We adjourn.

REGISTRAR: All rise.

HEARING ADJOURNS

HEARING RESUMES

CHAIRPERSON: It maybe that it would be more convenient that we take the lunchbreak now rather than start - use 15 minutes then stop, take a break for lunch and then come back and then we start earlier than 2 o' clock. Then so that when we start there is no interruption. My recollection is that I had been told that we needed something like an hour. I do not know whether it was said two hours more for Mr Maree. Is that correct? How much more do we need?

ADV REFILOE MOLEFE: Thank you Chair. We had previously
10 requested about two more hours to complete Mr Maree's evidence.

CHAIRPERSON: And that still remains - the assessment?

ADV REFILOE MOLEFE: Indeed so Chair.

CHAIRPERSON: Yes. I think let us rather take the lunch break now. It is now about 16/17 minutes to one and then we resume at quarter to two. Then we can have his evidence uninterrupted until he finishes.

ADV REFILOE MOLEFE: Thank you Chair.

CHAIRPERSON: Ja. Mr Maree you understand that?

MR DAVID ANDREAS MAREE: Yes Chair, thank you.

CHAIRPERSON: Yes. I think it is - it is much better that way than if
20 we start now stopping 15 minutes and then come back later. So let us take the lunch adjournment now and we will resume at quarter to two. We adjourn.

REGISTRAR: All rise.

INQUIRY ADJOURNS

INQUIRY RESUMES

CHAIRPERSON: Mr Maree you remember you took an oath when you gave evidence last time?

MR DAVID ANDREAS MAREE: Yes Chair.

CHAIRPERSON: Ja, that oath is still applicable, you accept that?

MR DAVID ANDREAS MAREE: I accept that Chair.

MR DAVID ANDREAS MAREE: (still under oath)

CHAIRPERSON: Yes thank you, let's proceed.

ADV REFILOE MOLEFE: Thank you Chair. Chair we will be referring to the exhibit that has been marked 889, which I believe has been placed before you Chair. Previously we had provided the Chair with a separate copy of the statement but I'm informed that, that separate bundle could not be located and so we would kindly request the Chair, if this would make it easier, for reference throughout the bundle to remove the statement from the bundle, and I think a clip has been provided to the Chair's registrar to the Chair's able to navigate through the statement and its annexures.

CHAIRPERSON: There were two lever arch files written Mr Maree's name on the spine that I – that were there as recently as last night so I don't understand why anybody says to you they couldn't locate them, they were together but it's okay, you have improvised but they certainly were there, both of them, last night and I think they were given to the protectors this morning, but it's okay let's proceed, it's not your fault.

ADV REFILOE MOLEFE: Thank you Chair. The statement or rather report by Mr Maree appears from page 10 and it goes all the way until page 29 of the paginated bundle.

CHAIRPERSON: And he had begun to give evidence on the report?

ADV REFILOE MOLEFE: Indeed so Chair.

CHAIRPERSON: Yes okay, thank you.

ADV REFILOE MOLEFE: Thank you Chair. Just to remind the Chair of the context of Mr Maree's evidence, Mr Maree's report was drafted from his independent review of three documents that were provided to him by ENS through its investigation and his terms of reference in line with that review was firstly, to determine the reasonableness of the costs quoted in the documents, secondly whether there was or would be any
10 benefit for Government in the project thus the value for money spent or invested and lastly, any other concerns regarding the feasibility or sustainability of the project. Mr Maree where we last ended in your evidence was at page 35 of the paginated bundle and there you had already started dealing with the first document which is the project proposal and you had explained to the Chair, how that table is set out and what you sought to put forth in your report through that table, please speak, the record won't pick up your nods.

MR DAVID ANDREAS MAREE: That's correct Chair.

ADV REFILOE MOLEFE: Thank you, so you had dealt with the first
20 four items of that table, being the preamble, the proposed start flagship project which you have called in the second paragraph, and fourthly what you have referred to as table one, is that correct?

MR DAVID ANDREAS MAREE: That's correct Chair.

ADV REFILOE MOLEFE: The next item that appears there is the detailed project costing and Chair we're on page 16 of Mr Maree's

report. Just to remind the Chair, the project report...[intervention].

CHAIRPERSON: You talked about page 35 and I'm at page 35, that's not where you are.

ADV REFILOE MOLEFE: Page 35 is the document that was under review, that is the project proposal, so we will be continuing from page 35, however, in Mr Maree's report we are at page 16.

CHAIRPERSON: Is page 35 not part of his report?

ADV REFILOE MOLEFE: No Chair, Mr De Beer's – Mr Maree's report, pardon me, starts on page 10 all the way until page 29 and the
10 documents that he had to review start from page 30 all the way until the end of the bundle.

CHAIRPERSON: Oh, okay alright, so 35 is fine but you're saying that we get to 35 as a result of what is on page 16?

ADV REFILOE MOLEFE: Indeed so Chair.

CHAIRPERSON: Ja okay, alright you may proceed.

ADV REFILOE MOLEFE: Thank you Chair. Mr Maree just to remind the Chair, the project proposal which was under review is dated the 15th of May 2012 is that correct?

MR DAVID ANDREAS MAREE: That's correct Chair.

20 **ADV REFILOE MOLEFE:** Now in your table at page 16 of your report you deal with your findings in respect of the detailed project costing. Please take the Chair through your findings in this respect.

MR DAVID ANDREAS MAREE: Chair, ja if we can start then at the fifth part which is the detailed project costing, as we've covered the previous four in the – in my previous testimony, I think on – if we look

at the detailed project costing and that's where page 35 comes in, the common there is that the dairy cattle is being budgeted for at R25 000 per cow in milk as well as for the followers. Given the amount, it was, at that stage in 2012/2013 it was fairly high as commercial cows, dairy cows at that stage was valued at more or less R15 000 per cow in milk while followers were much – well not much cheaper but it was around about R13 000 for a follower.

CHAIRPERSON: What is the reference to followers referring to?

MR DAVID ANDREAS MAREE: Chair a follower is a cow – a dry cow or
10 a heifer that still needs to come in milk so they are not currently in milk.

CHAIRPERSON: Oh okay so you say at that time, the normal price would have been R15 000 per cow?

MR DAVID ANDREAS MAREE: Per cow in milk Chair.

CHAIRPERSON: Or a follower.

MR DAVID ANDREAS MAREE: For a cow in milk R15 000 and a follower was roughly R12 000 to R13 000.

CHAIRPERSON: Okay so R25 000 was way above the norm?

MR DAVID ANDREAS MAREE: Substantially above the norm Chair yes.

20 **CHAIRPERSON:** Yes and you could find no justification for that?

MR DAVID ANDREAS MAREE: No sir.

ADV REFILOE MOLEFE: And you then continued to give your analysis of the milking parlour in your report, is that correct?

MR DAVID ANDREAS MAREE: That's correct Chair.

ADV REFILOE MOLEFE: Please take the Chair through those findings.

MR DAVID ANDREAS MAREE: So the milking parlour was budgeted for R5million, the assumption is made that it's only the machinery of the milking parlour and not the building and the infrastructure around that specific milking parlour. If we turn around to page 17 then and continue with the table, apart from that R5million that is budgeted for the milking parlour a further R15million was budgeted for, under the heading, other dairy equipment. Now unfortunately there's no detail around these other dairy equipment that could be investigated to see what that entails. So for an investment of R15million a very state of the art dairy parlour could have been implemented at that stage.

ADV REFILOE MOLEFE: If I can just take you back to page 16 of your report, where you make reference to the milking parlour as being costed at R5million, you say there, it is assumed to be only for machinery.

MR DAVID ANDREAS MAREE: That's correct.

ADV REFILOE MOLEFE: On what basis have you made that assumption?

MR DAVID ANDREAS MAREE: Well there's no details set out in the detailed project costing which is found on page 35 that one can say it is part of the – or the buildings is included in that heading under milking parlour.

ADV REFILOE MOLEFE: And would the amount of R5million be appropriate for a milking parlour?

MR DAVID ANDREAS MAREE: Well for the machinery definitely but if you include that added dairy equipment of R15million it's way above the

norm.

CHAIRPERSON: So R5million would have been reasonable for the machinery?

MR DAVID ANDREAS MAREE: For the machinery, yes Chair.

CHAIRPERSON: But the additional R15million you say there was no justification you could find for that?

MR DAVID ANDREAS MAREE: That's correct Chair, since there's no details of what that all entails, because if you look at the other parts, you've already see there bulk cooling tanks which is also part of the
10 dairy equipment and then there's no detail given in the project costings or in the other documentation what these equipment will entail.

CHAIRPERSON: Of course I think one would expect that there would be proper details provided for setting aside R15million that's quite a lot of money.

MR DAVID ANDREAS MAREE: Chair I agree with you, if we look at the feasibility plan for example, and that's one of my comments later on, there's very little detail of all these equipment and information so it's quite difficult to do a proper assessment of the value of those.

CHAIRPERSON: Because I guess a feasibility study must tell you
20 whether, among other things you are going to get value for money, and whether you are going to be wasting money on something that is – that you could get for less, am I right?

MR DAVID ANDREAS MAREE: That's correct Chair.

CHAIRPERSON: Yes so if you set aside R15million I guess the feasibility study should tell you how – what that would be for and give

you the details?

MR DAVID ANDREAS MAREE: That's correct Chair, ja I would have expected for a R15million line item there would have been more detail provided in either of the three documents.

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: But unfortunately it's not in this case.

CHAIRPERSON: Yes thank you.

ADV REFILOE MOLEFE: Thank you, Mr Maree I'm trying to reconcile your analysis insofar as the R5million and what you have stated on
10 page 17 of your report in respect of the R15million because you state there that for an investment of R15million a state of the art high positioned parlour can be erected. Now what would be the appropriateness of the R15million quoted in light of what you've stated there?

MR DAVID ANDREAS MAREE: Chair it's difficult to ascertain what – which amount would have been the most appropriate one as there is no detail. The assumption was made that it's only the R5million for the machinery and then the other dairy equipment, and that's where the – where we lack detail in the documents to give a proper assessment and
20 the assumption is made that, should you spend R15million on dairy equipment it would have been a very, very high precision operation that could be erected.

CHAIRPERSON: I take it that, that doesn't detract from what you said earlier, that if you have set aside R5million for the machinery really then it's difficult to understand what the R15million would be for?

MR DAVID ANDREAS MAREE: That's correct Chair ja.

CHAIRPERSON: Yes, okay.

ADV REFILOE MOLEFE: Thank you Chair. Then the next item that you deal with in the project proposal is the business model, is that correct?

MR DAVID ANDREAS MAREE: That's correct Chair. So the business – according to the business model in the document that was reviewed, Estina was planning to fund the project but they requested Government to commit a certain number of – or a certain amount of grants to make the project commercially sustainable and viable.

10 **ADV REFILOE MOLEFE:** Mr Maree for this purpose I will need us to turn to the actual paragraph that deals with the business model, I have it as appearing at page 36 under paragraph six of that document, is that correct?

MR DAVID ANDREAS MAREE: That's correct Chair.

ADV REFILOE MOLEFE: I'm going to request you, before dealing with your analysis in that respect, to read that very short paragraph and you will then continue to provide your analysis.

MR DAVID ANDREAS MAREE: The complete paragraph?

20 **ADV REFILOE MOLEFE:** Yes paragraph six that deals with the business model please.

MR DAVID ANDREAS MAREE: So business model,

“In line with the Agri BEE business norms stipulated by Government Estina proposes that a new special purpose vehicle or a SPV be created in which Estina will hold a 49% share while the remaining 51% shares will be distributed to at

least three selected grant recipients. Estina will provide the required capital injection as well as the technical know-how which will be provided by Paras. Estina will endeavour to fund the entire project itself and is requesting the Government to commit to an annual grant of R100million per year for five years to ensure that the project remains sustainable and commercially viable”.

ADV REFILOE MOLEFE: Yes, thank you, now in that paragraph amongst – well at the latter part of that paragraph two things are said,
10 firstly it is stated that Estina will endeavour to fund the project in it’s entirety by themselves, is that correct?

MR DAVID ANDREAS MAREE: That’s correct...[intervention].

ADV REFILOE MOLEFE: But then in the same breath, the sentence continues to say that a grant will be required from the Department of Agriculture.

MR DAVID ANDREAS MAREE: That’s correct.

ADV REFILOE MOLEFE: Are you able to reconcile those two statements?

MR DAVID ANDREAS MAREE: Not at all and hence my comment, that
20 if a project is commercially viable and sustainable why would you request Government to put grants into that, so that’s not a reconcilable comment for me, that paragraph.

CHAIRPERSON: But also, this project was meant to be – was it meant to be three years or five years I’m trying to remember now, I see they talk about five years, R100million over a five-year period here, are you

able to recall?

MR DAVID ANDREAS MAREE: Chair from my previous witness two weeks ago, so there was two project proposals and that's on page 16 of my report as well, so there was one – in one instance they requested R500million, so it's R100million for five years and in the second project proposal which, if I remember correctly is the signed version of that, they requested a total amount of R342million in grants which is R114million rand over three year. So there's already a discrepancy between the two project proposals as well.

10 **CHAIRPERSON:** So you end up not knowing whether it's meant for three years or for five years?

MR DAVID ANDREAS MAREE: That's correct Chair.

CHAIRPERSON: Ja but in regard to five years they certainly want the Government to pay R100million – to commit itself to R100million for each one of those five years.

MR DAVID ANDREAS MAREE: That's correct Chair.

CHAIRPERSON: Despite the fact that they say they will...[intervention].

MR DAVID ANDREAS MAREE: They will fund it in it's entirety yes,
20 that's correct Chair.

CHAIRPERSON: Thank you.

ADV REFILOE MOLEFE: Yes and just for the sake of the record those two periods of the contract Chair, appear firstly in the first project proposal at page 35 and there it is stated that the grants of R100million per year for five years, at the bottom of that document Chair, would be

R500million and in the second project proposal the term of three years appears on page 43, and we do apologise Chair it's a very bad copy, I don't think we could get a better copy but Mr Maree has previously given evidence to the extent that it was a grant of R114million for a period of three years, that amounting to R342million.

CHAIRPERSON: Ja this one on page 43 you can hardly read what's there, you can read maybe some lines but attempts will be made to get a better copy?

ADV REFILOE MOLEFE: Indeed so Chair.

10 **CHAIRPERSON:** Okay yes.

ADV REFILOE MOLEFE: But the reference to the term of three years and the amount appears at the very last row of that table.

CHAIRPERSON: Yes thank you.

ADV REFILOE MOLEFE: Thank you Chair. Mr Maree you were still telling the Chair about the apparent contradiction at page 36 of the bundle insofar as the business model and you were completing your analysis in your review in that respect.

MR DAVID ANDREAS MAREE: Chair yes, as I've said, you know it doesn't make business sense that if a project is commercially viable
20 without grants and profitable in year one, as I've said later on in that paragraph, why would it be necessary then to receive grants from Government and hence my comment that it doesn't make sense.

CHAIRPERSON: Well it stated how much will be asked for from Government for each of the five years but was it stated how much Estina would commit itself to paying for each one of those years?

MR DAVID ANDREAS MAREE: Chair, just according to the two project proposals that I received, in the one it was R500million and in the second one it was R228million. While Government in the first one was an equal amount of R500million and in the second project proposal Government's contribution was R342million compared to Estina's R228million.

CHAIRPERSON: So in regard to the three-year proposal, Government would pay about R342million and how much would Estina pay?

MR DAVID ANDREAS MAREE: R228million Chair.

10 **CHAIRPERSON:** And in regard to the five-year the Government would pay R500million and how much would Estina pay?

MR DAVID ANDREAS MAREE: R500million Chair.

CHAIRPERSON: Now how does paying two hundred and something on the part of Estina, over three years when Government will pay R342million for the same period, how does that – how does one reconcile that with the idea which is mentioned here that Estina will try and fund it on it's own?

