AN EVALUATION AND ANALYSIS OF THE NATIONAL MAIZE CORPORATION ACTIVITIES AND RELATIONSHIP WITH SWAZILAND MILLING COMPANY

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APPENDICES

A. INTRODUCTION

As maize represents the basic food staple in Swaziland, the government has consistently promoted activities to attain and assure self-sufficiency in this commodity.

Considerable progress toward this end has been achieved through the contributions of such agencies as the National Agricultural Marketing Board, MOAC Grain Storage Unit, MOAC Marketing Advisory Unit, and Central Cooperative Union.

Central to the supply of maize mealie, especially in the urban areas, is the productivity of the milling industry. Over riding in importance is the National Maize Corporation.

While this is a government entity, authorized to perform all necessary commercial functions, it neither owns nor operates the processing facility it represents. The mill is owned by Swaki, leased to NMC who hire Swaki to operate the mill. The management hire agreement includes not only the mill operation, but all commercial function (purchasing through merchandising) of the business.

In an effort to evaluate how effectively the NMC discharges its responsibilities for the implementation of national policies and program a review of operation was undertaken. This included an analysis of the lease/management contract between NMC and Swazi Milling in order to develop position that might be helpful in negotiations between NMC and Swaziland Milling Company.

In the course of the review the operation of NMC, along with supporting government agencies were noted and critiqued, leading to certain conclusion and recommendations. The study was made under the direction and with the help of the Ministry of Agriculture and Cooperatives.

The MOAC personnel gave generously of their time and experience. The individuals who contributed significantly to this study are identified in Schedule 1.

B. CONCLUSIONS

The operation of the National Maize Cooperation, supported by the National Agricultural Marketing Board, the Central Cooperations Union and the Grain Storage Unit, contribute significantly to the promotion of national self-sufficiency in maize. Further these activities provide services that promote efficiencies in production and distribution of maize and maize products that generally improves living standard while providing employment. The NMC represents a market at a fixed minimum farm gate price (gazetted) for any and all Swaziland surplus maize.

The CCU and GSU provide services to assist the farmer in storage and transport where and when required.

The NAMB has controlled competition in maize and maize products from the outside through the vehicle of import permits and duties. This maintains production incentives through discouraging the introduction of lower priced maize and protects NMC's share of product market by limiting foreign access.

The SWAKI/NMC lease and management contract should be extended in a modified and clarified form. NMC does not presently have trained personnel to direct the business. Constant annual increases in the costs of operation can eventually get out of hand without positive control.

The areas for potential modification include:

1. The basis and/or terms for calculating the lease fee.

2. Term covering product sales

3. Specific identification of Swaki overhead charges.

The existing management contract provides for Swaki to furnish monthly reports covering all phases of the commercial and technical activities of the business. This includes maize purchases, inventory position, milling results, products sales details and all attendent costs. This implies oversight on the part of the Ministry. There exists no evidence that NMC receives such reports nor has personnel assigned to monitor them.

Construction of smaller sized milling units dispersed throughout the country does not appear to be viable. The industry is investment intensive. As such facilities have a minimum size to be operated economically. A mill one fourth the capacity of the existing facility would likely cost at least sixty percent of that mill. Further, the present mill requires at least its present production in the refined end products to be viable. It has the capacity to supply most of all the country's demand for ligugu, samp and maize rice. Additional capacity for these products would be difficult to justify.

Already in place at the satellite storage units are mills to produce unsifted meal. These provide an opportunity to disperse production points for this particular product.

Operation of NMC have steadily improved in each of its three years existance. The original projections anticipated maize throughputs in the magnitude of 45,000 tons per annum. As costs other than maize are substantially fixed, short falls in production are reflected in poor profit performance. The year just ended will demonstrate that the business is viable and profitable when near capacity throughput can be maintained. The accounts receivable for the year ending 31 March 1987 (last audited report) reflects 21/3 months sales. Faster collection of funds due could reduce the bank debt an it's interest liability.

C. SUMMARY OF RECOMMENDATIONS

1. Extend the existing lease/management contract with modification. NMC is unprepared to utilize any alternative at this time.

2. Appoint within the Ministry a liaison with oversight responsibilities of NMC operations. This is the first step in preparing to elect possible alternatives in the future.

3. The NMC Board should be more active in providing policy guidance by requiring the present sales discount for volume be traded off for an equitable sales discount for early payment. Consider a penalty (interest) on late payment. These to better control cash flow.

4. Clarify subject of capital expenditures to insure the investment is in the national interest and that there is a reasonable return.

5. Modify the lease clause to recapture some of the repair costs. Lesor should provide viable, usuable equipment.

6. Develop controls over reimbursable administrative overhead burden.

7. NMC should consider a feasability study to upgrade the hominy chop for better return. Presently the chop is not used locally in poultry rations.

8. MOAC/government should resolve the CCU outstanding debt so that it can perform the role of local buyer and gatherer effectively.

9. Provide policy and operating guidelines for GSU so that facilities can become operational and integrate them into NMC's operations.

10. Consider a variable levy based upon a threshold price for maize and maize product imports instead of the present advalorem duty.

