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99089

**Swaziland Commercial Agricultural Production and  
Marketing Project**

Contract no. 645-0229-C-00-9019

**FINAL REPORT**

**Submitted to:**

**Ministry of Agriculture and Cooperatives  
Mbabane, Swaziland**

**and**

**The United State Agency for  
International Development  
Mbabane, Swaziland**

**Short term consultant  
John Acarregui**

**January 15 to March 10, 1996**

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## **Short Term Consultancy Packshed Operations Advisor**

January 15, 1996 - March 1, 1996

### **A. Statement of Work**

Ending December 3, 1994, the Consultant had spent twelve weeks working with the two co-operative packsheds. During that period, the KK Co-op did business at the packshed for the first winter season. Business was good. Quality was fair due to first year farmers. Policies were newly accepted. Business was done through Durban traders, Encabeni agents, vendors and drop-in trade. The packshed manager was non partial, held to policies passed by the committee and consequently made the KK Co-op a profit the first season.

On September 11, 1995, the Consultant completed seven weeks working with the packsheds. During that period, the KK Co-op was doing business for the second winter season. Business was good. Quality was improving due to second season farmer experience. Policies were enforced. The packshed manager was new. Business was better in terms of volume than the first season. Business was done through Durban traders, Encabeni agents, vendors, Pretoria market and drop-in trade. Then, the problems were becoming very evident. The packshed manager was not strong enough to make daily decisions. The Co-op was short of field crates. The manager would not make a decision to purchase needed field crates. After a time, the committee chairman agreed to a purchase of more field crates, not adequate but better. When the Consultant left, the Co-op had all bills paid, farmer payments current, accounts receivable and E50,000 in the Matata Swazi Bank.

On March 8, 1996, the Consultant completed eight weeks working with the KK Co-op. The Consultant found a Co-op that is in trouble. The packshed manager is not strong enough to handle daily decisions. His decisions are mainly made by the Co-op committee chairman. The Consultant has found the operation to be short of money, farmer payments three months in arrears, the Co-op owes for fertilizer, diesel and chemicals from the 1995 season. There are several reasons for the money loss, increased bills and lack of monies for farmer payments. The management and Co-op committee made several bad decisions. The bad decisions were made even though policies were in place that specifically stated the methods to be used for the Co-op. The Co-op management and committee ignored the policies and, consequently, the decisions were bad for the Co-op. They altered the credit policy to allow poor risk farmers to purchase fertilizer, seedlings, chemicals and diesel for credit. The farmers have not repaid the monies due and the Co-op has charged no interest (money spent - money tied up - no return on the money). The committee reduced the two week set aside on payments to the farmers to one week. This caused the bank account to be reduced by E 25,000 to E 30,000. The creditors pay KK from two weeks to four weeks out. Therefore, the farmers were paid from the KK account well before more monies came in to pay the farmers. Also, the farmers are able to purchase seedlings, fertilizers, chemicals, and diesel with a signature. The policy states that the purchases from KK are to be paid in full within thirty days. No one is deducting or collecting these monies, therefore, creating a reduction in cash flow. The KK Co-op has E 21,000 invested in inventory. The situation is not impossible to overcome. The committee does not seem to be concerned, however, the members are very concerned. A meeting is in order but the chairman, vice chairman and secretary do not want a meeting.

## **B. Objectives**

The objective of this contract was to provide technical services as a Packhouse Management Consultant.

## **C. Results Achieved**

1. Finalized packhouse operational policies and procedures with KK management and committee.
2. Provided daily hand on training to KK manager/secretary, bookkeeper, quality control, internally and externally, floor foreman, graders, and floor assistants. Training included receiving, gradings, packing, and general methods for handling produce.
3. Training of manager/secretary in inventory control, buying, sales techniques, cash flow, member relations, banking, control of expenses, posting of fees, posting of daily prices, purchasing supplies, accounts receivable, and accounts payable.
4. Assisted in finalizing packhouse operational manual. All requested information was turned over to Gene McAvoy.
5. Worked with Tom Easterling in developing an alternative program for the two Co-ops. This alternative program can be initiated by the Co-ops at their discretion. The program is built around an independent contractor operating the packhouse at each location. The Co-op handles all aspects of the Co-op except the grading, packing, sales of product through put.
6. Prepared KK Co-op for 1996 winter season. This included extensive discussion with the committee and manager. This also included extensive training for the manager. Much training was follow up from prior consultancy in 1995.