MR DAVID ANDREAS MAREE: Chair I couldn't find any argument to reconcile them and hence my comment on page 17 in the conclusion
20 where I stated,

“The funding difference in the proposals is inexplicable, in either case, however it raises concerns that Government's funding is expected to be higher in one proposal than the other”,

And it's not clear which one is the latest one between those

two proposals.

CHAIRPERSON: Did you get the impression when you were looking at this, to carry out your mandate, did you get the impression that the feasibility study was done in a haphazard way and there was no application of mind or did you get the impression that it was done by somebody who didn't understand what they were doing or both?

MR DAVID ANDREAS MAREE: Chair I got an impression that it was rather a desktop feasibility study and project proposals being drafted to get funding first of all because if we look later on at the feasibility
10 study you will see it's a very academic piece of work and doesn't entail everything that needs to be included into a feasibility study. So I got an impression that it was, as you said, haphazard perhaps but also a very time constrained and done quickly just to get it over and done with. Definitely not done by somebody who has knowledge of the dairy industry in South Africa.

CHAIRPERSON: When you got involved to carry out the mandate that you were given, was it your understanding that, by that time – was it your understanding that this feasibility study had been approved by the Department of Agriculture?

20 **MR DAVID ANDREAS MAREE:** Chair I was actually under the impression that they still want to invest in this project and that's, I think, one of my concluding remarks which I said, that the feasibility and study and everything should be re-done and re-visited, I wasn't under the impression that it was already implemented.

CHAIRPERSON: Thank you.

ADV REFILOE MOLEFE: Perhaps if you would just confirm, Mr Maree, you were provided with three documents, firstly the project proposal, secondly the business plan and thirdly the feasibility study and we are still dealing with the first project – the first document being the project proposal and then the two other documents, the business plan and feasibility study will follow where you will give the Chair more detail, particularly in respect of the feasibility study.

MR DAVID ANDREAS MAREE: That's correct Chair.

ADV REFILOE MOLEFE: Okay.

10 **CHAIRPERSON:** I may have confused him.

ADV REFILOE MOLEFE: Well I just needed to clarify with him Chair.

CHAIRPERSON: Yes okay, alright, no that's fine.

ADV REFILOE MOLEFE: Thank you Chair, thank you very much.

CHAIRPERSON: But the comments you made, would they apply to the first document that we are still talking about?

MR DAVID ANDREAS MAREE: Chair my comments regarding the way in which it was done, I think applied to all three of them.

CHAIRPERSON: Yes okay, thank you.

20 **ADV REFILOE MOLEFE:** And you say that much in your conclusion that we'll get to. The next item that appears in the project proposal which you have, however, not addressed in your report, is at page 36 and it appears at paragraph 7, that item is entitled, optimising the development potential of this flagship project. As stated, I note that you haven't addressed yourself to this topic but I will, nonetheless request you to comment on this topic. In the opening line of that

paragraph, it is stated there, and if the Chair will allow me to quote,

“It is envisaged that this starred integrated Agri Business project will become a centre of excellence for the entire Free State and even the neighbouring provinces”,

Do you have any comment in this respect, given the evidence that you’ve probably given to the Chair and also with particular reference to the history of the Free State as you had previously articulated to the Chair?

MR DAVID ANDREAS MAREE: Chair yes, I think if the project was
10 implemented and it was a flagship project as it as envisaged, I think it could have become a centre of excellence, I think, we in South Africa lack a lot of practical agricultural training, so it could have become such a centre of excellence but given the fact that dairy production in the Free State was declining and still is declining, it wouldn’t make sense to do it in Vrede, I would rather do it in a province that is more suitable for milk production as such.

ADV REFILOE MOLEFE: Now that particular at the second paragraph continues to say, from the second paragraph,

20 “Eventually this project will provide and the first bullet point say, on site, in service practical agricultural training for aspirant farmers to equip them for the profitable operation and management for their own [indistinct] projects, albeit – primary production of livestock and agricultural produce or – value adding and beneficiation to livestock and agricultural produce. Second bullet point says, basic business, financial

and management skills training and in service application and overleaf at page 37 the last bullet point say, cooperative processing, value adding and beneficiation of livestock and agricultural produce for all dart projects in the Free State”,

Are you able to comment on that second paragraph as set out in the project proposal?

MR DAVID ANDREAS MAREE: Chair I wouldn't be able to comment on that specifically, as I've said, I think should it have been a flagship project, it would have been a very good addition to agricultural development in South Africa, unfortunately we now know it's not the case.

ADV REFILOE MOLEFE: The last aspect under that heading on page 37, and again I quote, it says,

“Cooperative marketing facilities into the major consumer markets of South and Southern Africa for all dart projects in the Free State thus creating the necessary critical mass and economies of scale which will unlock additional financial benefit for all dart project participants”,

Are you able to comment on that paragraph?

20 **MR DAVID ANDREAS MAREE:** Chair unfortunately as well not, I think with regards to the marketing – cooperative marketing issue, it was somewhat addressed in my comments regarding the feasibility study, later on in my report.

ADV REFILOE MOLEFE: Yes that's fine, if we then return to your report at page 17 of the bundle, the last item in the project proposal

which you deal with is entitled, the need for the dairy project.

MR DAVID ANDREAS MAREE: That's correct Chair.

ADV REFILOE MOLEFE: And if we turn to page 37 of the project proposal there are three bullet points which are stated in support of the need for the chosen dairy project, is that correct?

MR DAVID ANDREAS MAREE: That's correct.

ADV REFILOE MOLEFE: And it would be that topic you addressed yourself to?

MR DAVID ANDREAS MAREE: That's correct Chair.

10 **ADV REFILOE MOLEFE:** For the sake of understanding your analysis in this respect I know it is about half a page but this is one of the critical issues that this commission is considering being the need for the Dairy Project itself and this is in light of where it was located and so forth. I am going to request you to please read what is stated in the project proposal as being the need for the chosen Dairy Project.

MR DAVID ANDREAS MAREE: So the need for a chosen Dairy Project it can – or Project it can be concluded that there is an urgent need for this project based on the following facts.

- The sale of milk provides extra income on a regular basis to rural
20 people who often have just enough to get by. Milk sales also improved the nutritional status of rural population though not necessarily the urban needy. Milk is also one of the few agricultural products that can be supplied and marketed regularly by non-land owners. A dairy plant creates jobs in rural areas and thus helps check – helps check urban migration.

- Milk and milk products are thought of as staple foods in Europe. Favourable production conditions means that everyone can consume large amounts of milk and dairy products. For many of the worlds peoples however even though milk plays no role in the diet if balanced food is available in sufficient quantities neither health nor welfare should be affected by the lack of milk. Recommended third world dairy policies fall somewhere between these two extremes. Milk protein can enhance plant protein and in a diet combining several foods a compensatory balance is established among the various sources of proteins. Animal proteins supply essential amino acids plant proteins that can economically top up the total supply.
- Many third world countries find it hard to right the balance of payments. Imported dairy products are one of the foreign exchange savings which can be affected by dairy development policy. Moreover international prices may go up in the medium or long run placing a country which is not in a position to partially substitute imports by local production at a disadvantage.

End of the paragraph.

20 **ADV REFILOE MOLEFE:** So all of those three bullet points flow from what is cited just under the topic the need for the chosen dairy project it is stated there:

It can be concluded that there is an urgent need for this project based on the following facts.

And then it enlist those three bullet points that you have taken the

Chair through. Now as I have it and as I have observed from your report there are three main issues there. Firstly it would be extra income. Secondly it would nutritional value and thirdly would be that foreign exchange savings component. What is your finding in respect of all three points that are made there?

MR DAVID ANDREAS MAREE: Chair first of all I think in terms of the extra income to rural – the rural population it is definitely true in certain African countries however that is small scale dairy production. I said you will find that on page 17. For example in Zambia that is
 10 successful. There is not at this stage successful small scale dairy farming in South African given the economies of scale and various other reasons. So to say it is a – or a – it would be an extra income to rural people I think it is a bit of wish list in terms of that first point. I think we have also addressed some of the comments regarding the job creation in my previous testimony regarding the 600 people for a dairy plant. So that is in – with regards to the first bullet point. I think with regards to the second bullet point it is stated there that milk is a staple food in Europe. We living in Africa and milk is not a staple food definitely not in South Africa at this stage. So there is already for me a
 20 disparity between what the need for this project need or saying and where we are living at this stage. Unfortunately and I am not a dietician or a health practitioner but there is a problem with lactose intolerance under certain parts of our population so – and that is one of the reasons why milk product – or milk consumption, fresh milk consumption is not that high in Africa as it is in Europe. In terms of the

foreign exchange savings that is definitely a positive as we import a lot of milk powder, cheese and UHD milk at this stage. So that is one positive that one can take out of this need for this specific project.

ADV REFILOE MOLEFE: And...

CHAIRPERSON: But you see the most important point is; is there anything in those reasons that are given there that says why government should be involved in this project?

MR DAVID ANDREAS MAREE: There is none – none in those three presence Chairperson.

- 10 **CHAIRPERSON:** Because any private person, any private company can embark on whatever business they want to embark upon it is their own money and they can do their own feasibility study but – or proposals. That is their own business they can make whatever decisions. But here this proposal contemplates that government must spend money and I would have expected that the proposal would provide justification as to why government should spend money or should be involved in this kind of thing. So – and out of these three reasons here I really do not see anything that says here is why government should be involved in this.

- MR DAVID ANDREAS MAREE:** Chair I agree hundred percent with you
20 and definitely not an urgent need as is stated in the beginning of that paragraph.

CHAIRPERSON: Yes, yes. Thank you.

ADV REFILOE MOLEFE: With reference to and we will be closing on the need for the chosen dairy project with reference to milk and milk produced – milk and milk products rather being thought as staple foods

in Europe do you think that this could have possibly been a copy and paste assessment?

MR DAVID ANDREAS MAREE: Chair I definitely think so yes.

ADV REFILOE MOLEFE: Okay you then set in page [intervention].

MR DAVID ANDREAS MAREE: Chair sorry – sorry counsellor.

ADV REFILOE MOLEFE: Yes.

MR DAVID ANDREAS MAREE: Chair to add to that.

CHAIRPERSON: hm.

MR DAVID ANDREAS MAREE: The fact that it says favourable
10 production conditions also tell me that it can be a copy and paste.

CHAIRPERSON: Yes, yes.

MR DAVID ANDREAS MAREE: From a European or another document.

CHAIRPERSON: Yes.

ADV REFILOE MOLEFE: Yes.

CHAIRPERSON: Thank you.

ADV REFILOE MOLEFE: Thank you. And you then set out your conclusion on this document being the project proposal as appears at page 17 of your report. Please take the Chair through your conclusion in this respect?

20 **MR DAVID ANDREAS MAREE:** Chair yes if I can conclude on the – on this project proposals. First of all I think the funding differences between the two documents that I reviewed as I have said it is inexplicable. It is not sure which one was then in the end accepted. In addition to that you know if a project is commercially viable why would a government be needed to fund that specific project? I think that is

two points that stands out for me. And then in my – in my last paragraph on page 17 I think the need for a dairy project is not disputed however it can be concluded that some of the project costs...

CHAIRPERSON: Yes the need for a product might not be disputed but is the need for involvement of a government in a dairy project also not disputed?

MR DAVID ANDREAS MAREE: No Chair that is disputed.

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: I would not say government should be
10 involved in the commercially dairy project.

CHAIRPERSON: Yes okay.

MR DAVID ANDREAS MAREE: Some of the – the cost of this project is definitely unreasonably high. I think first of all and that includes the cow prices and certain equipment. If the latter is the case the principle should actually do an in-depth cost benefit analysis on the impact of the proposed project in that region. I do not think there was a – definitely not an in-depth cost benefit analysis done on the Vrede Dairy Project.

CHAIRPERSON: And to – I take it that to the extent that you said the
20 idea of a Dairy Project may have been a good idea but how they went about it is something else. To the extent that you said that must one understand that remark on your part to be confined to simply a commercial project and not necessarily that you are saying that the involvement of government may also have been a good idea as long as it was done properly. Is that something that you are using that remark

to apply to as well or just simply the idea of a dairy project?

MR DAVID ANDREAS MAREE: Chair no at this stage I was simply referring to the dairy project itself.

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: And since it is going to be a commercial project.

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: Government involvement in that.

CHAIRPERSON: Yes okay thank you.

- 10 **ADV REFILOE MOLEFE:** Thank you. Still on page 17 of your report at the conclusion. On the last paragraph on that page you have already taken the Chair through your comments insofar as the need for the dairy project. You also say that an in-depth cost analysis should on the impact of the proposed project in the region should be undertaken. Are you able to say what expertise if any would be required for an in-depth cost analysis?

- MR DAVID ANDREAS MAREE:** Chair I would definitely think a – a agriculture economist but you will also include certain special expertise in certain fields. You will definitely include agronomist, animal scientist
20 with feeding specialities because dairy production is highly intensive with regards to feeding. You will definitely include a marketer or somebody who have in-depth knowledge of the dairy market because it is definitely a difficult market in South Africa. And then definitely also somebody with processing knowledge on the processing side.

ADV REFILOE MOLEFE: Then still on that paragraph the last sentence

on that page you state there that:

A project of this nature does not always benefit the local economy one hundred percent.

Firstly when you say local economy would you be referring to the Free State specifically?

MR DAVID ANDREAS MAREE: Chair I would there refer to the specific district. In this case the Vrede district but you can actually make that bigger to the Free State economy as well.

ADV REFILOE MOLEFE: And when you say that it does not always
10 benefit the local economy one hundred percent are you able to elaborate on that statement?

MR DAVID ANDREAS MAREE: Chair yes. If you look at the dairy industry a lot of the equipment and most of the equipment actually is being imported from either European countries or New Zealand and Australia for example. So when you put up a processing plant and a dairy parlour there is a lot of equipment that goes into that stainless steel and so forth. And obviously when you purchase that; that the money does not necessarily go into the local economy it goes to the companies and in most cases that is international companies. So you
20 cannot say it benefit the local economy at a hundred percent.

ADV REFILOE MOLEFE: Yes. The next document that you then deal with is the business plan and that document Chair appears from page 47 until 56 of the bundle. And you set out your findings in your report from page 18 of your report.

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: If we turn to page 48 of the paginated bundle and I hope you will be able to see this is also not such a legible.

CHAIRPERSON: Okay I have got page 18 and I have got page 47.

ADV REFILOE MOLEFE: Thank you Chair page 47 is where the business plan starts and it carries on until page 56.

CHAIRPERSON: Yes.

ADV REFILOE MOLEFE: Page 18 of the report is where Mr Maree provides his analysis.

CHAIRPERSON: Yes okay.

10 **ADV REFILOE MOLEFE:** If we turn overleaf.

CHAIRPERSON: Have I got all the pages I need to have?

ADV REFILOE MOLEFE: Yes Chair.

CHAIRPERSON: Okay alright.

ADV REFILOE MOLEFE: If we turn overleaf to page 48.

CHAIRPERSON: Yes.

ADV REFILOE MOLEFE: That is the first page of the business plan.

CHAIRPERSON: Okay.

ADV REFILOE MOLEFE: Are you there Mr Maree?

MR DAVID ANDREAS MAREE: I am there Chair.

20 **ADV REFILOE MOLEFE:** On the second paragraph it is actually the third paragraph and again I am going to have to ask you to read this that sentence that starts with “establishing modern confinement” as I am going to request your comment thereon. Can you please read that paragraph?

MR DAVID ANDREAS MAREE: Chair I will try my best.

Establishing a modern confinement dairy offers nearby crop producers the opportunity to create a profitable new business that can also increase the profitability of their existing cropping operations by marketing their crops through a dairy grain and silage producers can improve their margins while profitably producing a valuable commodity that is increasingly in short supply in the Free State.