D. DETAILED RECOMMENDATIONS

1. Extend the existing lease/management contract with Swaki. Extend for two years, but not longer if some concessions described later can be successfully negotiated. Alternatives to an extension of the present agreement concept have been examined and found wanting.

   Purchase and operation of the mill and the business is not recommended. The industry is not a complicated one but it is complex. It is commodity trading, food processing and merchandising/distribution all linked together. Each part is interdependent but each part may have cost variable that are independent one from the other. The management personnel is critical for efficient operation. There appears to be no fully trained personnel within the Ministry to manage such a business. Further, government ownership and operation is not necessarily in the national interest where privatization is the stated policy.

   Tolling arrangements also were examined. This would be an agreement whereby NMC owns the maize, has it milled for a fee, and then takes back the product which it distributes and sells. In concept this is similar to the hammer mill operations. In theory there exists the Central Cooperatives Union to buy the maize and arrange transport to the mill. The Grain Storage Unit might well be a link in the movement from farm to mill. The National Agricultural Marketing Board could be the product merchandizer.

   Presently Swaki indicates the plant miller's margin in E73 per ton. This represents the tolling fee they would seek. Tolling fees in RSA are said to be E140 per ton discounted down to as little as E60 per ton to get the business. Based upon a throughput of 35,000 tons the tolling cost approximates the present NMC costs (less maize costs) for operating the mill and selling the product. NMC would have to be a much more acute maize buyer than is Swaki to equal current performance. Tolling appears to be an inadequate alternative.

   Segmenting the product production with smaller mills is very expensive. The industry can be characterized as investment intensive, high volume and modest margins. These three traits mitigate against small, dispersed facilities.

2. Appoint, within the Ministry of Agriculture and Cooperatives an individual to perform as liaison between the National Maize Corporation and Swaki. The overall responsibility of the liaison would be to provide oversight control for the Ministry. While day to day operating decisions are vested in the hired management strategies are implied to be shared. Adherence to the terms of the contract are also shared and it is as much a responsibility of NMC as it is of Swaki.

To ensure that both the letter and the intent of the agreement is mutually adhered to the monthly reports covering maize purchases, product sales and costs compared to the budget should be reviewed and analized. The liaison represents a counterpart to John Masson. As such he or she must become as knowledgeable in the various facets of the industry as is Mr. Masson. An oversight function will prevent year end surprises in the results, ensure continuing harmony in the NMC/Swaki relationship and eliminate confrontation in negotiations. This subject should be a top priority.

3. The NMC Board should be more active in providing policy guidance in areas that impact upon national interest. Specifically these likely would affect local maize procurement and product sales. Examples of these are the necessity to update transportation allowances and an exchange of the sales volume discount to wholesalers for a sales discount for early payment. Presently a sales discount ranging up to 4% is given on a sliding scale for volume sales beginning with 250 tons per month. The average discount is indicated to be 3½%. Sales terms presently are for payment within 30 days. Actual payments often exceed this time span ten to fifteen days. It is proposed that the discount for volume be dropped but that a 3½% discount be given for payment within ten days. Also a penalty in the form of interest charges he assessed to invoices unpaid after 30 days. This charge should be the same as the interest banks charge on loans. This modification in sales terms would either improve cash flow control thereby reducing bank debt or effectively improve net sales price or a combination of both.

4. A feasability study into the possibility of improving the texture of hominy chop is recommended. Presently the local feed mixer uses the mill's hominy chop only in it's dairy rations. This is the only domestic customer. The bulk of the chop is sold to mixers in RSA with returns suffering due to the heavy transport costs. The bulk of the local mill's production is in poultry rations. They claim the texture of the NMC chop is not fine enough to blend uniformally in their mix. If the sizing could conform to the mixers needs the local sales could increase with revenues improved some E70 to E80 per ton.

5. It is recommended that the provision pertaining to expenditures for capital equipment in the mill be further clarified. It should be understood that capital investment, while a Swaki expenditure completely financed by them, must be approved by NMC. This is to insure that the changes resulting from equipment change or addition will be in the national interest. Capital expenditures should be justified

on the basis of at least a 30% return. This insures that NMC as well as Swaki share the benefits. No capital expenditure should be considered if based upon labor savings.

It has been suggested that the authority to issue maize import permits be vested in NMC because they are "more aware of requirements". The NAMB was established as an independent agency to assist in the marketing of scheduled products including the control over their import and export. Presently there are four classes of scheduled products, namely (1) maize and maize products, (2) rice, (3) fresh fruits and (4) fresh vegetables. In the future there is likely to be more. There must be uniformity in the policies between the classes of products even though individual details may vary. This can only be achieved through keeping import/export control of all scheduled products within the same body.

6. It is recommended that the cost for leasing the mill buildings and equipment be adjusted. Swaki should absorb costs to the extent of their booked depreciation. The lease presumes a viable, operating facility. A rate is applied to the value of that equipment to determine the lease cost. It may be argued that this rate covers return on capital (profit), depreciation (the value was determined on a depreiated basis) and maintenance (the facility had absorbed repairs costs to date just as it had absorbed the depreciation). This suggests that the lesor should not be charging repair costs.