## **D. Follow up work that remains to be done in areas of KK and HFV.**

1. Install coolers in storage area.
2. Call South African markets to begin daily market information.
3. For KK, order field crates to sell to each member prior to winter season.
4. Hire and train new employees prior to winter season.
5. Inventory all forms for adequate amount needed during winter season.
6. Collect new pallet jacks and deliver to KK and HFV.
7. Order fifty pallets for KK and HFV.
8. Collect grading tables and deliver to pack sheds.
9. Have ceiling isolation put in place at KK.

## **E. Recommendations**

1. KK Co-op:
  - The Commissioner of Co-ops needs to check the books of this Co-op periodically. The officers often use the Co-op monies as if the monies were their own.

- The members should demand a monthly meeting with the entire committee to be present.
- The decisions of the committee are not being communicated to the members.
- The committee must be made responsible for both good and poor decisions.
- The manager needs to be responsible for executing all policies in the manner in which they were intended.
- The manager needs to be made responsible to the members for an efficient operation, accountable for monies and producing a profit for the Co-op.

## 2. HFV:

- The committee needs to hire a packhouse manager prior to the 1996 winter season.
- The committee needs to promote sales through enlarging their marketing area.
- This committee operates the Co-op according to the by-laws. They need more training in areas of grading, packing and marketing.

## 3. KK Packhouse:

In Preparing for the 1996 winter season, several items need to be put into place. The Consultant worked with the packhouse manager on the following items:

Tomato Cartons - Also used to pack eggplant/sugar peas/green beans/peppers/chilis/peaches.

Wood Cartons - Used in Nelspruit for tomatoes.

Trucking - (Internal) - Procured two local trucks as well as Namboard truck for local farmer collections.

Trucking - (External) - KK has a listing of companies that can be used to send produce into Durban, Johannesburg, Pretoria and Nelspruit.

Packhouse Training - Several team training sessions as well as daily individual sessions have occurred. Therefore, these major players should be able to train the new hires.

Bookkeeping - A CAPM bookkeeper, Ezrom, has been training Dumsille on the computer, plus training her to work and identify irregularities in the system. Ezrom will remain working with Dumsille until the end of March 1996.

Pricing Policy - Everything is in order for the packhouse manager to initiate obtaining daily market information from Durban and Johannesburg produce areas. Pricing is to be consistent with markets, quality and inventory levels.

Packhouse Crew - Preparations are in order for hiring of new employees as volume increases. The manager is identifying and moving the present crew into positions he deems they are best suited.

Receiving Policy - This is an area where money was lost during the 1995 winter season. This policy has been reviewed by the committee and manager. The 1996 winter season is to have the policy in effect as it was originally written. Quality into packhouse or immediate rejection. No trash to come into the packhouse.

Credit Policy - This is an area money was lost during the 1995 winter season. All member purchases are to be deducted from the next farmer payment. This policy is to be followed as it was originally written.

Farmer Monies Set Aside - This is an area money was lost during the 1995 winter season. The original program was for two week period set aside to create adequate cash flow. It was changed to one week in 1995. No cash flow meant no monies for payables. In the 1996 winter season, it is to go back to the two week set aside.

Field Crates - The committee and manager agreed to have all members purchase field crates for the 1996 winter season. The manager has been instructed to collect all field crates from the member farms and put the crates into the KK packhouse inventory.