ADV REFILOE MOLEFE: Yes thank you. Now having read that what is your understanding insofar as the grain and silage production?

MR DAVID ANDREAS MAREE: Chair my understanding from that
10 paragraph is that a project like it is envisaged here which is a confined dairy operation what we called a TMR or totally mixed ration dairy that creates opportunities for grain producers to supply the dairy with either finished grain or maize or otherwise silage as a feed to the cows in the dairy.

ADV REFILOE MOLEFE: So would I be of the correct understanding that the grain and silage production would be outsourced?

MR DAVID ANDREAS MAREE: From this paragraph I would gather that as well yes Chair.

ADV REFILOE MOLEFE: Okay. You deal with this in detail particularly
20 with the machinery that is used in grain and silage production when you deal with the feasibility study and we will come back to this point. If we can then return to the business plan. Still on page 48 of that business plan the last paragraph that appears on that page speaks to mitigation of risks. Can you please take the Chair through?

CHAIRPERSON: Before you proceed just in case it is something we

have not said – I have not said. It looks like many of the pages on this file or documents need to – need to get better copies for them if you can. I mean some you might find that might be able – might be possible for somebody to retype them because if you pay close attention you can read – retype but where you can get copies let us get copies they are not satisfactory. So if that can be done.

ADV REFILOE MOLEFE: That will be done Chair we had...

CHAIRPERSON: Ja okay.

ADV REFILOE MOLEFE: Relied on the copies as used by Mr Maree
 10 because I think that if I recall that is one of the limitations that he encountered insofar as his review being the legibility of the copies he received. Thank you Chair. Mr Maree still on page 48 of the business plan. The last paragraph on that page speaks to mitigation of risk factors as identified in that paragraph. Can you go through that paragraph and then tell the Chair in your view whether the risks would be mitigated as is proposed in that paragraph?

MR DAVID ANDREAS MAREE: Chair yes they proposed or they said that a large scale dairy operation is under threat of a number of risks and those risks can be mitigated by the employment of high skilled
 20 management team. That in part I think is true however there is some risks that cannot be mitigated by only a management team. For example the economies of scale is pertinent in TMR based dairy systems in South Africa. You have to be bigger or you get out. Secondly climate and weather conditions it does not matter what type of management skill you have those type of situations you cannot

always hundred percent mitigate. You have to rely on certain instruments as well. So if you look at they have said a – also they envisaged a number of integration and other activities as well as downstream value adding and beneficiation. Now that in part is true to add value to your product to not only sell a commodity like milk but if you add value and you make for example milk powder or cheese or yoghurt and so forth you can definitely mitigate certain market risks. Although you are then under other market risks as well.

ADV REFILOE MOLEFE: And if we turn to page 49 of the business
 10 plan there the second last paragraph which starts with “in the short term” also addresses or rather proposes another means of mitigation of risks. Can you please take the Chair through what is set out there as well as your view in this respect?

MR DAVID ANDREAS MAREE: Chair yes in that regard they will start off by – by procure milk from in-house rearing and milking cows in-house but then it was envisaged that the operation will be gradually expanded to include local farmers in the area. In that way they would mitigate the risk of – to have little – too little milk in the processing plant for example. Now if we take into account the number of local
 20 farmers have diminished substantially in that district it would have been a – much a bigger risk to source your milk from other producers around you.

ADV REFILOE MOLEFE: Yes and as I have read the business plan those are the only two areas where the mitigation of risks are identified unless you have come across any other means of mitigation of risk?

MR DAVID ANDREAS MAREE: No Chair.

ADV REFILOE MOLEFE: And do you think that what is set out in the business plan insofar as mitigating risk would suffice in identifying not only the risks that are inherent in a dairy project but also means and ways of mitigating such risks.

MR DAVID ANDREAS MAREE: Chair no I do not think the business plan addressed that mitigation of risks.

ADV REFILOE MOLEFE: If we then return to your report at page 18 there you set out your analysis of the business plan. Please take your
10 Chair through this analysis?

MR DAVID ANDREAS MAREE: Chair yes the business plan it was comprising of six pages plus three additional pages which is the seemed to be Excel sheets which is very unreadable in certain cases. But my first bullet point you know if we look at the well planned dairy it definitely represents a number of opportunities in terms of value addition – addition and beneficiation which is in favour of this type of project when it is planned and implemented in a good way. As it is indicated in the project proposal the dairy cows have definitely been over-budgeted for. The R25 000 versus the R15 000. My third
20 comment on the business plan it is unclear why provision was made for a feed lot if the plan was to sell the culled cows and the male culls which can be seen as sales and income on page 5 and 6 of this specific business plan. Except if the plan was to finish them off in a feed lot then it might be necessary but it is not well defined in the business plan what would – what was the plan for the culled cows. The

assumption of the average milk per cow per day of 5 – 45 litres is unrealistic. If we take into account at that stage the national average production per cow per day was only 20.1 litres and if you have very good conditions with excellent management cows in general will produce between 30 and 38 litres per day.

CHAIRPERSON: And just before you proceed. What would constitute good conditions apart from an excellent management team?

MR DAVID ANDREAS MAREE: Chair it will be a cool environment, no heat stress on the cow. A well feeding regime you know so a feeding
10 plan with a ration that is developed for optimal production. In terms of intensive dairy production the cow must not move too much around, does not have stress and those type of unnecessary conditions. And obviously also healthy cows would be part of that.

CHAIRPERSON: So if the national average was 20 then it looks like 45 was way beyond what could reasonably be expected?

MR DAVID ANDREAS MAREE: Chair just to put a national average in perspective there. So the national average would be an average across total mixed ration and pasture based systems. So under pasture based system like we have in the Midlands and the Eastern Cape coastal
20 areas average production per cow is roughly between 18 and 22 litres per cow. Because the cows walk a lot to the feed and so forth. Under TMR based situations or feeding regimes where the cow is in housing the top – top producers at that stage was just averaging 38 litres per day. So – so – and that is only for a top producing cows as well. So 45 litres per cow per day is definitely unrealistic.

CHAIRPERSON: But was there an indication as to what the basis was for choosing 45?

MR DAVID ANDREAS MAREE: There was no indication Chair.

CHAIRPERSON: Did it sound like it was just a thumb suck?

MR DAVID ANDREAS MAREE: Chair I think it was being done by a person that is not well known to the dairy industry and just take a number off a specific cow at some stage that could produce. Because there is cows that can produce 45 litres per day but that would not be across a total [indistinct].

10 **CHAIRPERSON**: That would not be the norm?

MR DAVID ANDREAS MAREE: That would not be the norm Chair.

CHAIRPERSON: Yes. But also in a business plan I would have thought that things would be properly motivated to show that the plan is a viable plan?

MR DAVID ANDREAS MAREE: I definitely agree Chair.

CHAIRPERSON: Thank you.

ADV REFILOE MOLEFE: And insofar as the anticipated financial performance according to the business plan that appears from page 52 all the way until page 56 of the paginated pages, is that correct?

20 **MR DAVID ANDREAS MAREE**: That is correct Chair.

ADV REFILOE MOLEFE: And you have taken the Chair through your analysis of the – of the components on financial performance, is that correct?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: You have also referred to in your report to

the sales and income.

MR DAVID ANDREAS MAREE: Yes.

ADV REFILOE MOLEFE: And as I have it that appears at the bottom of page 52.

MR DAVID ANDREAS MAREE: That is correct.

ADV REFILOE MOLEFE: Can you take the Chair through what is stated there insofar as the sales and income as provided for in the business plan?

MR DAVID ANDREAS MAREE: Chair ja so they – they have said in
10 short that they will start producing milk from April/May 2013. So it was
estimated to be conservatively for only nine months and then from
2014/2015 onwards it would be a full year of production. So they
estimated a total sale income from milk to the extent of R66.31 million
for a total year and then it is likely to be increased by ten percent per
year by adding fifty additional cows from 2017 – ag 2016/2017 onwards.
They have also made provision of the sales – sales and income. Sales
process – sale proceeds from extra agricultural produce and that would
be maize, soya beans, hay etcetera. As well as in this case milking
cows that has been replaced on a regular basis as well as the calves
20 that is being sold.

ADV REFILOE MOLEFE: And what does your view insofar as the projected sales and income as set out in the business plan?

MR DAVID ANDREAS MAREE: Chair they have made the assumptions on the income and the sales based on 45 litres per cow per day which as we have discussed is – is extremely high and unsustainable and not

reasonable. So that means that all the numbers and income numbers that has been envisaged is actually incorrect then and overstated in my opinion.

ADV REFILOE MOLEFE: Then if you turn to the following page - page 53 from the top of that page a topic entitled "Net Profit" is provided for. Please take the Chair through what is stated insofar as what the anticipated net profit was as has been stated there.

MR DAVID ANDREAS MAREE: So Chair that - they said that it would take roughly 12 to 14 months for a dairy to become operational and that
10 will result in a loss of 8.48 million for 2012/2013 and then only 1.83 million in 2013/2014. However they said if they have backward integration due to availability of land the expense on animal feed will be very low.

Further agricultural production is likely to be more than a requirement for animal feed. So that implies that they will sell off the maize and soya beans that is not been used in the dairy. They will sell then on the - on the market. So it is likely to generate additional income that - to increase the profitability.

So the company has not forecasted any dividend during the
20 currency of bank finance which I am not sure where that comes in and EBIT sales hovering around 70 percent and PBT to sales is always more than 40 percent which reflects healthy profitability.

ADV REFILOE MOLEFE: Now before I - I put a question on this. Just after they set out the backward integration as - as is - is stated there it further goes on to say that:

“However we have not considered it.”

What is your understanding of that statement?

MR DAVID ANDREAS MAREE: Chair that is - I understand that it is the plan but they actually not considering implementing that. As it is stated earlier in - in the document. They would actually prefer or they will actually procure maize or - or grains from the local producers and hence not the backward integration.

However in certain of the project - certain of the documents they refer to grain production as such as being part of the dairy project.

10 **ADV REFILOE MOLEFE:** Are you able to comment on the reasonableness of the backward integration that is proposed there though stated to not be considered and the effect it would have on the loss of 8.48 million in 2012/2013 and 1.83 million in 2013/2014?

MR DAVID ANDREAS MAREE: Chair it is actually difficult to - to comment on that - on this little paragraph and the information that is not available if we look because you actually need detailed costing and - and the likes of the backward integration project as well in terms of growing production. So I would not make a comment on that at this stage.

20 **ADV REFILOE MOLEFE:** Yes. You then deal with your conclusion on the business plan at page 18 of your report. Can you please take the Chair through your concluding remarks of the business plan?

MR DAVID ANDREAS MAREE: Chair *ja*. In conclusion the business plan is inconsistent. In one page they talk about a 500 cow's dairy but on the very next page they are referring to 100 cows in milk.

CHAIRPERSON: One, 1 000 is it not?

MR DAVID ANDREAS MAREE: Sorry Chair?

CHAIRPERSON: 1 000. Is it not 1 000? I think you said 100 - 100.

MR DAVID ANDREAS MAREE: 1 000 Chair.

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: Apologies. So one page 500 and the very next page 1 000 cows in milk. So in addition to that many of the initial assumptions is very unrealistic and it would be difficult to attain those numbers specifically referring to the 45 litres per cow average
10 per day. It can therefore be concluded that the business plan is not too realistic and should be revisited.

CHAIRPERSON: I mean the - a business that will - would - will involve - a dairy business that will involve 500 milk cows and one that will involve 1 000 milk cows. That is a big difference and that also affects the question of costs and the viability of the business would be affected by whether you are looking at 500 or 1 000. Is it not?

MR DAVID ANDREAS MAREE: Definitely Chair.

CHAIRPERSON: In a significant way.

MR DAVID ANDREAS MAREE: *Ja* definitely. There - there will
20 definitely be a significant difference - difference in the cost but also in the management of - of a project or of a dairy of the - the different sizes. Management skills will definitely differ between those two.

CHAIRPERSON: Well when - if you were presented with a business plan that has this kind of discrepancy would not any person who takes their obligations their duties seriously really say take this thing away. I

mean you do not know what you are talking about. You give me - do you want a business for 500 milk cows or 1 000.

You cannot have properly applied your mind to this plan if you are giving me a plan that talks - that does not know whether you are talking about 500 or 1 000 milk cows. Would that not be the normal kind of reaction or am I too harsh?

MR DAVID ANDREAS MAREE: Chair you are definitely not too harsh. If I was the investor in - in this type of project I will definitely send it back immediately to be - to be (intervenes).

10 **CHAIRPERSON:** Yes. You would want to see - once you see - pick that up you would not want to see anything else because it means the - the person who has put it up does not know what they are doing.

MR DAVID ANDREAS MAREE: I completely agree Chair.

CHAIRPERSON: And you - you are talking about a business that - that is envisaged to involve a lot of money and you cannot get this basic right.

MR DAVID ANDREAS MAREE: For sure Chair.

CHAIRPERSON: *Ja*. Yes. Thank you.

ADV REFILOE MOLEFE: Thank you. Mr Maree before we conclude on
20 the business plan and move onto the last document can I refer you to pages 50 and 51 of the business plan? The paginated pages 50 and 51. On page 50 there appears a table and it is entitled "Breakdown of Project Costing for the Dairy Unit" and underneath that appears "Dairy Farm Costing". Is that correct?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: On page 51 there appears a table entitled “Dairy Processing Plant Costing”. Is that correct?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: I note that on both these tables provision is made for dairy products manufacturing.

CHAIRPERSON: I am - I am sorry Ms Molefe. Let us go back to page 50.

ADV REFILOE MOLEFE: Yes Chair.

CHAIRPERSON: You are drawing my attention to?

10 **ADV REFILOE MOLEFE:** Firstly the - the headings of the two tables.

CHAIRPERSON: “Breakdown of Project Costing for the Dairy Unit”.

ADV REFILOE MOLEFE: Yes Chair and the table on page 50 ...

CHAIRPERSON: Yes.

ADV REFILOE MOLEFE: Is said to relate to “Dairy Farm Costing”.

CHAIRPERSON: Yes I see that.

ADV REFILOE MOLEFE: The second table ...

CHAIRPERSON: And then you said ...

ADV REFILOE MOLEFE: On page 51.

CHAIRPERSON: Is “Dairy Processing Plant Costing”.

20 **ADV REFILOE MOLEFE:** Indeed so Chair.

CHAIRPERSON: Okay. Alright.

ADV REFILOE MOLEFE: Now I am taking Mr Maree through some of the items ...

CHAIRPERSON: Ja.

ADV REFILOE MOLEFE: In both these tables.

CHAIRPERSON: No that is fine.

ADV REFILOE MOLEFE: Thank you Chair. Mr Maree on page 50 just about halfway down on that table there appears an item dairy products manufacturing. Have you located it?

MR DAVID ANDREAS MAREE: Yes Chair. To an amount of 14 - 1.4 - million - 14.

ADV REFILOE MOLEFE: 14 million?

MR DAVID ANDREAS MAREE: That is correct.

ADV REFILOE MOLEFE: And on page 51 the second line item is dairy
10 products manufacturing. Is that correct?

MR DAVID ANDREAS MAREE: That is correct.

ADV REFILOE MOLEFE: And ...

MR DAVID ANDREAS MAREE: It looks like 46 million.

ADV REFILOE MOLEFE: Yes. I - as I read it is 46 million.

MR DAVID ANDREAS MAREE: Agree.

ADV REFILOE MOLEFE: Before you deal with those respective amounts are you able to explain to the Chair what the distinction between these two tables is or was purported to be?

MR DAVID ANDREAS MAREE: So Chair my understanding is that the
20 first one the "Dairy Farm Costing" would be with reference to the primary dairy production. So that is on the farm where you produce the milk and secondly the dairy processing plant would be your value adding or your secondary industry.