   An alternative to Swaki absorbing the repair costs is a re-evaluation to update the "depreciated replacement cost". It is felt that over the past three years inflation in building costs and equipment prices has not exceeded the depreciation rates.

7. It is recommended that the administrative overhead (Swaki) be one of the key cost factors that be constantly monitored via the monthly control reports. It is charge distributed by allotment. Therefor it is an arbitrary assignment of costs that might contain bias in the distribution. All indications are that these costs have been equitable and have been controlled. Direct operating expenses for the mill - salaries and wages, utilities, repairs, testing, weighing and consumable stores - reflect the extent of the commercial activity. Overhead burdens bear a relationship to these costs, which relationship is a common vehicle for control purposes. In the original proposal the Swaki overhad was indicated to be 32% of the direct operating costs. For the year ended 31.3.87 the actual was 29% and the budget for 1987-88 indicated 24% despite an increase in the amount. The overhead burden does appear to be under control.

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For cost comparison purposes administrative staff requirements were developed (Schedule 2). Based upon the needed skills and work load the indications are that the Swaki distribution is reasonable and fair.

8. In order that the Central Cooperatives Union realize its full potential in providing services to both farmer and the NMC it's credit must be re-established by resolving the outstanding debt.

9. The Grain Storage Unit should initiate an aggressive program to utilize their facilities. In place are personnel and equipment to mill maize. A start in that service could lead to storage and public weighing services.

10. Consideration should be given to replacing the advalorem duty on maize and maize product imports with a variable levy based upon a threshold price.

    The maize threshold price should be piped delivered to the mill. The level should not be higher than the gazetted price for local maize. It should be low enough to permit NMC to maintain a level of profitability adequate to function from funds generated from operations.

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E. ASSESSMENTS

1. National Maize Corporation

National Maize Corporation, a government entity, was formed in 1985 to insure continued operations of the Swaki mill. The Corporation provided working capital, agreed to lease the mill equipment and hired Swaki to manage and operate the entire business inclusive from maize procurement through finished product sales and all supporting activities.

The lease cost is based upon the depreciated replacement value of buildings and equipment. (Schedules 3 & 4). The depreciated value of the equipment indicates an annual depreciation rate of about 10% assuming little changes in the "new replacement value" from the original 1982 costs. This appears reasonable for the particular kind of equipment involved. The only available information (Schedule 5) purporting to be Buildings Replacement value cannot be reasonably reconciled with the "buildings depreciated replacement value" used in determining the lease cost. The so-called replacement value schedule totalled E1,748,500 excluding warehouse owned by IAH, land and land acquisition costs. The divergance in total and in some specific items makes the reports suspect. However, the final value used (E1,080,000) does appear reasonable.

The charge for leasing the mill facility was agreed to be 15% of the depreciated value. This represents returns on investment for Swaki. It compares favorably with the more common rates based upon total assets. Swaki most likely depreciate the equipment and buildings in their income reports for income tax purposes.

It is not an uncommon procedure to lump maintenance and depreciation together in evaluating the costs attendant to capital investment. If such a posture were assumed in this instance, repair cost should be the lessor's responsibility. For the years ending March 31 1987 these costs were E154,098 or 5.5% of the equipment and building value.

This is clean, well maintained and efficiently operated plant. The equipment is mainly rolls, fans and cyclones. As long as the rolls surfaces are adequately maintained there is little that will impair operating efficiency that is related solely to the equipment age. From time to time parts must be replaced and rolls refinished. The annual costs for such repairs should remain in the magnitude of 5-7% of the equipment and building value.

As indicated above, this opeating cost of estimated E140,000 to E200,000 might be negotiable on the premise that the landlord should keep his own facilities in functioning condition.

The depreciated plant and building value was determined in February 1985. In the writer's opinion the amount of depreciation taken since that time is likely greater than increases in

building and machinery costs over the same time frame. There should be no particular cost risk in having a new evaluation made. More likely there would be a gain for NMC.

New capital expenditures will be added to the depreciated value schedule and used to determine the lease rate.

Swaki requires NMC approval and agreement to such expenditures. Before approval is granted NMC should require a justification for the expenditure. This would identify the cost, the operating expenses associated with the investment and the indicated return from the investment. NMC should set a policy covering what the return should be. It is likely that NMC will insist upon a minimum 30% return on investment. This would represent a sharing of increased revenue on an equal basis with Swaki. It likely is not in the national interest to approve investments that depend upon labor savings for the return.

The management agreement NMC has made with Swaki in all-inclusive in-so-far as the operations are concerned.

This, however, does not exclude NMC from over-sight responsibilities. In the interest of continuing harmony between the involved parties in promoting national objectives and maintaining efficiencies there must be a liaison between the MOAC and Swaki. A person who can become intimately knowledgeable in all facets of the business.

Presently, as in all well managed enterprises, a series of control reports are generated on weekly and monthly schedules. These cover maize procurement, inventory status, production, production mix, sales, costs and revenues. Their analysis portray the condition of year to date, current, and indicate the future. They form the basis for both future strategies and daily tactics. No decision affecting the future of NMC can be more important than personnel in MOAC becoming involved in oversight of the operation.

Oversight responsibilities do not include any intrusion into daily operating decision making. Rather, the responsibilities are in the area of assuring that strategies and operating procuredures conform to the agreement both in letter and intent.