Training has been completed in the areas of:

- Receiving
- Sizing
- Grading
- Packing Standards
- Manager Responsibilities
- Manager Duties
- Accounts Receivable
- Accounts Payable
- Farmer Payments
- Organizational Thinking
- Buying Procedures
- Sales Procedures

The following areas were reviewed:

- Job Descriptions
- Banking Procedures
- Security Procedures
- Accounts Receivable
- Policies/Procedures
- Expenses vs. Volume
- Product Cost vs. Sell Price
- Profit and Loss Statement
- Credit Policy
- Packs and Sizing
- Color Packing
- Marketing Procedures
- Members Direct Sales Policy
- Employee Responsibilities
- Accounts Payable

- Financial Statement
- Field Crate Policy

KK Position in the Market Place - The following items were discussed as to where other markets are and where KK could be:

- Namboard is weak.
- Maputo traders leaving Namboard.
- Maputo farmers starting deliveries into Durban market.
- Durban traders want processing tomato year round.
- Possible KK retail outlets in Manzini/Matsapha.
- Possible Encabeni agent at Namboard for KK farmers.
- Delivery route on Mon./Wed./Fri. at 6:00 a.m. to Mbabane, Manzini, and Mahlanya markets for direct delivery to vendors.
- Delivery route to retail stores - OK/Spar/Midway Market.
- Delivery route to government offices.
- Increase vendor sales at KK packhouse.
- Establish institutional distributor to pick direct at KK pre-pack operation.
- Quality packs/strict receiving policy/compete in South African markets.

Reasons the KK Co-op has cash problems:

- A. Credit policy - This policy clearly states that all purchases from KK are to be paid within thirty days. After thirty days, an interest charge is to go into effect. As of now, some thirty-eight farmers owe E 20,000 for purchases of fertilizer chemicals, seeds, diesel and seedlings. No interest has been charged and another E 20,000 needs to be deducted from farmer payments. The manager is now following this policy.
- B. The set aside monies for cash flow had been set at two weeks. Sometime after September 11, 1995, the two week period was reduced to one week. This reduced the cash by approximately E 25,000 to E 30,000. Since Encabeni agents pay KK from two weeks to four weeks for consignments, the one week period became a hardship to KK cash flow.
- C. Receiving Policy - This policy clearly states that the quality control receiver can accept or reject produce based on good quality or poor quality. The KK Co-op committee told the manager that all produce was to be accepted at the KK pack house. Due to the policy change, the KK farmer payments reduced the bank account each week. The poor quality reduced the price for good quality tomatoes. Therefore, the change in policy hurt the farmer with good tomatoes and helped the farmer with poor quality. The farmer doing a poor job was rewarded and the farmer doing a good job was not rewarded. The result was reducing the bank account to a point where payables increased due to a lack of funds.
- D. The KK Co-op farmers were shown favoritism in charges for work done. Some farmers were charged a commission fee for collecting, sorting, selling

and one particular farmer member was not charged for work done. In fact, the committee gave the farmer a refund for product sold through the packhouse. The amount that should have come to KK was over E 8,000. The farmer presently owes E 2,800 for a loan given by the committee at 0% interest.

These problems occurred after the Consultant left the KK Co-op on the consultancy ending September 11, 1995:

Credit Policy	(Loss)	E40,000
Set Aside	(Loss)	E30,000
Receiving Policy	(Loss)	E40,000
Selective Commission Fees	(Loss)	E10,800
Payables E 30,000-E 21,000 inventory	(Loss)	E9,000

The Consultant has discussed the following scenario of a farmer making a decision to join the KK Co-op or to not join the Co-op with the committee and manager:

If the farmer is not a KK Co-op member and needs money to prepare for the winter season, he will probably go to the Swazi Bank in Matata. There he will be told that in order for a loan, he needs collateral and the loan fee can range from 17% to 23% interest.