So that is the process of the raw milk that is being produced in the first project or the first part of the business. So in - in layman's

terms the one would be the farm and the second one the one - the second one will be the manufacturing plant.

CHAIRPERSON: Like production of cheese and so on?

MR DAVID ANDREAS MAREE: That is - that is correct Chair.

CHAIRPERSON: Yes.

ADV REFILOE MOLEFE: Then are you able to assist with those two items on the two tables. Both indicated as dairy products manufacturing and if you - to the extent that you are able to - are able to indicate what they would relate to in each of those tables.

- 10 **MR DAVID ANDREAS MAREE:** So Chair the - the first one on the "Dairy Farm Costing" on page 50 the dairy projects manufacturing to the value of 14 million. It does not make sense to have that in that specific project costing and you can even add the - the next line item the pasteuriser to the value of 60 million to that because both of those line - line elements is - is part of a manufacturing process which actually should be in the second one under the dairy processing plant which is then the 46 million.

- 20 So it seems to me first of all that the dairy project manufacturing is included in the primary production site which in my view is a mistake and then it should be included in the second one. Unfortunately what it entails is difficult to - to ascertain from - from the table that has been provided.

ADV REFILOE MOLEFE: Would it be possible that the item referred to as dairy products manufacturing under the table "Dairy Farm Costing" on page 50 would relate to purely milk production or milk processing

whereas the item also cited as dairy products manufacturing on the second table on page 51 which is entitled “Dairy Processing Plant Costing” relates to the production of milk products such as cheese and the like.

MR DAVID ANDREAS MAREE: So Chair to answer the - the question from the - from the backside. In the second one it would definitely be the product manufacturing. So cheese or powder or UHT or - or so forth. In the second - in the first instance not - definitely not as milk production because in that same table just two rows on top of that you
10 have the milking parlour which is the production of milk - the machinery for that and - and hence my comment that the dairy products manufacturing line should not be included in that - in that costing.

ADV REFILOE MOLEFE: Yes and insofar as the pasteuriser on the first table under “Dairy Farm Costing” which has a budget value of R60 million and the UHT long life milk plant on the second table which has a budget value of R149 million are you able to speak to those two line items insofar as firstly where they appear and secondly what they relate to.

MR DAVID ANDREAS MAREE: So Chair first of all the pasteuriser
20 should not be appearing in the “Dairy Farm Costing”. It should appear in the processing plant side and secondly the - the UHT milk plant is definitely at the right place. In terms of the values I spoke or I am speaking about that in some of the further documents that has been reviewed.

So perhaps I can then comment on that. So a pasteuriser

would normally be a low temperature pasteuriser where a UHT milk plant would be high temperature pasteurising. So it - it can be used in the same type of operation as well.

ADV REFILOE MOLEFE: Then still on page 50 of the business plan on the first table. One of the items there is a feed lot for R14 million and two lines down is an animal feed plant for R19 million. Is there a difference ...?

CHAIRPERSON: Is it not 10 million for ...?

MR DAVID ANDREAS MAREE: 10 million.

10 **CHAIRPERSON**: Animal ...

ADV REFILOE MOLEFE: Pardon me Chair. It is ...

CHAIRPERSON: Feed or even - or even 15 million.

ADV REFILOE MOLEFE: No, no.

CHAIRPERSON: I am not sure.

ADV REFILOE MOLEFE: If I might assist Chair.

CHAIRPERSON: Which figure is in line with animal feed plant?

ADV REFILOE MOLEFE: Animal feed plant I have it as 10 million. If I read it from ...

CHAIRPERSON: *Ja*, okay.

20 **ADV REFILOE MOLEFE**: Left to right.

CHAIRPERSON: *Ja*.

ADV REFILOE MOLEFE: And the feed lot is 14 million.

CHAIRPERSON: Hm.

ADV REFILOE MOLEFE: As I have it. Firstly is there a difference between those two line items and if so what is the difference?

MR DAVID ANDREAS MAREE: Chair yes there is a difference. The feed lot would be a - a feed lot. So it would be a place where the cows and the male calves would probably be reared, finished off for the market and then - and then being slaughtered from there. The animal feed plant would be a plant that produces animal feed.

A mixture of grains, soya beans, maize and so forth which would be used in the feeding of the cows. So there is definitely a difference between the two. It can be assumed that the animal feed plant will also produce feed for the feed lot as well.

10 **ADV REFILOE MOLEFE:** And would the animal feed plant have to be built?

MR DAVID ANDREAS MAREE: According to the - to the costing it would need to be built yes Chair.

ADV REFILOE MOLEFE: And in your experience?

MR DAVID ANDREAS MAREE: Chair animal feed plants is very rarely built on farms especially dairy farms. As I have said earlier it is a - it is a specialised feeding regime for a dairy cow. So most dairy farmers' especially intensive dairy farmers buy their feed from animal feed companies.

20 So to - to put up an animal feed plant would be a very intensive operation to do. It - it can be value addition in - in - if you look - if you look at that but it is very rarely the case in an - on - on a dairy farm.

ADV REFILOE MOLEFE: Yes. Then ...

CHAIRPERSON: I am sorry. Was there an indication of why it would

be necessary or justified to have it on this farm if normally it is not something that is done?

MR DAVID ANDREAS MAREE: Chair if I recollect I could not find anything in - in any of the documents why it would be necessary.

CHAIRPERSON: Hm.

MR DAVID ANDREAS MAREE: There was a reference to grain production on the farm.

CHAIRPERSON: Hm.

MR DAVID ANDREAS MAREE: Which will be used as a - as animal
10 feed ...

CHAIRPERSON: Hm.

MR DAVID ANDREAS MAREE: But they have nowhere spoke specifically about the animal feed plant *per se*.

CHAIRPERSON: Yes.

ADV REFILOE MOLEFE: Yes. Before you deal with your conclusion on the business plan if we turn to cover page of the business plan at page 47. Are you there?

MR DAVID ANDREAS MAREE: Yes Chair.

ADV REFILOE MOLEFE: It is stated there "Confidential Business
20 Plan". Do you see that?

MR DAVID ANDREAS MAREE: I see that. Correct Chair.

ADV REFILOE MOLEFE: Having considered the business plan are you able to comment on any aspects of the business plan which could be regarded as confidential?

MR DAVID ANDREAS MAREE: Chair most probably the - the only

things that would be confidential would be the - the numbers or the - the tables that has been from pages 54 to 56. Otherwise I do not think there is anything else that - that really is confidential in this - in this instance.

ADV REFILOE MOLEFE: Then on page 18 of your report you deal with your conclusion on the business plan and you do so relative to the numbers of cows and milk that are stated in the business plan. Please take the Chair through your conclusion in that respect.

MR DAVID ANDREAS MAREE: Chair yes. If we look at page 48 of the
10 business plan they said the production framework for a 500 million - 500 cow dairy - apologies. That is in the last paragraph on that - on that page the second line but if you turnover to page 49 the first bullet point they are speaking about 1 000 cows in milk.

So that is already the discrepancy in the business plan as well as indicated earlier. If we look at all the - the assumptions made in the business plan it is definitely unrealistic and it will - will not - it will be difficult to be attainable. So the - the complete business plan in my view is not realistic and should be revisited or it should have been revisited.

20 **CHAIRPERSON:** And now this is on the letterheads of the Department of Agriculture - Agriculture and Rural Development. So certainly one would expect that one would find something that would indicate why Government should be involved in this business project of a dairy farm and - and still you did not find anything that says why Government should be spending money on this business of a dairy farm.

MR DAVID ANDREAS MAREE: Definitely not in a business plan Chair.

CHAIRPERSON: Yes, yes.

MR DAVID ANDREAS MAREE: *Ja*.

ADV REFILOE MOLEFE: Thank you. You ...

CHAIRPERSON: But - but you would expect that to be addressed in a business plan?

MR DAVID ANDREAS MAREE: Yes Chair definitely, *ja*.

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: *Ja*.

10 **CHAIRPERSON:** Yes. Okay.

ADV REFILOE MOLEFE: Is there anything else in respect of the business plan that you wish to comment upon?

MR DAVID ANDREAS MAREE: Not at this stage Chair.

ADV REFILOE MOLEFE: Yes and you say there in your conclusion as you have articulated to the Chair that the business plan is not realistic and you say that it should be revisited.

MR DAVID ANDREAS MAREE: Correct Chair.

ADV REFILOE MOLEFE: We then move to the ...

20 **CHAIRPERSON:** Was - was your opinion that revisiting it was the right - the right route or was that a polite way of saying something more ...

MR DAVID ANDREAS MAREE: Chair I feel ...

CHAIRPERSON: Drastic or ...?

MR DAVID ANDREAS MAREE: I think it was more a polite way of saying that the person who drafted the business plan was not knowing what he was talking about.

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: At the time while I was reviewing the - the documents I was not aware of the Vrede Dairy integrate Project that has already been established and so forth.

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: So I went from the assumption that they still want to ...

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: To invest in this project ...

10 **CHAIRPERSON:** Yes.

MR DAVID ANDREAS MAREE: And hence my comment that - also that it should be revisited.

CHAIRPERSON: Yes, okay. Thank you.

ADV REFILOE MOLEFE: Thank you. Can we then turn to page 19 of your report where you deal with the feasibility study which is the third and last document which you had to review?

CHAIRPERSON: Before we do that let us take a five minutes break and then we will resume. We will just adjourn for five minutes.

REGISTRAR: All rise.

20 **INQUIRY ADJOURNS**

INQUIRY RESUMES

CHAIRPERSON: You may proceed.

ADV REFILOE MOLEFE: I was directing you to the last document which you reviewed in your analysis and that is the feasibility study as appears from page 57 of the bundle, is that correct?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: And you set out your report in that respect at page 19 of your report, is that correct?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: At the very outset of your discussion of the feasibility study you provide a general view on the feasibility study, please take the Chair through this view?

MR DAVID ANDREAS MAREE: Chair it is in my initial comment, the first paragraph on page 19 I've stated that in general this feasibility
10 study is extremely academic with little detailed information on the feasibility of the project itself. It presents more as an academic manual on different issues related to dairy production for example haymaking and so forth, and it contains no clear information on the processing side of this project, apart from costs and some other minor assumptions.

CHAIRPERSON: So I understand that to be saying it is not really a feasibility study, it is a document about a feasibility study, but it does not address real issues that would be expected in a feasibility study. Is that a fair understanding of what you are saying?

20 **MR DAVID ANDREAS MAREE:** It is a fair understanding Chair, it is actually not even a document about a feasibility study, it is more a document about farming, and not a feasibility study in itself.

CHAIRPERSON: Yes, yes.

MR DAVID ANDREAS MAREE: So it is not something that I would
...[intervenes]

CHAIRPERSON: So it would be fair to say it is not a feasibility study at all?

MR DAVID ANDREAS MAREE: Not at all Chair.

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: There is definitely elements that is – well a lot of elements that is lacking from this document to name it a feasibility study.

CHAIRPERSON: Okay.

ADV REFILOE MOLEFE: Thank you, you then set out by way of a table
10 your findings in respect of the feasibility study and you do so starting with the introduction of the feasibility study. Before you deal with your findings can you explain to the Chair how one is to read that table?

MR DAVID ANDREAS MAREE: Chair yes, you should read the table as the first part of the table, the first column starting with chapter, introduction, and so forth, as being the different chapters in the feasibility study and then the second part of that the comments would be my comment on that specific chapter in the feasibility study.

ADV REFILOE MOLEFE: Yes, and the first item that you deal with is the introduction of the feasibility study?

20 **MR DAVID ANDREAS MAREE:** Chair yes that is correct, so in their introduction there is already in my comment there is already a discrepancy again between the 500 cows in milk and the thousand cows in milk.

CHAIRPERSON: So this problem about not knowing whether the business will involve 500 milk cows or one thousand just carries on?

MR DAVID ANDREAS MAREE: It just carries on through the document Chair.

CHAIRPERSON: Yes.

ADV REFILOE MOLEFE: And followed by the introduction you deal with chapter one of the feasibility study which deals with the herd structure, is that correct?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: Now in your findings if we turn to page 60 of the paginated bundle in the feasibility study that is where chapter one
10 appears which deals with the herd structure.

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: Can you explain to the Chair how one is to read the structure, the herd structure rather as provided for in the feasibility study in light of the herd structure as set out in your review.

MR DAVID ANDREAS MAREE: So Chair if you look at page 19 and page 60 of the documents I have reviewed the herd structure that was provided in – on page 60 according to the feasibility study, so if we can stick to that table, the table one in that document, the herd structure for a five hundred cow dairy farm, year one, year two and year three,
20 so you would see that you have milk cows, 300 pregnant cows, 200 and so forth until you have adult units of 550, or total units of 650. So I have compared that herd structure to an optimal herd structure which is provided in my comments on page 19 in terms of the herd structure, so if you have, if you look at page 19 you have the type of animal, then you have the optimal number of animals per 100 lactating cows and

then I have extrapolated that to 500 cows in milk and a thousand cows in milk.

So the optimal structure would be if you have a hundred cows in milk you will have – you should have 23 cows, lactating cows which is lactating from day one to 100 days. Another 23 from 101 days to 200 days and so forth, including the dry cows, the followers, as well as the heifers so if you have a hundred cows in milk you actually should have 210 cows in your total herd, so your cows in milk including your followers, so for a 500 cows in milk you should have, and that is the
 10 second column of my comments, you should have a total herd of 1 050 cows or animals in your total herd and henceforth also if you have a thousand cows in milk you should have 2 100 animals in your total herd.

ADV REFILOE MOLEFE: So this composition of the herd structure are we to understand it to be static, or can there be a play around of numbers of the composition rather of the different cows as set out in this table?

MR DAVID ANDREAS MAREE: Chair no definitely there can be a play around, obviously the structure as set out in my comment is the optimal
 20 one, so that would be the one that gives you the optimal production over a year, while it is under normal conditions, variable conditions on any dairy farm there will obviously be differences in the number of cows so dairy farmers do play around with the numbers and the structure.

ADV REFILOE MOLEFE: Are you able to say how much room one would have to manoeuvre insofar as the composition as the herd

structure as you've set out in this table?

MR DAVID ANDREAS MAREE: Chair there's a fair amount of room to, variable room, I would say up to 15%, you must take into account that if you want continuous milk on a continuous 365 days per year you should at least try to stick to the optimal herd structure, otherwise you might come at a certain period of the year when you have too little milk. In South Africa we have a very mixed structure, while in other countries, and even certain parts of South Africa they tend to have only seasonal production so then the herd structure would definitely vary, but this
10 herd, optimal herd structure is applicable for the dairy farmers on the Highveld.

ADV REFILOE MOLEFE: Now the herd structure as provided for in the feasibility study is also by way of table, but it follows a different format to that which you provide in your analysis, can you explain to the Chair with reference to the table and the feasibility study what the difference is in comparison to your analysis as appears in your report?

MR DAVID ANDREAS MAREE: Chair ja so they have the milking cows and pregnant cows which is assumed to be the lactating cows in my table, then in number three or line number three they've got a dry and I
20 assume it's dry cows and heifers above 12 months, which is in year 10, which already is a problem for future production, and then the heifers which is not in milk, lines 4, 5, 6 and 7, that would be your – in my table on page 19 that would be your followers their first three weeks before calving and so forth.

What they do not take into account is the total herd size in the

end.

ADV REFILOE MOLEFE: So if ...[intervenes]

MR DAVID ANDREAS MAREE: Sorry, apologies counsel, especially the dry cows in terms of that which you know if you will see if you have 600 cows in milk you have more or less 90 cows, dry cows, in their scenario there is none.

ADV REFILOE MOLEFE: Yes, in that – in the feasibility study there are however three columns provided, being the first year, the second year and the third year, and if I can take for example item number 4
10 which is heifers six to twelve months, and the first year the composition they have is 40, in your table at page 19, the number that you have is 120, so how is one to read the two tables in consideration of the three years and the different numbers provided throughout those years?