An example of strategies is the stated intent by Swaki to make ligugu the standard product, effectively reducing production of sifted and unsifted meal. There is little question but that the realization of this aim would add considerably to the profitability of NMC. But there are ramification to consider. The availability of sifted and unsifted meal from this particular source may or may not impact upon the price structure of those products. It may be in the National interest to have product from this source always available.

Operating procedures govern efficiencies. As the management agreement requires NMC to pay all operating expenses and overhead burdens these charges should be reviewed on a continuing basis. Deviations from the norm should be identified in detail and explained.

To perform these oversight function a person must be knowledgeable in all areas of business. A sense of urgency in attendant to an appointment of a liaison, Mr. John Masson, likely the most informed person in regard to total operation in the country, is two years away from retirement. Presently he does all of the maize procurement and all of the product selling. He monitors, in an administrative capacity, the mill operation. To take advantage of his experience and expertise a liaison should be selected as soon as is possible.

The management agreement include some items that are worthy of review and perhaps negotiation in an extension of the current contract. The finished products are sold to wholesalers of whom there are only two. The larger of these is Swaki. A discount ranging up to 4% is given on the basis of volume. the base volume is 250 tons per month. With only two buyers and the small base, all the sales carry the discount and averages about 3½%. The justification for the volume discount is to limit the number of buyers. This, in turn, reduces risk against bad debts and promotes more positive control. In theory that should serve to minimize the administrative overhead burden. Whether or not it does that is subject to question. On annual sales in the magnitude of E15,000,000 the discounts have an average value to the wholesalers of E525,000. Payment terms are for thirty days but often stretch to forty. Slow pay makes for cash flow difficulties and results in the necessity to borrow funds. For the 31 March 1987 year interests were more than E300,000.

Sales discounts are normal in consumer product merchandising. But there should be equity - something of tangeable value in exchange for financial benefit. Limiting risk of bad debts seems to be a weak justification for the sales policy in this particular instance. The bad debt risk should be very small if at all when the government is the seller. The very fact that it is the government has a powerful influence upon any buyer. the government is the very last entity an individual wants to be in debt to. A discount for early payment provides benefits to both buyer and seller. Terms of 2/10, net 30 (2% discount if paid within 10 days, full payment within 30 days) are most common. Based upon the precident established, a 3½% discount for payment within 10 days would be an improvement over the existing policy. Consideration can be given to assessing penalties for late payment. These would be at current bank interest rates.

A single line charge identified as "reimbursement of administrative costs needs further identification.

For the year ending 31 March 1987 mill operating costs totalled E13,362,375. Of this E12,203,284 was maize and E720,000 was the lease costs which can be construed as depreciation. Eliminating these two items we have E739,091 in direct mill operating

expenses. Overhead burdens totalled E486,599. Included are audit fees, bank charges, and interest payable that are overheads not directly servicing the plant operational costs. Eliminating these particular charges reduces the overhead burden that can be attributed directly to ongoing operations to E344,092. As defined, the administrative overhead burden represents 49.5% of operating costs.

Recognizing that there are no plant services charged to an overhad (non productive function) the relationship of less than 50% to operating expenses is in the general area of what one might anticipate is to be.

These overhead costs cover all services from grain procurement through sales including all of the control reporting. Included is a management (E18,900) that is a charge for organizing all of the clerical and administrative services.

2. Maize Procurement

NMC purchase maize delivered plant gate weights and grades. Local maize is delivered by truck, bagged or bulk. Lot sizes generally vary from one to ten tons. Bags are generally 70kg each. Grain must be cool and sweet. The standard moisture is 12.5%. Inspection at the plant insures proper quality but the grading is not as formal as it is for the imported grains. Payment is made in cash at the Manzini office twice a day - late morning and late afternoon. It is the writer's understanding that grades covering the quality standards represented by moisture content, damage, heat damage, foreign material and colored kernels are being developed by NAMB.

Imported maize is purchased on the basis of RSA specifications and submitted sample. The purchase contract is based upon a sample representative of the shipment. Upon arrival enough probes are made to insure the gathering of a representative sample of the shipment. Moisture, damage, foreign material and colored kernel are compared to the contract sample. Deviations from the sample are the basis for either discounts or rejection. The imported maize is purchased through brokers who bear the responsibility and risk for currency exchange, quality and transport. Purchases from the Republic of South Africa are an exception to this procedure. In this instance the procurement is made through the South African Maize Board. That agency performs as does the broker.

A 3% ad valorem duty is assessed to imported maize and collected by NAMB. Recognizing that the gazetted maize price is a floor rather than a ceiling price, consideration should be given to changing the method of assessing duty on imports. A threshold price equal to or related to the gazetted price might better promote the objectives of self sufficiency while protecting NMC from outside competition. Fluctuation in maize production in the surrounding countries inpact upon price more severely than they do in Swaziland due to the larger production base. Further, the

RSA maize board may make merchandising decision apart from production influences. Under these circumstances it is possible for outside maize to be offered at wide price differentials to the Swaziland gazetted price. These were the circumstances that promoted the unfavorable milling operations prior to 1985.