The farmer decides to join the KK Co-op and become a member. The farmer must pay E 500 for a full membership in the Co-op but he finds that they will allow him to become a full member for E 100 down and the balance to be paid later. Now he is a full Co-op member of the KK packhouse. He is now able to purchase the needed fertilizer, chemical, seedlings, diesel, seeds for the new winter season. All of these can be purchased with a signature and there is no collateral and 0% interest. It is a great buy for only E 100 that will be refunded at anytime the farmer requests it. The farmer has not been checked out but is in need and the committee has told the manager to accept all their produce and pay them weekly. The KK Co-op has become the farmers' bank, only it is better than the bank.

Conclusion of Reasons the KK Co-op has cash problems:

The Consultant talked to the committee and manager. No one has shown a true concern that has resulted in action. The Consultant has had some verbal commitment from the committee as to returning to the original credit policy and receiving policy, but nothing on set aside situations or selective commission fees. The manager has not firmly stated he would change his position due to concern that the committee will not change after the Consultant has left.

## **F. Training**

The KK Co-op and HFV Co-op each received two days of training by BMEP, Manzini. The two training sessions were the same for information. The agenda was:

- How the Co-Op works
- Policies
- Responsibilities and rights of the members
- Responsibilities and rights of the committee

- Responsibilities and rights of the manager
- Commitment
- Loyalty
- Team work

The presentations were well done. The KK attendance was average. The attendance at HFV was excellent. More of this type of informational training is needed.

### **G. Packhouse Manager Responsibility**

The Packhouse manager is responsible for operations, selling, and buying. These include:

- All sales
- Trucking internally
- Trucking externally
- Farmer payments
- Banking
- Accounts receivable
- Accounts payable
- Daily decisions
- Following policies as written
- Hiring and firing of all employees
- Input each Tuesday at committee meeting
- Purchase all fertilizers, seedlings, chemicals, field crates, cartons, office supplies
- Quality of packs
- Employee training
- Store sales area
- Prepack operation
- Packhouse report for the general membership meeting
- Cleanliness of buildings
- Maintenance of grading machines
- Security
- Daily morning inventory
- Profits

### **H. Items CAPM is giving to HFV and KK Co-ops**

- Two computers and printers
- File drawers
- Book shelves

- Two fax machines
- Coolers
- Two compressors
- Electrical connections
- Three vehicles
- Two pallet jack
- One Hundred pallets
- Four grading tables

There are also items at each packhouse, fitting the individual needs of each location:

<u>HFV</u>	<u>KK</u>
Fencing	Blocks for building
Borehole	Extension
Blocks for building extension	Timbers
	Insulation

## **I. Recommendations**

The KK packhouse needs several items to provide stability needed for sustainability:

1. Marketing Sales - A trip to market for the manager, the quality control person and the floor foreman. This is needed in order for the KK personnel to identify packs, quality, color needed to compete in South African markets.
2. Bookkeeping - The KK Co-op should hire Ezrom as their main bookkeeper and Assistant Manager. He does an excellent job, understands the needs of the co-op and is able to train Dumsile in computer operation. His presence would guarantee good bookkeeping at KK. He would Assistant Manager in charge of the main floor packing and bookkeeping.
3. Policies - The general membership needs to be fully aware of all policies and demand the committee not change and policies. A strong policy will return profits for KK.
4. Manager - The committee must leave the job of managing the packhouse in the hands of the manager. Changing directions daily will continue to erode the effectiveness of the manager. Also, the manager needs to take control of the packhouse operation.
5. General Membership - The general membership needs to become more involved in the committee and packhouse operation. They can do this by asking questions and demanding answers. This would have prevented many of the problems of the 1995 winter season.
6. Cash Flow - They must leave the Credit Policy and receiving as they were accepted by the committee and general membership. These policies must be enforced as written. The farmer payment set aside must be

6. Cash Flow - They must leave the Credit Policy and receiving as they were accepted by the committee and general membership. These policies must be enforced as written. The farmer payment set aside must be changed from one week to two weeks. All farmers, presently owing for purchases at KK for 1995, must pay cash for balance due or accept interest for the entire amount due.