MR DAVID ANDREAS MAREE: Chair in my table that should be a optimal structure for every year. In the table in the feasibility study you will see that their first six to twelve months is forty plus 120, so it is assumed that they buy in heifers, 120 heifers in year two, and then in year three it is assumed that they would buy another 170 in at that stage, so they have a building structure while if you look at the
20 structure that is proposed, the optimal one would be an annual structure that needs to be tried to be attained.

ADV REFILOE MOLEFE: Yes, and you do deal with the issue relating to obtained cows or purchasing cows in later parts of your report, but just then on the herd structure what is the importance of a herd structure in a dairy farm?

MR DAVID ANDREAS MAREE: Chair ja, a herd structure or – a proper herd structure is very important for your continuous production which also means continuous cash flow and income, certain parts and certain farmers, especially when they farm – they produce from pastures, they follow the pasture growing season so they have more a seasonal production system which is a different herd structure. In this scenario and all Highveld farmers that's on feed or intensive dairy you need to have a continuous daily production to ensure your feasibility, your continuous cash flow and so on. It is also very important if you include
10 that into a processing facility because processing plants need a continuous supply of milk as well, so you have – you need to have a proper herd structure to ensure that production flow.

ADV REFILOE MOLEFE: And what is your comment in respect of the herd structure as set out in the feasibility study?

MR DAVID ANDREAS MAREE: Chair I think what I've said is if you compare the optimal herd structure with the one that's proposed there is definitely substantial differences in the number of animals in the specific herd, so that will obviously in the end have an impact on the production flow in this specific project. It is important if you have to
20 note also if you have five hundred cows in milk it implies that you have 1 050 animals on your farm, which obviously will have an impact on your feeding regime and your feeding costs as well.

ADV REFILOE MOLEFE: Thanks. And we have heard evidence that at least a hundred cows died, this would obviously have a huge impact on the herd structure, never mind the optimal herd structure that you have

provided, but even on the numbers provided in the feasibility study.

MR DAVID ANDREAS MAREE: Chair ja, the death of a hundred cows on any dairy farm will have major consequences in terms of production, income and so forth, so ja it will definitely have a major impact on your structure and your income.

ADV REFILOE MOLEFE: And the herd structure as provided in the feasibility study, whether correct or not, would become quite unattainable given the number of cows that are said to have died.

MR DAVID ANDREAS MAREE: True Chair ja.

- 10 **ADV REFILOE MOLEFE:** Then the second aspect that you deal with in the feasibility study is the site selection for the dairy buildings, and you do so from page 19 to 20 of your report and chapter 2 relative to site selection for the dairy buildings appears from page 61 of the feasibility study. Can you take the Chair through your finding in this respect?

- MR DAVID ANDREAS MAREE:** Chair yes, while I was reviewing chapter 2 in this case of the feasibility study my comments on that specific chapter is with regards to the resources for site evaluation, water is one of the major considerations when establishing a dairy, you have to have continuous supply of good quality clean water because it
- 20 is important for the cows first of all as a way of their drinking water but also for cooling them down and secondly also it is important for cleaning the dairy equipment for hygienic reasons. Unfortunately in the feasibility study there was no clear indication of the source of water that is going to be used in the dairy project.

CHAIRPERSON: Wasn't that one of the fundamental flaws in the

feasibility study?

MR DAVID ANDREAS MAREE: Chair that is correct and I have made one – in some of my final comments I refer back to the water issue as well, but yes that is one of the major flaws in the feasibility study.

CHAIRPERSON: Because for any business if you are going to – if you explore the possibility if you are exploring the possibility of going into that business one of the things you ask yourself is what are the essentials that I need for this business, what are the basic requirements, and if you are going to have cattle you must think about
10 water, you must think about you know well initially maybe grass, but if there is not enough grass I know what will the cost implications of cattle feed would be, where would you get it from, how much will it cost you to bring it to the farm, how much of that will you need, how much will you be spending on cattle feed as opposed to what you will be gaining through selling the milk or milk products that you will get out of that, that is something very basic that you would do.

MR DAVID ANDREAS MAREE: Definitely Chair ja feeding is one thing, you can still buy in and truck in food, with water it is another issue, but ja I agree with you that should be one of the first considerations.

20 **CHAIRPERSON:** Yes, thank you.

ADV REFILOE MOLEFE: In fact the feasibility study sets out as much, if I can direct you to page 61 of the paginated bundle. The last paragraph where there are four enlisted items, it starts there saying essential side factors, and it says there potential sides should be eliminated if they cannot provide these four essential factors, the first

is water, and it is stated there that a year on supply of potable water is essential for watering animals and sanitation, water is also needed for fire protection and cooling cows and milk, between 200 to 250 litres of fresh water per cow are needed daily for lactating cow consumption and milking, and I can't see what that word is but then at the end I think it says cleaning. But just on the feasibility study itself the site would have to be eliminate if it does not provide for – it does not consider water as an important factor.

MR DAVID ANDREAS MAREE: That is true Chair as you have said
10 water is a crucial part of any dairy establishment but it is one thing and it is a very academic paragraph here, they do not tell you what the source of the water will be and if availability is there year round.

CHAIRPERSON: Yes that is what I was going to come to say they state the requirement but when they do the study, because they are supposed at the end of the document to be able to say based on this and that and that this project or this business is feasible. Now if they don't address that what must we make out of – what must we make out of that failure on their part, and what value does it mean this study has?

20 **MR DAVID ANDREAS MAREE:** Chair I think this feasibility study does not add any value, I think it was an exercise done just for the sake of doing one, although as I have said in my initial comment it is very academic with a lot of jargon in there and it actually does not contribute to the overall evaluation of the project.

CHAIRPERSON: But it is quite worrying because you ask yourself the

question from the Department's side who did they go to to get this, and then from the point of view who did it what type of people did he or she think he was doing it for, who would not see these things.

MR DAVID ANDREAS MAREE: Chair unfortunately I cannot answer that but ja I agree with you.

CHAIRPERSON: Ja, thank you.

ADV REFILOE MOLEFE: Thank you, and the next item that you considered in respect of the site selection for the dairy buildings would be the other considerations that are set out in the feasibility study,
10 what was your finding in that respect?

MR DAVID ANDREAS MAREE: Chair one comment on that, the other considerations as I have mentioned you know it is a very academic exercise, they spoke about snow control, and in my view snow control in Vrede is definitely not one of the biggest considerations when doing a site selection. Yes, we may we have from time to time snow there but it is definitely not going to be a problem in that specific case.

So there is – it seems to me that there was a copy and paste from other documents, perhaps from Europe where snow might be a problem, but definitely not in South Africa.

20 **ADV REFILOE MOLEFE:** And do you have any other comment in respect of the other considerations as provided for in the feasibility study?

MR DAVID ANDREAS MAREE: Not on that specific chapter in terms of the site selection or the – ja the site selection I don't have more comments on that Chair.

ADV REFILOE MOLEFE: Yes, the next aspect you deal with is the types of buildings and that is set out at page 63 of the feasibility study where several types of buildings are provided from that page all the way to page 65. Can you tell the Chair of your view in respect of the types of buildings as identified?

MR DAVID ANDREAS MAREE: Chair ja looking at the feasibility study it seems as if all the buildings that needs to be there has been noted, you know at least it was noted. In terms of the sizes that needs to be covered and so forth I would recommend, my recommendation was that
10 you get the experience or the input of an agricultural engineer who has more knowledge about the size and the type of buildings, but from a glance all that needs to be there is included in the feasibility study.

ADV REFILOE MOLEFE: Yes, the next aspect you deal with is – appears from page 66 of that feasibility study and it deals with the purchase procedure of cows, and you state again that this an academic exercise, is that correct?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: And why do you say that?

MR DAVID ANDREAS MAREE: Why I am saying that is you know when
20 you do a feasibility study you would rather look at the type of cows, the costing, where it should be sourced and so forth, and not how it has been done. In the feasibility study there was no indication of when it will be bought, what type of cows would be sourced, and they have noted, one of their comments was they will buy stud breeding, well they actually noted pedigreed, all animals should be pedigreed. My

comment on that was it is not necessarily the case in a commercial herd, except if you do stud breeding for commercial farmers, then you can pedigree the animals. Otherwise it is a waste of money and time to do – to pedigree a whole commercial herd.

ADV REFILOE MOLEFE: And are you able to briefly inform or advise the Chair on what would be the procedure for purchasing cows?

MR DAVID ANDREAS MAREE: Chair you would probably, you will source cows preferably from the same region where you intend to milk them, because if you buy animals from other parts of the country, let's
10 say for example you buy cows in milk from the pasture base systems in the Eastern Cape and you transport them to the Highveld area there is definitely going to be stress on that cow, production will fall immediately and there will definitely be a time for her to adapt to the new conditions.

In the worse case those cows never adapt to the new conditions, because of you know the intestines that could not adapt or so on, depending on the age of the cow obviously, so you will preferably source from within your own region or conditions similar to your own region. That would be your first point of call.

20 Secondly you will look at cows that's affordable but is still commercially viable in terms of milking, milk production and so on, so I think that is the two major important points for sourcing cows.

ADV REFILOE MOLEFE: And based on the feasibility study and what is provided as they state the procedure for purchasing cows is there anything that is of use in that respect?

MR DAVID ANDREAS MAREE: Chair nothing at this stage that's usable in terms of that.

ADV REFILOE MOLEFE: Then the next chapter you deal with is the milking parlour and that appears at page 69 of the feasibility study.

MR DAVID ANDREAS MAREE: That's correct.

ADV REFILOE MOLEFE: And you state ...[intervenes]

CHAIRPERSON: 69 I think?

MR DAVID ANDREAS MAREE: 69 ja.

ADV REFILOE MOLEFE: 69, thank you I am indebted. You then start
10 your discussion at page 20 of your report, starting with – start your analysis please by explaining the different types of milking parlours as set out in the feasibility study.

MR DAVID ANDREAS MAREE: So Chair it is a very short chapter, it is only those couple of paragraphs on page 69, so you have a static parlour which is a parlour where cows come into the parlour, they are standing still, you can either have a fishbone system, where they stand like a fishbone to each other, in relation to each other. You have a milking pit in the middle where the labourers will connect the teats to the cow.

20 Your second option would be a rotary parlour, where it is a big round table, the cows move onto the rotary system, the labourers attach the teats, and it turns around and as soon as the cow is finished milking it would get off automatically, and then you've got robotic parlours which is actually a robot that is standing in the field and the cows come to the robot to get milked, they walk in and the teats are

automatically attached to the cow.

The last one I do not think there is any example in South Africa of a robotic parlour, it is used in Europe in instances. So there is layout of the three different systems that is being envisaged but there is no comparison given between the benefits and the costs or anything between the three systems.

ADV REFILOE MOLEFE: And on the studies, still on page 69, where those three systems are set out, are you able to tell which of the three systems are preferred in the feasibility study? Just on that chapter that
10 deals with the three types of milking parlours as provided?

MR DAVID ANDREAS MAREE: Chair I think the preferred system would be the rotary parlour, given the size of the envisaged dairy project.

ADV REFILOE MOLEFE: But do you say that in your view or do you say that just in consideration of what the feasibility study provides for?

MR DAVID ANDREAS MAREE: No that is my view Chair, there is nothing in the – well sorry Chair, the last sentence, the details of the rotary parlour are attached, so it is assumed that they would go for the rotary parlour although those details was not available in the document.

20 **ADV REFILOE MOLEFE:** Yes.

MR DAVID ANDREAS MAREE: Apologies.

ADV REFILOE MOLEFE: And can you just clarify again which of the three do you say is preferable for a dairy farm?

MR DAVID ANDREAS MAREE: The rotary parlour.

ADV REFILOE MOLEFE: Is there anything else of use insofar as the

systems provided for in the milking parlour?

MR DAVID ANDREAS MAREE: No Chair.

ADV REFILOE MOLEFE: Then in Chapter 6 as appears on page 70 of the Feasibility Study the next topic that is addressed is the dairy equipment and you deal with that very briefly in your report. Can you take the Chair through these equipment and in doing so please confirm whether these are the types of equipment that could be of use in a dairy farm?

MR DAVID ANDREAS MAREE: Chair yes there is a short list of only
10 eleven dairy equipment. So it is milk cans. It is a mixer wagon, cubicles, mattresses, ally mats, cow housing fans that is [indistinct] cow brushes, a somatic cell counter, an auto food bath, calf feeders and calf pen mats. So all of those are applicable in a dairy although you know I think there is a longer list that should be added to that as well. Some of those in terms of the mattresses for examples I think it is a not a necessity it is actually a luxury in a milking environment of this project size.

ADV REFILOE MOLEFE: And the number 500 appears next to mattresses. Would that be the number of mattresses required?

20 **MR DAVID ANDREAS MAREE:** Chair I assume that would be the number of mattresses although it is not clear from those listings that it would be that but I assume that ja.

ADV REFILOE MOLEFE: And from the listing were you able to establish what the estimated costs would be?

MR DAVID ANDREAS MAREE: Chair not at all. There was no prices

given. There is no comparable quotes supplied which would have been – one would have expected in a feasibility study to see those costs and comparable quotes to compare to each other. But in this case in this scenario it was not the case.

CHAIRPERSON: So the reference to 500 mattresses is based on 500 milk cow project, is that right?

MR DAVID ANDREAS MAREE: Chair that is the assumption yes.

CHAIRPERSON: Yes, yes.

MR DAVID ANDREAS MAREE: Ja.

- 10 **CHAIRPERSON**: So if in the end they were looking at 1000 it means they would have made provision for 500 on milk cows only in terms of mattresses and made no provision for the other 500?

MR DAVID ANDREAS MAREE: For the other 500 yes Chair.

CHAIRPERSON: Okay.

ADV REFILOE MOLEFE: Thank you Chair. The next items that you deal with relate to the reproduction unit which is set out in Chapter 7 of the Feasibility Study at page 70 as well as the establishment of a clinical unit which appears overleaf at page 71. Can you take the Chair through your findings starting with what these units entail?

- 20 **MR DAVID ANDREAS MAREE**: Chair ja so a production unit or a reproduction unit would be a unit where you do artificial insemination on the cows. You treat sick animals and so forth. And that is normally what we call hospital camps. And then the clinical unit would also take part of that or be part of that although it can be include other aspects of dairy as well. For example doing testing on milk and so forth. In my

view both the reproduction and the clinical unit – well first of all it can either be combined because they do the same or they have the same function but secondly given the costs involved in establishing those type of units I think it is unnecessary because you can source those services from the veterinarians and that is actually normal procedures for dairy farmers in South Africa to have veterinarians you know assisting them and giving – or providing these services to the dairies.

ADV REFILOE MOLEFE: Yes and in respect of both the reproduction unit and the establishment of a clinical unit which you say could be
 10 combined there are several units or rather equipment enlisted under each unit. Can you take the Chair through the equipment that are listed in each unit and give a comment on whether the equipment listed there could be provided in one unit which is – which would be made up of the reproduction unit and clinical unit as you have found?

MR DAVID ANDREAS MAREE: Chair yes so I am not a veterinarian so I do not have good knowledge of all of them but most of the equipment it is listed as a deep freeze, liquid nitrogen containers, freeze, ultrasound system, a digital thermometer, artificial insemination guns, a computer with a printer and so forth. Dystocia set, microscopes and
 20 other instruments. That is in the reproduction unit while in the clinical unit they also have a deep freeze, a freeze, ultrasound set, a HPLC, microscope, operation set, dystocia set, computer, blood analyser, hoof trimmer, glucose meter, pyrogen free water distillation plant and other miscellaneous equipment. So you will see there is a lot of duplication between the two so what is being used in one can also be used in the

other unit. For example the deep freeze, the computer and so on. So I think ja it is all applicable to these units but it is not necessarily or a necessity on this size of dairy farm.