Based upon a gazetted price of say E360 per ton we can make comparisons relative to the impact from an advalorem duty and a threshhold price.

If import maize were offered at E340 per ton, the current 3% advalorem duty would bring the delivered price up to E350.20 still undercutting the minimum local maize price by almost E10.00. A threshold price of E360 provides parity with the minimum local price through the variable levy, in this instance, of E20.00.

In the event import maize offers exceeded the local minimum price there would be no levy but likely no market either because of the non-competitive price. Such eventuality strengthen the incentives for local production.

The duty on scheduled product imports, in some instances, has been viewed as a revenue source in funding the National Agricultural Marketing Board. While the Board does make use of these funds they should rather be dependent upon the fees obtained for their services. This promotes incentives for efficiencies and productive activities whereas the duties do not.

Except for the harvest peak surplus, the gazetted price will not attract local grain. This situation suggests a condition of less than self-sufficiency over the entire year. Until this condition changes to one of longer lasting surpluses there is no particular benefit in purchasing maize at prices that reflect carrying charges. Also it is unlikely that the GSU facilities will be fully utilized until self-sufficiency on an annual basis is achieved.

3. Central Cooperatives Union

The Central Cooperatives Union is the "mother" board of the four agricultural district unions who service the many primary societies. The CCU was partly funded by dues from the district unions. These regional unions presently exist in name only and have ceased their support to the CCU. The CCU continue its supports to the farmers but now acts through the primary societies, by-passing the district unions.

CCU services the farmer through sales of production inputs, i.e. seed, fertilizer, pesticides, herbicides and small implements. All transactions are on an equivalent cash basis with revenues adequate to cover expenses and accummulate a small surplus.

The farmer generates the cash to pay for the inputs through a bank loan; the bank credits CCU's account and looks to the farmer for repayment.

Some years ago sales were made on credit. Over a period of time bad debts, with attendant interest, grew to E3.5 million. This old debt is a constraint to present and future loan procurement. Further it is a barrier to involving the farmer through share sales as the potential for dividend distribution is remote.

CCU feels it could contribute toward the national objective of maize self-sufficiency if it could market, especially the small farmer's, maize surplus. They feel there are producers to whom they sell inputs who would increase inputs if they had a continuing, reliable market for the anticipated production surplus. CCU would like to represent that market. CCU does not contemplate, nor desire, to become a maize merchandiser in the commercial sense. Rather they see this exercise as a link in supplying maize to NMC.

Last year (1987-88 crop season) procedures were developed to supply maize to NMC. By the time the difficult financing details were satisfied, the local movement of maize was over. This particular program consisted of CCU buying maize at the farm gate at the gazetted price. The bags would be moved to a local transit gathering point where truck load lots would be accummulated. Transport to the mill would be arranged. NMC would pay CCU the gazetted price plus transport plus a handling fee of E4.30 per ton.

In preparation for the 1988-89 maize season a preliminary contact has been made with the NAMB advisor. No program has as yet begun to be developed by CCU.

A program such as this should begin, as CCU suggests, at the time they are selling inputs to the farmer. Based on all past experiences, the mill would have no difficulty in absorbing whatever volume is likely to be generated. The fact that the gazetted price may change should not be a deterant. Price can be subject to such change. The big constraint is the pour credit rating of CCU.

It is suggested that the CCU scheme be tested on a small scale in a particular area. If the realization measure up to expectation of increased production the program could be expanded. To attain full potential through CCU the question of their outstanding debt must be resolved. The amount is such that the feasibility of CCU paying it off is remote. Without resolution CCU is handicapped in providing services and unable to embrace farmers as full participating dues paying members. It is noteworthy that CCU is presently a viable, economic entity.

Currently CCU's only commercial venture in maize buying is to barter inputs for maize with the Chinese Agricultural Mission.

4. Feed Mixing

The only feed mixing facility in Swaziland is located in Matsapa.

It's capacity is slightly less than two tons per hour. Normally the plant works an eight hour day. Rations are mixed for poultry, dairy cows and hogs. The mixer uses hominy chop from NMC only in the dairy rations. Demand for the chop averages about twelve tons per month priced at E270 per ton. As the chop value is based upon maize this price reflects a general level of E325 per ton for imported maize.

The greatest demand for compounded rations is for the poultry industry. Ordinarily one expects a substitution of hominy chop for maize in the formula. The mixer claims the texture of the hominy chop is too coarse to blend uniformally with the other ingredients.

If the texture problem can be resolved the feed mill will include the hominy chop in their poultry rations. This would improve returns to NMC on that product some seventy to eightly emalangeni per ton. Alternatives to size the chop to customer desires should be evaluated. These might include further milling or even pelletizing if the demand warranted the required additional costs.

5. National Agricultural Marketing Board

Established by Act by the Regent and Parliament on 11 November 1985 into operation (members of Board appointed) May 1, 1986. Ten Board members appointed by Minister of MOAC

1. Chairman
2. Representative from Ministry of Agriculture and Cooperatives
3. Representative from Ministry of Commerce & Tourism
4. Representative of the Central Cooperatives Union
5. One person representing retailers of fruits and vegetables
6. Three persons representing farmers
7. Two persons of such qualifications and who shall represent such organizations as the Minister may determine
8. In addition the Minister appoints a public officer to be the Executive Officer and Secretary of the Board.

Functions of the Board

1. Register wholesale distributors, importers and exporters of scheduled products.

2. Facilitate in such manners as it may consider appropriate, the production, processing, storage, transporation, distribution and sale of scheduled products.

3. Where required to do so, advise Government in all matters related to availability of and demand for scheduled products.

4. Perform other functions to be determined by the Minister.

Powers of the Board

In the exercise of its functions the Board may:

1. Require any importer/exporter of scheduled products to registers with Board and obtain a permit from Board.

2. Nominate and empower any person on body to import/export scheduled products.

3. Determine the quantity, quality, grade or class of scheduled products that shall be subject to control and designate place and manner of distribution of scheduled products.

4. Require from any person information relating to sources, type, grade, quantity and price of scheduled products.

5. Prescribe and collect permit fees and import such levy as may be appropriate on the value of scheduled products.

The NAMB through exercising its authority to issue import permits for maize and maize products has effectively sheltered NMC from outside competition. This has permitted NMC to become a viable, profitable organization. This protection also serves as an incentive to the local producers to increase plantings and improve yields. Until productivity in Swaziland approaches that in the surrounding areas, import protection will be required.

F. REVISED MANAGEMENT AGREEMENT

The attached agreement covering the period 1 June 1987 to 31 May 1988 can be renewed for a two year period. This period is the likely minimum time necessary for personnel within the ministry to become knowledgeable enough about the business to contribute to decision making. In order to select the proper future policy from the alternatives of ownership, privatization or continued management agreements better understanding of the industry's commercial aspects is required. Further, Mr John Masson, the key person in the overall operations, will retire in two years. It is beneficial to aggressively take advantage of his particular experience and expertise while it is still available.

Clause 2 can be mordified to read:- Swaki hereby leases to NMC the buildings, machinery and equipment at Matsapha Industrial Estate ("the Mill") for the period at a rental of E420,000 per annum less booked depreciation. The depreciation credit shall not exceed charges for repairs and maintenance. The rental shall be payable in monthly instalments. However, if NMC and Swaki decide that it is necessary, at any time, to incur expenditure of a capital nature on the mill, the lease rental shall be increased by 15% of such expenditure with effect from the date of such expenditure. Financing for such investment will be the responsibility of Swaki. Capital expenditures will be approved only if the return from the investment are at least 30% after all operating costs. No labor saving investments will be considered.

Clause 3.1 should cover the period 1 June 1988 to 31 May 1989.

To Clause 3.2 add:- These responsibilities cover decision making in regard to tactics or daily operation. It does not preclude NMC from exercizing its oversight responsibilities in monitoring the monthly results and participating in formulating foreward strategies.

To Clause 3.5 delete the last sentence, to wit:- The latter amount will be adjusted annually on 1st June, in accordance with charges in the most recent 'A' price index of the Central Statistical Office.

Clause 3.8 shall read:- Swaki will prepare monthly management control accounts in respect of the operation of the Mill which accounts shall include a report on whole maize produced locally and imported; inventory and its value; costs compared to budget; sales volume and revenue; a critique of results; and an indication for the immediate future period. Copies of such reports shall be furnished to the Board of NMC within 10 days after each month end. Swaki will make availabe at reasonable times for board meetings of NMC such members of its management staff on the board shall reasonably request. NMC reserves the right to audit or have audited the performance and/or results at any time during the period. NMC will provide policy guidance in areas that impact upon the national interest, especially in regard to local grain procurement and product sales.

Clause 5 (a) and (b) shall read:- NMC and Swaki shall have the right to terminate this agreement prior to the expiry of the period by giving the other party twelve months notice of its intention to do so. If neither party takes such action before 31 March 1990, notice of intention to extend the agreement will be given and negotiations for such extention will commence.

Clause 7 shall read:- Swaki agrees, if so required by the government, to carry out feasebility studies and furnish reports on items inherent to the industry and potentially beneficial to the Mill operation. Those clauses not specifically identified above are assumed to reasonable without charge.

A G R E E M E N T

between

NATIONAL MAIZE CORPORATION (PTY) LIMITED " NMC "

and

SWAKI INVESTMENT CORPORATION (PTY) LIMITED " Swaki "

herein represented by J.R. Masson duly authorised hereto by a resolution of the Board of Directors of the company passed at Manzini on the 26th day of June 1985

W H E R E A S:

The NMC has made arrangements with Swaki whereby the Mill will continue to operate for the period 1st June 1987 to 31st May 19~~92~~88 ("the period").

NOW THEREFORE IT IS AGREED AS FOLLOWS:

1. It is a condition precedent to this agreement that it shall have been signed by both parties and shall have become fully effective by not later than 30th May 1987.

2. Swaki hereby leases to NMC the buildings, machinery and equipment at Matsapha Industrial Estate ("the Mill") for the period at a rental of E420,000 per annum. The rental shall be payable in monthly instalments. However, if NMC and Swaki decide that it is necessary, at any time, to incur expenditure of a capital nature on the Mill, the lease rental shall be increased by 15% of such expenditure with effect from the date of such expenditure.