ADV REFILOE MOLEFE: And given the costs that may become involved in the establishment and running of these units would you then say that veterinary services would be preferable over the in-housing of reproduction units and the establishment of a clinical unit?

MR DAVID ANDREAS MAREE: Chair ja. Chair given the costs involved or possible cost it would be preferable to use veterinarian
10 services to the dairy industry to provide these services.

ADV REFILOE MOLEFE: The next item that you then deal with is what you have entitled “Green fodder production” and that appears at page – pardon me – page 71 of the Feasibility Study and that is enlisted as Chapter 9.

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: Can you firstly explain what that chapter deals with insofar as the equipment enlisted and the seasons referred to?

MR DAVID ANDREAS MAREE: Chair ja the – so those – that chapter
20 and or deals with the fodder production. That means your feed production on farm and in this scenario they mentioned maize, soya beans in terms of grain but also maize silage and green maize. So the chapter goes on about all the equipment needed in green fodder production but no costings is provided in terms of that. They have also made mention of a summer and a rainy season as on page 71 and then

a winter season on page 72 which will then include your Lucerne, oats and Lucerne hay.

ADV REFILOE MOLEFE: Yes you then address yourself to the replacement plan that you seem to suggest would be applicable in this chapter. Can you please explain that to the Chair?

MR DAVID ANDREAS MAREE: Chair ja as I have said there was no costing and a lot of academic jargon. I think all of the equipment listed there is – it seems very comprehensive although the replacement of that how it is going to be replaced and at what stage the operating
10 costs and also actually the buy-in cost or the – ja buy-in cost does not appear in that chapter. So there is no details to make a good comparison from.

ADV REFILOE MOLEFE: You then address yourself to the agricultural chemical fertilizer and seed and there you seem to make criticism to what is contained in the Feasibility Study in that respect.

MR DAVID ANDREAS MAREE: Chair ja I have looked at the Feasibility Study and they have estimated the output of six tonnes per hectare for maize at a cost of R7 612,00 per hectare. So I have – that is an input cost. So I have compared that with the grain SA numbers for
20 production – for the 2012/2013 year. So the production cost for that part of the country for conventional maize was at that stage R9 880,22 per hectare with an output of 5.5 tonnes per hectare. So the project seems to be a bit under budgeted for maize production although at the same level of yield. But if we look at the soya bean production it is the – it is the opposite. They estimated R4 526,00 per hectare while the

costing at that stage was R3 896,00 per hectare. The output is comparable at 2 tonnes per hectare so it seems to be that there is a bit of over budgeting in terms of the production cost for soya beans. So I think if you compare the two it should be in line.

ADV REFILOE MOLEFE: Yes then if we turn to page 98 of the paginated bundle. There appears a topic entitled “Chapter 10 Fodder Preservation / Fodder Bank”. I note in your report that you have not dealt with this aspect but I see from the Feasibility Study that it is stated there that preservation can be done by two methods. The first is
10 hay and the second is silage. Are you able to comment on those two preservation methods insofar as their correctness and secondly what would be most appropriate for a dairy farm?

MR DAVID ANDREAS MAREE: Chair ja in terms of the most appropriateness both of them because:

1. The hay would be a fodder requirement in terms of roughage for the cow while silage is an energy component of feed. So both of them will be applicable. I have not specifically made any comments on that because the Feasibility Study is – is very academic so it does not – it does not fit for me into a proper
20 Feasibility Study.

ADV REFILOE MOLEFE: Yes then the third last chapter is on pasture development which appears on page 102 of the Feasibility Study which you have dealt with. What were your findings insofar as the pasture development?

MR DAVID ANDREAS MAREE: Chair ja pasture development it is

actually strange to have pasture development on the Highveld because they feed from a total mixed ration first of all. Secondly again very academic but I think what was and my comment on that – on that one is there was again a discrepancy in the numbers because they spoke about possible pasture forage systems for 250 cows in milk dairy module. So no – one can wonder is they only going to use that for 250 and the other 250 cows of 750 would be TMR but it is definitely not clear and a discrepancy in terms of the numbers.

ADV REFILOE MOLEFE: Yes and...

- 10 **CHAIRPERSON:** Well can I take you back to that paragraph on hay at page 98. Hay is one form of conserved feed that can be fed to farm animals when other forms of forage are in short supply. Hay is made from pastures during the summer months. Certain grass crops are grown specifically for hay conservation purposes whereas grazed pastures could be mown for hay should there be surplus growth. Hay can also be made from cow peas and soya beans. Is that a good example of what you talking about when you say this document is very academic? Because if you doing a Feasibility Study for somebody who wants to run this kind of project do you have to assume that they know
- 20 what hay is, must you tell them what hay is?

MR DAVID ANDREAS MAREE: Chair I do not think it is necessary to tell them what hay is. If they do not know what hay is they should not be in business?

CHAIRPERSON: They should not be- yes.

MR DAVID ANDREAS MAREE: Ja.

CHAIRPERSON: It is like taking from some text book.

MR DAVID ANDREAS MAREE: It is like taking from a text book.

CHAIRPERSON: Some text book.

MR DAVID ANDREAS MAREE: Ja.

CHAIRPERSON: Because all that the person would be looking at will it be feasible to run this kind of business in this area? Where would I you know – what cost would be involved? What logistics would be required? Will I have everything that I need to have to run a successful business?

- 10 **MR DAVID ANDREAS MAREE**: I agree with you Chair. I would have expected to see that there is a line item for hay and telling me hay production will be this.

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: Amount of money.

CHAIRPERSON: Yes, yes.

MR DAVID ANDREAS MAREE: It will feed you this number of cows.

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: And so on ja.

CHAIRPERSON: Yes.

- 20 **MR DAVID ANDREAS MAREE**: But...

CHAIRPERSON: Something that would tell you in this – on this farm these are your chances of having adequate hay or if you do not have hay from this farm this is where you can find it. This is what it will cost you if you are going to rely on hay?

MR DAVID ANDREAS MAREE: Definitely Chair.

CHAIRPERSON: Ja. Okay.

ADV REFILOE MOLEFE: And you earlier said that in respect of the entire chapter you found it to be quite academic. I would understand that also applied to silage as is set out from page 100?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: Thank you. You were still telling the Chair of your findings in respect of the pasture development as appears from page 102 of the Feasibility Study.

MR DAVID ANDREAS MAREE: Chair ja that was my comment on that
10 was they spoke about 250 cows which again is quite different from the 500 versus the 1000 cows in milk. So it seems as we said it seems as if this is a copy and paste from somewhere.

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: Text book into this document.

CHAIRPERSON: And quite a bad job at that.

MR DAVID ANDREAS MAREE: That is also true Chair.

ADV REFILOE MOLEFE: Thank you Mr Maree the last chapter that is dealt with in the Feasibility Study appears at page 108.

MR DAVID ANDREAS MAREE: That is correct Chair.

20 **ADV REFILOE MOLEFE:** And it relates to animal nutrition, that is Chapter 12.

MR DAVID ANDREAS MAREE: Yes.

ADV REFILOE MOLEFE: And you deal with that in page 20 of your report.

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: And you do so by starting with feeding formulas as provided in this chapter. Can you please take the Chair through that?

MR DAVID ANDREAS MAREE: Chair yes there is a couple of feeding formulas that has been included in this chapter. My comment on that was you need to have an animal nutritionist to evaluate these formulas and to comment on the cost of the formula versus the production potential. Because dairy feeding is quite a specialist type of feeding or feeding system. So as an agricultural economist it is difficult for me to
10 make a proper comments on the formulas as such.

ADV REFILOE MOLEFE: And are you able to comment on how frequent an animal nutritionist would have to be at a dairy farm?

MR DAVID ANDREAS MAREE: Chair preferable at least once a month to check if everything is fine. Production are in – no – at the preferred level and then if something changes as soon as possible thereafter.

ADV REFILOE MOLEFE: Yes. Then the next aspect you deal with was the water requirement of the cattle and what was your view in that respect?

MR DAVID ANDREAS MAREE: Chair yes I have – would like to refer
20 you to Table 100 and – 112 – ah sorry page 112. There is a table regarding the water requirements. I do not know if I can speak to that table.

ADV REFILOE MOLEFE: Yes please go ahead.

MR DAVID ANDREAS MAREE: They speak about or they give the different number of cows. The drinking requirements and the number of

animals in the second year. And then the total required litres. So if I did the calculations and that is drinking water requirements litres per day for example line 1 3 to 6 month old cows 10 litres per day. There is 120 animals so it is 1 200 litres per day. They give a total number of 88 200 that is only per day. If you multiply that by 365 you get a number of 32.2 million litres which is quite a substantial difference from the 88. So if you make your assumptions and your calculations on only 88 000 litres you would definitely run into trouble in terms of dairy production in just from the water side.

10 **ADV REFILOE MOLEFE**: And you have said that much in your report?

MR DAVID ANDREAS MAREE: That is correct Chair ja.

CHAIRPERSON: So does that mean that they where they are supposed to have had about 32 million litres they have got 88 000?

MR DAVID ANDREAS MAREE: Ja – yes Chair they have noted 88 200 litres total required.

CHAIRPERSON: Ja.

MR DAVID ANDREAS MAREE: But that is actually...

CHAIRPERSON: When in fact...

MR DAVID ANDREAS MAREE: That is for one day.

20 **CHAIRPERSON**: Yes.

MR DAVID ANDREAS MAREE: Is it actually in fact – in fact it should be 32.2 million litres.

CHAIRPERSON: So they got that wrong?

MR DAVID ANDREAS MAREE: Yes Chair.

CHAIRPERSON: So the...

MR DAVID ANDREAS MAREE: And that is a – that is a...

CHAIRPERSON: The actual – on the calculation the total required of litres was 32 million but they said 88 000?

MR DAVID ANDREAS MAREE: Should – 88. Yes Chair and that is a substantial error.

CHAIRPERSON: Hm.

ADV REFILOE MOLEFE: If we consider that table on page 112 is there any way that it could be understood to be a sum total for the litres of water required per day?

- 10 **MR DAVID ANDREAS MAREE:** If you only look at the first column Chair it says litres per day but if you say total requirement litres you would assume it as – to be the total number. So either the table is very unclear or there is a mistake in drawing it up. I would have liked to see another column there perhaps included as your total requirement per annum which would be your 32 million litres.

ADV REFILOE MOLEFE: Yes and perhaps it might be more useful.

MR DAVID ANDREAS MAREE: It definitely ja.

ADV REFILOE MOLEFE: To have a number for the amount of litres required per annum.

- 20 **MR DAVID ANDREAS MAREE:** It would definitely be more useful since all your – all the other calculations is per annum and not per day.

ADV REFILOE MOLEFE: Then at the bottom of that page; page 112 there appears an item enlisted as Workshop Equipment which you have not dealt with in your report and there is a list of tools and equipment that are required for a workshop, is that correct?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: Are you able to comment on the appropriateness of the equipment enlisted there?

MR DAVID ANDREAS MAREE: Chair no I think it is very appropriate that – or maybe appropriate equipment especially in terms of if you take into account they want to produce maize and soya beans and so on. So ja no those equipment is clear or is necessary although I would like to see – would have liked to see prices and costs – costing to that.

ADV REFILOE MOLEFE: Yes then the next topic that the Feasibility
10 deals with is the economic impact for the local community and province and that appears from page 113 of the study.

CHAIRPERSON: Ms Molefe we are at about what five minutes, six minutes past four and I know that you had estimated two hours. I am not saying that you said that was the exact amount of time required that was an estimate but what is your estimate of how much more time do you need?

ADV REFILOE MOLEFE: We are almost at the end of Mr Maree's evidence. I think about thirty minutes at most should suffice to complete his evidence.

20 **ADV MUZI SIKHAKHANE:** Hm. Okay. So ...

ADV REFILOE MOLEFE: If the Chair permits.

CHAIRPERSON: So it will end up being two hours forty-five minutes?

ADV REFILOE MOLEFE: Well I honestly have not been keeping track Chair but I do accept that.

CHAIRPERSON: No, no, no it is fine let us continue. Is it still fine

with you Mr Maree if we continue for the next thirty minutes to try and finish?

MR DAVID ANDREAS MAREE: Yes Chair fine with me.

CHAIRPERSON: Yes okay thank you.

ADV REFILOE MOLEFE: I am highly indebted Chair.

CHAIRPERSON: Let us proceed okay.

ADV REFILOE MOLEFE: Thank you. Mr Maree can you please turn to page 113 and as stated there they deal with the economic impact for the local community and the province and the impact or the number of
10 cows considered under that impact is 500, is that correct?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: And what was your view insofar as what is said to be the economic impact as set out on that page?

MR DAVID ANDREAS MAREE: Chair I have noted my comments on page 21 of my report and in the first paragraph they said that local producers of equipment and other services will be benefitting from the project. As I have mentioned earlier as well a lot of equipment is being imported especially if it is high precision operations or equipment that is being required. So my comment on that is that the local economy
20 would not benefit or get a benefit of all the procurement of equipment as noted.

ADV REFILOE MOLEFE: Yes. You then also deal with the figures that are quoted and you also deal with the initial assumptions in that respect?

MR DAVID ANDREAS MAREE: That is correct Chair. They have

quoted a number of figures. First of all on page 113 the first bullet point they have said that the dairy will generate at least 320 million in gross revenue over the next six years. That is from the assumption that they produce 45 litres per cow per day which in my earlier comments is not realistic. So all these numbers will then need to be adapted to more realistic figures if they make it on that initial assumptions.

CHAIRPERSON: Um but also would you not expect some more motivation of how that figure is arrived at or do they provide motivation
10 elsewhere?

MR DAVID ANDREAS MAREE: Chair they do provide a – a financial performance and the table on the very last page; page 120. So there is some figures although it is very difficult to read.

CHAIRPERSON: Oh yes.

MR DAVID ANDREAS MAREE: So there is some figures there.

CHAIRPERSON: That we can deal with later on.

MR DAVID ANDREAS MAREE: That is correct Chair.

CHAIRPERSON: Okay.

ADV REFILOE MOLEFE: Thank you Chair. Mr Maree evidence has
20 been given that the machinery that was important was not brand new machinery on observation but was actually second hand machinery. Are you able to give a view on what the impact would be on the costing that is provided as appears on page 113?

MR DAVID ANDREAS MAREE: Chair I think if it is second hand machinery it will definitely cost substantially less than new machinery.

Difficult to say the exact numbers but there is no reason to pay the same price for second hand imported machinery than for brand new ones.

ADV REFILOE MOLEFE: Yes then you also deal with the outline of the costs and purchasing procedure which you address yourself to at page 21 of your report.

MR DAVID ANDREAS MAREE: Chair yes I have said a more comprehensive outline is required and definitely also the purchasing procedure to do a proper farm level cost analysis or an impact on that.

10 There is no indication of preferential local procurement. So it is inconclusive that the local economy will benefit a hundred percent from this type of project.

ADV REFILOE MOLEFE: Yes and you have also earlier mentioned that the intended milk production output is also problematic and that would also as I understand it have an effect on that aspect that deals with the local economies said to benefit or receive a hundred percent of the benefits.

MR DAVID ANDREAS MAREE: That is correct Chair, *ja*.

20 **ADV REFILOE MOLEFE:** Then the item that appears there is the financial implications of the project and the discussion is commenced firstly with the land itself which you have given your view on.

MR DAVID ANDREAS MAREE: Chair yes. As - as mentioned in my comments it seems from the documents that the land has already been acquired for - for the - for this project but no mention is made - made of existing operations on that specific land. If any operations currently

exist on those - on that land it is definitely necessary to know what that entails because that will have an impact on your business plan and your feasibility study.

ADV REFILOE MOLEFE: And you also deal with the cows that are said to be donated or intended to be donated to the community as well as the milk that would be produced from these cows. What was your finding in that respect?