3. NMC hereby appoints Swaki as its Manager of the Mill during the period on the following terms and conditions.

3.1 In anticipation of this agreement coming into effect Swaki has prepared a budget for the operation of the Mill for the first twelve month period, 1st June 1987 to 31st May 1988. A copy is hereunto attached as Annexure "A". The parties agree that the budget, as far as possible, shall be the basis on which the mill shall be run. Both the Government and NMC acknowledge

that the underlying basis on which the budget has been structured is that the Mill will have sufficient sales volume from mill production and imports to cover its operating costs and overheads.

3.2 Swaki shall have the sole responsibility to operate the Mill including but not limited to the purchase, transportation, and milling of whole maize into various maize products, the sale and transportation of such products, administration and accounting, the collection and depositing of the proceeds of all sales including any necessary legal proceedings and the payment of all liabilities incurrred in connection with the operation of the Mill.

3.3 Swaki shall ensure that adequate and appropriate insurance cover is established on behalf of NMC arising from the operation of the Mill and in particular in respect of any liability which NMC may incur to third parties arising out of any defect in the Mill's products.

3.4 Swaki shall cause a bank account to be opened in the name of NMC, and shal secure the finance, by way of overdraft facilities if necessary, to cover the normal working capital requirements of NMC, estimated by Swaki to be of the order of E3.0 million. This excludes seasonal requirements for the purchase by NMC of maize surplus to the Mill's immediate requirements, which shall be the subject of separate financing arrangements. The Government undertakes, if necessary, to guarantee to the lender any such facilities granted. All financial transactions involving the deposit and withdrawal of funds from NMC's account, including payments due in terms hereof to Swaki shall be done by Swaki exclusively, and the bank shall be advised accordingly. Swaki is empowered to sign all such forms and documents as may be necessary to give effect to this provision.

3.5 It shall be the responsibility of NMC to secure the provision of whatever import or export permits may be required.

3.6 NMC agrees to pay to Swaki a monthly management fee of E1650 for the provision of administrative, sales and accounting services to NMC and reimburse Swaki in the amount of E19,905 per month, to cover direct costs incurred by Swaki in the administration of the Mill. The latter amount will be adjusted annually on 1st June, in accordance with changes in the most recent 'A' price index of the Central Statistical Office.

3.7 NMC shall retain the services of all permanent staff presently employed at the Mill on the basis that such staff shall be seconded to NMC by Swaki. NMC shall be obliged to meet the salaries and all other benefits due to such staff during the period, such as pension and provident fund contributions.

3.8 Swaki undertakes to prepare monthly management accounts in respect of the operation of the Mill which accounts shall include a report on whole maize produced locally and imported and comparison of actual results compared to the budget.

Copies of such reports shall be furnished to the Board of NMC within 21 days after each month end and Swaki undertakes that it will make available at reasonable times for board meetings of NMC such members of its management staff as the board shall reasonably request.

4. While Swaki reserves to itself its rights in and to the brand names presently relating to the maize products produced by the Mill it agrees that such names will continue to be utilized on behalf of NMC's products during the period.

5.(a) NMC and Swaki shall have the right to terminate this Agreement prior to the expiry of the period by giving the other party twelve months' notice of its intention to do so. If neither party takes such action before

1st June 1991, negotiations shall take place during the year 1st June 1991 to 31st May 1992 to determine whether the parties wish to extend the Agreement for a further period o five years.

(b) In the event of NMC electing to terminate the Agreement before 31st May 19~~92~~88, or electing not to extend the Agreement after 31st May 19~~92~~88, NMC accepts responsibility for payment of the additional cost of any redundancy or termination benefits which may become payable by Swaki to members of the staff of the mill made redundant as a result of such termination of the Agreement.

6. NMC will appoint its own auditors to audit the financial operation of the mill during the tenure of this agreement.

7. Swaki agrees, if so required by the Government, to carry out a feasibility study and furnish a report thereon in relation to the use of maize silos at Matsapha presently owned by the Government whether by incorporation of such silos into the milling operation or otherwise.

8. The terms and conditions set out herein constitute the entire agreement between the parties.

9. All costs in connection with the preparation and execution of this agreement shall be borne by NMC.

THUS AGREED AND SIGNED at on the day of 1987

AS WITNESS:

1. .....

2. .....

NATIONAL MAIZE CORPORATION

THUS AGREED AND SIGNED at on the day of 1987

AS WITNESS:

1. .....

2. .....

SWAKI INVESTMENT CORPORATION (PTY) LIMITED

Schedule 1

Personnel contributing to study.

The Honourable Minister	-	Mr H.S. Mamba
The Principal Secretary	-	Mr Amos Kunene
MOAC	-	Mr N. Dlamini Mr R. Thwala Mr J. Mbingo Mr S. Hlope
NAMB	-	Mr P. Lukhele
CCU	-	Mr N. Simelane Mr P. Linsey
GSU	-	Mr S.S. Dlamini
Swaki	-	Mr John Masson Mr Campbell
MOAC Advisor	-	Dr John Fischer Dr Herman Steppe

Schedule 2

Overhead Staffing - Annual Salaries

		E
General Manager	-	70,000
Financial Controller	-	50,000
Sales Manager	-	40,000
Customer Relation	-	20,000
Personnel Officer	-	20,000
Office Manager	-	20,000
Sales Clerk	-	10,000
Financial Clerk	-	10,000
Plant records	-	8,000
Secretary/Stenographer	-	5,000
Secretary/Stenographer	-	5,000
Receptionist	-	3,000
Total	-	261,000

Legal and Tex skills would be hired as needed.