MR DAVID ANDREAS MAREE: Chair *ja*. The comment or the paragraph is page - on page 114. My comment on that was that you
10 know 500 cows are intended to be donated to the community with the milk then - the milk produced from that will then be buy - bought back by the - the specific project - by Estina in the form of a share milking agreement but there is no mention of any contracts that has been put in place with regards to share milking and what the terms of those agreements will be because that will have a significant effect on your - on your feasibility study as well.

CHAIRPERSON: Just so that we can get this out of the way. The notes made on the study by hand is that your handwriting?

MR DAVID ANDREAS MAREE: Chair that is correct. That is my
20 handwriting yes.

CHAIRPERSON: Oh okay, alright; and the reference in that paragraph at 1-1-4 the last paragraph under industry analysis. The reference to 1 500 hectares there is that consistent? Was the - was the farm not to be about three - 3 000 ...

MR DAVID ANDREAS MAREE: Chair ...

CHAIRPERSON: Or was it acres as opposed to hectares, 3 000-something?

MR DAVID ANDREAS MAREE: Chair if my memory ...

CHAIRPERSON: I thought I saw that.

MR DAVID ANDREAS MAREE: If my memory does not leave me I think the initial number was 4 500 hectares ...

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: And then this - I think the 1 000 - I think in my previous comments ...

10 **CHAIRPERSON:** Hm.

MR DAVID ANDREAS MAREE: There is definitely - there is - there is mention made of the arable land, the pastures and ...

CHAIRPERSON: Hm.

MR DAVID ANDREAS MAREE: And veld and so on.

CHAIRPERSON: Hm, hm.

MR DAVID ANDREAS MAREE: But if I am correct the total size of the - the farm is 4 500 hectares.

CHAIRPERSON: Yes.

ADV REFILOE MOLEFE: If I may assist Chair.

20 **CHAIRPERSON:** Yes. Huh-uh.

ADV REFILOE MOLEFE: The total is 4 400.

MR DAVID ANDREAS MAREE: Okay.

CHAIRPERSON: Sorry.

ADV REFILOE MOLEFE: 4 400.

CHAIRPERSON: That was the ...

ADV REFILOE MOLEFE: The total hectares.

CHAIRPERSON: The size of the farm?

ADV REFILOE MOLEFE: Yes Chair.

CHAIRPERSON: Yes and - so this 1 500 is that anything similar to the 500 milk cows and 1 000 milk cows? Is that the same kind of inconsistency?

MR DAVID ANDREAS MAREE: Chair I will check for you. If I remember correctly it is - it is consistent with the arable land. The 1 500 hectares.

10 **CHAIRPERSON:** But that is paragraph - is that paragraph referring to arable land?

MR DAVID ANDREAS MAREE: Hm.

CHAIRPERSON: Oh. It talks about sufficient grains.

MR DAVID ANDREAS MAREE: That is correct Chair.

CHAIRPERSON: Oh, okay. So it would be - it would be consistent if one talks about farming being in relation to arable land.

MR DAVID ANDREAS MAREE: That is, *ja*.

CHAIRPERSON: Okay.

MR DAVID ANDREAS MAREE: That is correct Chair.

20 **CHAIRPERSON:** Thank you.

ADV REFILOE MOLEFE: Mr Maree can I refer you please to page 34 of the bundle and that - that document or that page relates to that project proposal.

MR DAVID ANDREAS MAREE: That is correct.

ADV REFILOE MOLEFE: If you refer to the bottom of that page there

appears a table which you have given evidence on and you have addressed yourself to the employment opportunities as outlined in this table which was said to be in the sum of 600.

MR DAVID ANDREAS MAREE: That is correct.

ADV REFILOE MOLEFE: You have previously told the Chair that in your view 50 would have sufficed. At the very top of that table the first item that appears that is total area available for project operations and that amount given is in hectares. Is that correct?

MR DAVID ANDREAS MAREE: That is correct yes.

10 **ADV REFILOE MOLEFE:** And the amount is 4 450.

MR DAVID ANDREAS MAREE: And 50. That is correct.

ADV REFILOE MOLEFE: The next line item is natural veld grazing and the hectares provided is 3 100.

MR DAVID ANDREAS MAREE: Correct.

ADV REFILOE MOLEFE: Following that is arable area which is 1 350

...

MR DAVID ANDREAS MAREE: Correct.

ADV REFILOE MOLEFE: And the next item is irrigable area which is 1 000 hectares.

20 **MR DAVID ANDREAS MAREE:** *Ja*. That is correct.

ADV REFILOE MOLEFE: Are you able to assist with the total area that is said to be available for project operations if you consider the sum of the four - the three rather line items that follow being in the amount of 3 100, 1 350 and 1 000. On my basic calculation it amounts to more than 4 450.

MR DAVID ANDREAS MAREE: That is correct Chair. The - the total area available will - well is actually only the two lines. The natural veld and the arable land. If I - my calculation as well that 1 000 hectares should not be in there as irrigable land because then you get to a total amount of 5 450.

ADV REFILOE MOLEFE: Yes. Can we then return to the feasibility study ...?

CHAIRPERSON: Well before you return what about the fact that at page 34 the arable land is given as - is it 1 350 hectares? Is that
10 right?

MR DAVID ANDREAS MAREE: That is correct Chair.

CHAIRPERSON: But then on this document at page 1-1-4 you were saying that well 1 500 hectares on that paragraph would be consistent if that is a reference to arable land. Does the - does the information that is at 34 about arable land not then suggest that there is some inconsistency?

MR DAVID ANDREAS MAREE: Yes Chair. No definitely. Then that 1 500 should actually be 1 350.

CHAIRPERSON: Yes.

20 **MR DAVID ANDREAS MAREE:** *Ja.*

CHAIRPERSON: Hm, okay.

ADV REFILOE MOLEFE: Thank you Chair. Mr Maree if we then move to the next item in the feasibility study which relates to the business experience of partners/directors/key persons and I am on page 1-1-4 of the feasibility study. Several persons are listed from pages 1-1-4 to

1-1-5. Is that correct?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: And these persons are listed as key to this project. Is that correct?

MR DAVID ANDREAS MAREE: That is correct.

ADV REFILOE MOLEFE: From your reading at page 1-1-5 of the profiles of these persons and perhaps I will ask you to take the Chair through the profiles of the three persons that are enlisted on page 1-1-5. I am going to request you to comment on whether their profiles
10 relate to South African agriculture and if not what the impact would be.

MR DAVID ANDREAS MAREE: Chair from - from what I read from that page on page 1-1-5 I do not see any expertise on South African conditions. Rather Indian and - and other types of conditions.

ADV REFILOE MOLEFE: Perhaps if - sorry to interject Mr Maree.

MR DAVID ANDREAS MAREE: No go on.

ADV REFILOE MOLEFE: Can you just briefly take the Chair through those profiles starting with the first person who is Mr C P Jaddaf (?) as I have it and just briefly take the Chair through what his expertise is said to be and in what - in what country or continent followed by the
20 other two.

MR DAVID ANDREAS MAREE: Chair ja. Mr Jaddaf - C P Jaddaf is - is noted as the head of the project. He is an ex-Indian Administrative Service Officer. Service or served in several key administrative positions in the Government of India but it not limited to the agricultural production commissioner. Well it is including that but not limited to.

There was a CV enclosed - enclosed which I was not privy to.

The second person was Dr R J Sharma. He is a recognised technocrat in the field of agriculture and allied activities. An ex-Dean of the College - College of Veterinary - Veterinary and Animal Sciences at a specific university at Pantnagar - it seems to be. So I think that in terms of - of his expertise there is various research aspects of dairy and draft animals, poultry, rabbitry, piggery and so on.

So I think his expertise in terms of animals would be sufficient because a cow is more or less a cow everywhere. Although
10 the local conditions may differ. The second - the third person is a certain Mr P E Jaddaf. He is - he has got an MScAgric in Agronomy. Also from Pantnagar University of Agriculture and Technology. He is very young and energetic and I do not think well five years of experience in agronomy and horticulture.

CHAIRPERSON: But - well I - I do not see their CVs. Although there is - it said their CVs are attached but from what one sees here at page 1-1-5 one does not get the impression that these are people who have a lot of operational experience. It is like it is research people, academics. Is that the same impression you have as well?

20 **MR DAVID ANDREAS MAREE:** That is my impression as well Chair. There is administrative and - and ...

CHAIRPERSON: And administrative.

MR DAVID ANDREAS MAREE: And - and research capabilities.

CHAIRPERSON: Ja.

MR DAVID ANDREAS MAREE: And my comment ...

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: Handwritten comment there is:

“Where is the local expertise?”

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: Which is not mentioned in ...

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: In this.

CHAIRPERSON: Yes. There - there does not seem to be an indication of ...

10 **MR DAVID ANDREAS MAREE:** *Ja*.

CHAIRPERSON: Somebody really involved in operations ...

MR DAVID ANDREAS MAREE: Operations.

CHAIRPERSON: Of this type of business.

MR DAVID ANDREAS MAREE: *Ja*.

CHAIRPERSON: Okay.

ADV REFILOE MOLEFE: Thank you Chair. Mr Maree just for completeness sake. There is reference to CVs being enclosed. Have you ever had sight of CVs of any of these persons?

20 **MR DAVID ANDREAS MAREE:** Chair no I have not had sight of any of the CVs.

ADV REFILOE MOLEFE: Then can ...?

CHAIRPERSON: Did you by any chance ask the department whether they had the CVs? They were simply not attached to - to the feasibility study.

MR DAVID ANDREAS MAREE: Chair the documents I received from

ENS ...

CHAIRPERSON: Oh and not ...

MR DAVID ANDREAS MAREE: Was only these documents. So ...

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: I have not asked them even ...

CHAIRPERSON: Yes.

MR DAVID ANDREAS MAREE: For the CVs.

CHAIRPERSON: Okay. Thank you.

ADV REFILOE MOLEFE: Thank you. Then if turn to page 1-1-6 of the
10 feasibility study. You address yourself to the breakdown of the project
costing of the dairy unit and you do so at the bottom of page 21 of your
report and overleaf at page 22. Starting with the irrigation and
mechanisation can you tell the Chair of what your review and finding is
in that respect.

MR DAVID ANDREAS MAREE: Chair yes. There are two amounts
mentioned there for irrigation and mechanisation 45 million and for rain
fed mechanisation 32 million. It - it seems to be reasonable if on the
condition if you look at the irrigation part on condition that the water is
available.

20 The rain fed mechanisation is unreasonable in my view since
a large portion of that cost will be covered under the irrigation cost.
You use the same tractor when you do planting under irrigation that you
do on - on rain fed or dry land conditions. So it is actually double
counting for me in - in a sense.

ADV REFILOE MOLEFE: So in respect of the amount of 45 million

would - what would your opinion be on the appropriateness of that amount insofar as both the irrigation and mechanisation as well as the rain fed mechanisation?

MR DAVID ANDREAS MAREE: Chair now there are two amounts. It is definitely unreasonable high. I would rather go to or prefer to have the - only the rain fed mechanisation. 32 million would be more reasonable for this size of population.

ADV REFILOE MOLEFE: When you say 32 million would be more than reasonable is it in respect of both those items?

10 **MR DAVID ANDREAS MAREE:** Both the items Chair.

ADV REFILOE MOLEFE: Yes.

MR DAVID ANDREAS MAREE: It if for grain production in general.

ADV REFILOE MOLEFE: Then the next line item that appears there is dairy cattle and it is specific to cows and milk.

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: And it is specified as 25 000 per cow and you have already told the Chair that on your estimate 15 000 per cow would suffice.

MR DAVID ANDREAS MAREE: That is correct Chair.

20 **ADV REFILOE MOLEFE:** The next item that follows is also dairy cat - cattle - (pardon me) - and it says there:

“Rest of herd”

And it also says there:

“That it would be 25 000 per cow.”

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: And your finding is that this is unreasonable which you stated earlier to the Chair and again you made reference to an amount of 13 000 per heifer being appropriate.

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: The item that then follows is bulk cooling tanks which are provided at an approximate amount of 25 500 000. What was your comment in that respect?

MR DAVID ANDREAS MAREE: Chair I have made three comments on that. First - firstly if you take into account and let us say you work
10 from a 45 litre per cow per day estimate. Then the - the dairy with 500 cows will produce 22 500 litres per day. A more reasonable assumption would be at 35 litres per day which result in the dairy producing 17 500 litres per day.

So if you take that production into account that would require a bulk tank - a bulk tank of more or less double the dairy - the daily production. So let us say 30 000 litres if you take the 500 cows times 35 litres per day. So if the project buy two 30 000 litre tanks because they want to expand to 1 000 litres - 1 000 cows milk.

It would cost them roughly 2.5 million in total. So a budgeted
20 amount or 25.5 million is unreasonably high. It is 10 times the actual requirement.

ADV REFILOE MOLEFE: Yes. Then the next item that you deal with is the dairy products manufacturing plant and pasteuriser and that has been estimated at 14 million and 60 million respectively. You have earlier dealt with this aspect. Can you just summarise what your

finding was in that respect?

MR DAVID ANDREAS MAREE: Chair *ja*. Just to confirm I would include those two lines in the dairy manufacturing plant or the dairy manufacturing cost and not on the dairy farm costing.

ADV REFILOE MOLEFE: Yes. The next item is the animal feed plant and grain and oil seed mill which is said to be R29 million in total. What was your finding on the reasonableness of that amount?

MR DAVID ANDREAS MAREE: Chair I also found that to be unreasonable since the feasibility study does not make it clear which
10 production system will be used. It is difficult - it is difficult then to give an opinion you know if it is applicable or not but I think in this scenario it is definitely not applicable after taking everything to - into account.

ADV REFILOE MOLEFE: Yes. You then deal with the breakdown of the project costing for the dairy processing plant as appears on page 60 which is at paginated page 1-1-7 and the first item is the UHT long life milk plant which you earlier spoke to estimated at R149 million and you had earlier said that this amount is unreasonable. Is that correct?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: And what in your opinion would be a
20 reasonable amount?

MR DAVID ANDREAS MAREE: Chair a - a plant - a UHT plant that can process 120 000 litres per day. At that stage 20 - 2013 it would have cost you more or less R65 million excluding the building. The 149 million is therefore very, very high.

CHAIRPERSON: It is more than double. Is it?

MR DAVID ANDREAS MAREE: That is correct Chair.

CHAIRPERSON: Hm.

ADV REFILOE MOLEFE: Yes. Then the next item is the dairy products manufacturing that you have also dealt with and that is estimated at R46 million and you again make reference to provision for equipment having already been made. Is that correct?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: So what would be the effect in your analysis?

MR DAVID ANDREAS MAREE: Chair I think it is definitely double
10 budgeting. So it is in both sides and therefore the cost is inflated a lot.

ADV REFILOE MOLEFE: Yes. Then the last line item there is working capital which is estimated at R5 million. On your previous appearance at the Commission you stated that the number of 50 employees would suffice for the dairy project. Is that correct?

MR DAVID ANDREAS MAREE: Chair *ja*. The 50 employees would only be for a dairy farm.

ADV REFILOE MOLEFE: Yes.

MR DAVID ANDREAS MAREE: This is not the - the working capital for the processing plant, yes.

20 **ADV REFILOE MOLEFE:** Yes and what is your finding in that respect?

MR DAVID ANDREAS MAREE: Chair I think that 5 million working capital on a dairy processing plant is actually on the low side in terms of you know all the running cost at the process plant.

ADV REFILOE MOLEFE: And what ...?

CHAIRPERSON: What would you consider to be a realistic amount?

MR DAVID ANDREAS MAREE: Chair I think a more realistic amount would be more in the region of 15 million running cost ...

CHAIRPERSON: Okay, hm.

MR DAVID ANDREAS MAREE: Or working capital.

CHAIRPERSON: Hm, okay.

ADV REFILOE MOLEFE: Then the second last line item that you deal with is the financial performance as provided for in the feasibility study and you deal with that at page 22 of your statement and you had earlier stated as with reference to the feasibility study that there would be a
10 loss of about 8.4 million in the first year.

For the years 2012 and 2013 and another loss for about 1.84 million for the years 2013 and 2014. Do I have that correctly?

MR DAVID ANDREAS MAREE: That is correct Chair.

ADV REFILOE MOLEFE: What was your finding insofar as the financial performance as set out in the feasibility study?

MR DAVID ANDREAS MAREE: Chair *ja*. If you look at the financial performance and I had to rely on - on the documents that were given to me. So that is the profit and loss statement on page 120 paginated. So if you look at that you know there is - there is not enough detail to
20 do - to draw sensible conclusions from - for either the dairy - the dairy farm or the processing plant.

I think first of all the major flaw in all the documents and all the calculations is the 45 litres per cow per day which is not - not reasonable.

CHAIRPERSON: Well what about the fact that the whole study is

based on uncertainty whether you are dealing with 500 milk cows or 1 000 milk cows. Is that not also a major flaw to - to the study - to the feasibility study because if you are given this feasibility study how do you assess whether it is feasible whether you do not know whether it is based on a project or business that will have 1 000 milk cows or 500 milk cows.

So whatever they say can you really make any realistic decisions ...

MR DAVID ANDREAS MAREE: No.

10 **CHAIRPERSON:** Not knowing that?

MR DAVID ANDREAS MAREE: No sir. Not in - no Chair. Not in these documents.

CHAIRPERSON: *Ja.*

MR DAVID ANDREAS MAREE: I think that is one of the - well - one of the many flaws in - in the documents ...

CHAIRPERSON: *Ja.*

MR DAVID ANDREAS MAREE: Is that discrepancy between the - the numbers and the - and the initial assumptions.

CHAIRPERSON: *Ja.* I mean it just seems to me to be such a - a major
20 flaw. I mean if - if you - if you - if somebody said I am thinking of introducing a taxi business to take people from Johannesburg to Pretoria. Do a study and then you say - well you do a study which makes it unclear whether you are talking about 100 taxis or 200 taxis. I mean it - it seems to me you cannot even begin to do anything until you get that right because ...

MR DAVID ANDREAS MAREE: No that is ...

CHAIRPERSON: You cannot - you cannot bring 200 taxis when what is viable is only to bring 10 taxis otherwise it is a huge loss.

MR DAVID ANDREAS MAREE: No. You are 100 percent correct Chair.

CHAIRPERSON: *Ja*, okay.

ADV REFILOE MOLEFE: Thank you. Then in - well before I reach the conclusion. Chair we have in the Reference Bundle B inserted a better copy of the table that appears at page 120 of the feasibility report and this we have at page 545 of File Reference B.

10 **CHAIRPERSON:** Just arrange to replace later on.

ADV REFILOE MOLEFE: Will do so Chair.

CHAIRPERSON: This copy with a better one.

ADV REFILOE MOLEFE: Will do Chair.

CHAIRPERSON: *Ja*.

ADV REFILOE MOLEFE: There is a better copy in the reference bundle. We will replace also the exhibits ...

CHAIRPERSON: Yes, but what I say is ...

ADV REFILOE MOLEFE: We are currently dealing with.

CHAIRPERSON: This one also.

20 **ADV REFILOE MOLEFE:** Indeed Chair.

CHAIRPERSON: This bundle must also have a better car.

ADV REFILOE MOLEFE: We will do so Chair.

CHAIRPERSON: *Ja*.

ADV REFILOE MOLEFE: Thank you. Mr Maree if we then turn to page 1-1-9 then the conclusion of the feasibility study. It is stated there that

and I quote:

“The following additional factors make a sound business case for the project to succeed.”

Do you see that?

MR DAVID ANDREAS MAREE: I see that Chair.

ADV REFILOE MOLEFE: And just for the record this feasibility study is dated if you look at the top October 2012.

MR DAVID ANDREAS MAREE: That is correct.

ADV REFILOE MOLEFE: And you might have heard evidence that
10 payment to Estina was made prior to October 2012. At least the first payment. Now in the conclusion they state there that:

“There is a large scope for a dairy project in South Africa as presently the market is controlled by a few companies which are making up normal profits.”

In line with the heading or the opening sentence which say that these additional factors make a sound business case for the project to succeed. Are you able to align that with what is stated there as the first factor?

MR DAVID ANDREAS MAREE: Chair I think definitely not. Yes there is
20 - the dairy industry is controlled by a few companies and I would not say it is being controlled but there is a few marketing companies. They are definitely not - at that stage they were not making up normal profits.

In actual fact there is quite a number of losses as well and actually there was more companies coming into the market in terms of

what we call producer/distributors. So people distributing their - their own milk. So I cannot relate to that - that first bullet point.

ADV REFILOE MOLEFE: Then with the second one be it says:

10 “In South Africa the land is easily available and
 agriculture and farming is highly developed and
 modernised. Cattle farming is more evolved in
 meat production rather than dairy because the
 present dairy owners having the monopoly are
 exploiting the farms and giving them the reasonable
 price for the milk. So in case of any eventuality the
 milk can be procured from the local farmers at
 reasonable prices.”

 And you have dealt with this insofar as the local component
and whether there would be favourable purchases in this respect.

MR DAVID ANDREAS MAREE: Chair yes. I think there is a couple of
problems or flaws in that comment as well. Land is not necessarily
easily available. Yes farming is highly developed and modernised but
in case of there is no milk available it will definitely not be easily
sourced from the local producers in the Vrede area because as
20 previously stated there is a huge decline in producers in the Free
 State.

ADV REFILOE MOLEFE: Yes. Then thirdly it speaks about land having
already been acquired for implementing the project as well as the
backward integration. Fourthly it says:

 “The company is managed by the professionals and

experienced people with long experience in this line of activity.”

And you have already dealt with both items. Then lastly it says:

“Funding for the project has already been committed to both by the department as well as the promoters.”

Now just given the nature of what a feasibility study is - is supposed to achieve what would you say to that last line item where they say that funding for the project has already been committed to?

10 **MR DAVID ANDREAS MAREE:** Chair it's actually very strange to see that in the feasibility study because you would rather do that before funds being committed so that it definitely doesn't fit in the feasibility study.

ADV REFILOE MOLEFE: Yes can we then turn to page 23 of your report, and there you deal with your conclusions and your recommendations and starting with 3.1 as appears on page 23 can you take the Chair through the concerns that you have identified in respect of the documents that you were provided for review?

MR DAVID ANDREAS MAREE: Chair, yes I think I've noted all the
20 specific concerns in the body of the report but then I've noted some other concerns and comments that arised from my review. Firstly all through the documents lacked the information that's been required to carry out a proper analysis for the project, specifically, for example the information on the detailed costing of equipment and so on. Secondly the feasibility, as I've said numerously, it's more – it was more an

academic study than it was a feasibility study, there's a lot of insignificant amount of – or there's a significant amount of jargon in there, in particular, however the following concerns were raised. The study, first of all does not indicate with respect to the buildings whether local and climatic conditions were taken into consideration. Secondly, the purchasing of the cows, the information on that is very academic and it doesn't make any mention of the following, what type of cows will be sources, where the cows will be sourced and when it will be bought. A further concern arising from that is the availability of cows because

10 at that stage, in 2013 when I reviewed the proposal or the documents, both cows in milk and pregnant heifers were actually very scarce. Furthermore, you know, established producers buy the cows that become available because they expand to achieve the economies of scale. As I've mentioned earlier as well, it's also not recommended to buy cows from everywhere across the country because it will have an impact on milk production.

Then my third comment, equipment and tractors seems to be double counted for, for example there's provision made for eight 84 kilowatt tractors although it's not mentioned in – it's only mentioned

20 once in the documents, but the prices of the specific individual equipment was not mentioned in any of the documents. In terms of irrigation water, because they've made mention of irrigation, there's a lot of academic jargon but there's, for me, a major concern regarding the availability of water and then also the licensing of the water rights because we know that's a huge problem. Fifthly in terms of silage,

using a contractor would make more sense, it's been actually recommended since the production costs and the capital outlay to do – to produce silage is much lower when you make use of a contractor, experience contractor and that's also the norm in the dairy industry. Number six, in terms of animal nutrition, the feeding requirements for the different categories of animals differ and hence my recommendation or comment that the services of an animal nutritionist should be sourced to compile a proper feeding requirement and then number seven, one crucial point which is also not noted in the feasibility study,

10 is possible contingency plans with regards to electricity cost and supply. Now electricity cost and supply, proper supply is very crucial in a dairy because cows need to be milked more or less at the same time everyday in certain cases either twice or three times a day, milk needs to be cooled down fairly quickly and it should be kept cooled, so electricity supply is crucial but nowhere in the documents it was made mention of contingency plan in terms of electricity. At that stage we know that blackout or load shedding was very pertinent so that was a concern for me.

In terms of the processing plant, point three, the following

20 additional comments should also be noted. If the processing plants would rely solely on their own production of this project, it would not be worth the capital outlay as projected in the costing, even if the production is assumed as in the project to be 22 500 litres per day, in normal batch pasteuriser can be installed for approximate cost of R450 000 which is substantially less than the R60million that's

envisaged. The same applies for the other dairy equipment, the costing is far too high for that as well. In terms of the UHT plant that's been budgeted for in the project proposal, this plant would not be viable for production if the dairy project alone depends on it's own production. Research at that stage indicated that a plant that's been able to process 120 000 litres per day is, the cost is roughly R65million, if you add another R30million for building and stores of your UHT milk production you come to a total of R95million which is substantially bigger – or substantially lower than the R149million as they budgeted

10 for and lastly, given the current trends and realities in the South African dairy sector it would be more appropriate – investment in a dairy industry would be more appropriate in the coastal area where conditions for production is more favourable. Investment of this magnitude in the Free State is actually considered too risky and not sustainable.

ADV REFILOE MOLEFE: Yes and in line with the concerns that you have highlighted to the Chair now, you then set out or provided several recommendations in your report and that, as I have it appears from page 24 to 25 of your report. Can you please take the Chair through

20 the recommendations that you made?

MR DAVID ANDREAS MAREE: Chair ja, in terms of those recommendations my first recommendation would be to do a detailed cost analysis of this project which would require more detailed information as was provided in the different documents that was supplied. The unnecessary academic jargon should be removed from

the feasibility study, it should be reworked to confirm to the principles of a feasibility study and that would be included, or include at least an analysis of the market for both the primary production and the manufacturing level. More clarity is needed on the business model and comparisons to other business models. For the processing unit the marketing and sales stats was absent in this one. Little mention is made of the management and personnel requirements and the structure of that. Environmental issues were not addressed in the feasibility study, critical risk factors were absent and should be included in a

10 feasibility study and in terms of the financial performance the feasibility study included an income statement. However, the following financial documents with projections and assumption should also have been included. A balance sheet, a cash flow statement and a break-even analysis and then a time schedule for the project should form part of the feasibility study. The profit and loss income statement should be more detailed with the primary production and the processing facility being separated as two different, lets call it entities but two different projects for example which – that would make it easier to make more appropriate comments and benchmarking on the different income

20 statements and then in terms of the risk associated with this type of project, it is recommended to determine if a feasible exit strategy as well. Will there be reasonable chance to recover money invested, should the project not come to fruition and then the market risk for manufactured products should also have been discussed in the feasibility study.

So in conclusion my recommendation is, not to continue with the project in it's current state, since Government will not receive value for money. The costs are not reasonable and/or market related.

ADV REFILOE MOLEFE: Thank you, now notwithstanding some of the many issues that you've pointed out, including the issues that you've raised around the appropriateness or inappropriateness of the costs that have been quoted in these documents, could the Department have come to a reasonable conclusion, based on these documents to proceed with this project?

10 **MR DAVID ANDREAS MAREE:** Chair I don't think they could have come to a reasonable conclusion to continue with the project given all the flaws in the different documents, I think a proper administrative person would see that with financial background and even a bit of agricultural background, they could have seen there's a lot of flaws, so I don't think they could have come to a reasonable conclusion to continue with that.

CHAIRPERSON: Is there – are there any circumstances under which you could imagine that a Chief Financial Officer of a Government Department could approve a project on the basis of the documents that
20 you have dealt with?

MR DAVID ANDREAS MAREE: Chair no I can't think of any reasonable conclusion or things ja.

CHAIRPERSON: Would that answer also apply to a head of Department are there any circumstances under which you think a head of a Government Department could approve a project based on this

document?

MR DAVID ANDREAS MAREE: No Chair, not even a head of a Department, I think they should have had more knowledge about projects of these kind or of these nature to make proper decisions.

CHAIRPERSON: And if they didn't know, obviously they needed to get advice from people who are qualified?

MR DAVID ANDREAS MAREE: Chair ...[intervention].

CHAIRPERSON: This being a Department of Agriculture one would have expected that the head of Department would be knowledgeable on
10 matters that fall under the Department of Agriculture?

MR DAVID ANDREAS MAREE: Definitely Chair, and if he doesn't necessarily have the specific industry expertise there's always people that know – that could have been sourced and give an opinion...[intervention].

CHAIRPERSON: Give advice.

MR DAVID ANDREAS MAREE: Advice on that ja, all State departments can interlink with each other and do that ja.

CHAIRPERSON: Yes, okay.

ADV REFILOE MOLEFE: Thank you Chair, just – a last question for
20 you Mr Maree, sometime last week we received a statement, Chair, from the former HOD Mr Thabethe and he enlists his qualifications, firstly as a B Agric Degree which he obtained during 1988, secondly he has a B Agric Honours and thirdly he has a MA Degree in Development Communication. Just on the two B Agric Degrees, do you think that it would be reasonable to expect whether he could apply himself firstly to

those documents, and thirdly come to a conclusion that would be befitting or beneficial rather to the Department?

MR DAVID ANDREAS MAREE: Chair I definitely think it's reasonable to think that ja.

ADV REFILOE MOLEFE: Thank you, Chair we have no further questions for Mr Maree.

CHAIRPERSON: Thank you very much Mr Maree for having come to give evidence, we appreciate it, thank you very much, if there is a need we will ask you to come back.

10 **MR DAVID ANDREAS MAREE:** Thank you very much Chair.

CHAIRPERSON: Thank you and you are excused.

MR DAVID ANDREAS MAREE: Thank you.

CHAIRPERSON: What have we got for tomorrow again, which witnesses have we got?

ADV REFILOE MOLEFE: Chair we have Mr Mareme who will be giving evidence he is the former Municipal Manager of the Phumelela Municipality.

CHAIRPERSON: Yes is it him only?

20 **ADV REFILOE MOLEFE:** And we may have Mr Dhlamini returning to give additional evidence to that which he has given to the Commission.

CHAIRPERSON: Yes you say may, are we going to have or are we not going to have?

ADV REFILOE MOLEFE: We would like to see the Chair in chambers as earlier indicated in respect of Mr Dhlamini.

CHAIRPERSON: Okay, alright and are you following up on the

outstanding issues relating to Mr Basson?

ADV REFILOE MOLEFE: Yes Chair

CHAIRPERSON: Involving members of Parliament and so on?

ADV REFILOE MOLEFE: Yes Chair, we are following up on that.

CHAIRPERSON: Okay, alright, tomorrow I think I'm hearing an application for leave to cross-examine before we start with the witness so I'm starting at half past nine tomorrow with that application and then at 10 o'clock we will then start with the witness or as soon as possible once I'm done with the application.

10 **ADV REFILOE MOLEFE:** Thank you Chair.

CHAIRPERSON: We'll adjourn for today and we'll start tomorrow at half past nine with the application but with the next witness at 10 o'clock, we adjourn.

INQUIRY ADJOURNS TO 13 AUGUST 2019