Schedule 3

-2244 WD

4-85156 SA
TO: MIKE WILKINSON
FM: DAVID JOPLING

VALUATION INDUSTRIAL AREA HOLDINGS AND SWAKI INVESTMENTS
MATSAPHA, MANZINI, SWAZILAND

FURTHER TO OUR TELEPHONIC CONVERSATION OF THIS AFTERNOON I HAVE PLEASURE IN SETTING OUT BELOW THE DEPRECIATED REPLACEMENT VALUES OF THE BUILDINGS HELD IN THE OWNERSHIP OF THE ABOVEMENTIONED COMPANIES AS AT 1 FEBRUARY 1985.

PLAN NO	BUILDING DESCRIPTION		DEPRECIATED REPLACEMENT VALUE
			E
1	MAIZE INTAKE BUILDING		66 500
2	SILO COMPLEX		-
3	MAIZE MILL		380 000
4	PACKING DEPARTMENT AND WAREHOUSE		175 000
5			
5	WAREHOUSE OWNED BY INDUSTRIAL AREA HOLDINGS (PTY) LIMITED	80 000	
6	DRUM STORE		500
7	DISUSED ABLUTION BLOCK		-
8	WEIGHBRIDGE HOUSE		5 000
9	ABLUTION BLOCK, SECURITY GATEHOUSE, CANTEEN AND KITCHEN		85 500
10	SUB-STATION		4 500
11	TOILET BLOCK		5 000
12	OFFICE BUILDING		17 000
13	BAG STORE AND WORKSHOP OWNED BY INDUSTRIAL AREA HOLDINGS		30 000
	SURROUNDING WORKS		19 000
		E	868 000
	LAND IN EXTENT APPROX 42088 M2	E	200 000
	LAND ACQUISITION COSTS AT 6 PER CENT		12 000
	TOTAL	E	1 080 000

I TRUST THAT I HAVE PROVIDED YOU WITH THE VALUATION FIGURES AS REQUESTED BY YOURSELF AND SHOULD YOU REQUIRE ANY FURTHER INFORMATION, THEN PLEASE DO NOT HESITATE TO CONTACT ME.

KIND REGARDS

-2244 WD

4-85156 SA

FRICS AIV(SA)
FRICS AIV(SA)
MSAI Mech E
BSc FRICS AIV(SA)
FRICS
Tim W Moulder* ARICS AIV(SA)
Robert C Prince* ARICS AIV(SA)
Richard M Ewens*
John N A McCarter
John A B Short* ARICS AIV(SA)
*British
BEST AVAILABLE COPY

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Schedule 4

Richard Ellis

Annexure 2.1

SUMMARY

Page Numbers	Plan Numbers	Description	Estimated New Replacement Cost E	Depreciated Replacement Value E
ASSETS BELONG TO INDUSTRIAL AREA HOLDINGS (PTY) LTD				
8 - 9	-	RAIL SIDING AND SUNDRIES	109 750	69 650
		Sub Total	109 750	69 650
ASSETS BELONG TO SWANE INVESTMENT CORPORATION (PTY) LTD				
11 - 12	1	MAIZE INTAKE BUILDING	80 900	65 150
13 - 14	2	THE SILO COMPLEX	339 400	283 500
15 - 22	3	THE MAIZE MILL	1 749 100	1 015 800
23 - 27	4	PACKING DEPARTMENT AND WAREHOUSE	347 850	182 710
28 - 29	5	WAREHOUSE	-	-
30 - 31	6	DRUM STORE	-	-
32 - 33	7	OLD TOILETS	-	-
34 - 35	8	WEIGHBRIDGE HOUSE	39 200	30 110
36 - 27	9	GATE HOUSE AND CHANGE HOUSE	8 600	4 500
38 - 39	10	SUB-STATION	190 000	150 000
40 - 41	11	TOILETS	-	-
42 - 43	12	OFFICE AND LABORATORY	6 970	5 490
44 - 45	13	WORKSHOP AND BAG STORE	9 450	5 150
46 - 47		MOTOR VEHCLES	31 000	11 300
		Sub Total	2 802 470	1 753 710
		GRAND TOTAL	2 912 220	1 823 360

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SCHEDULE 5

SUMMARY OF RICHARD ELLIS BUILDING DESCRIPTION AND NEW REPLACEMENT EVALUATION

Maize Intake Building	70,000
Silo Complex (valued by plant machinery division)	-
Maize Mill	400,000
Packing department and Warehouse	445,000
Warehouse owned by Industrial Area Holdings 200,000	Not included
Drum Store 2000	Not included
Disused Ablution Block no value	-
Weighbridge House	5,000
Ablution Block, Security Gatehouse, change room	90,000
Sub station	6,000
Toilet Block	6,500
Office building	19,000
Bag store and workshop	70,000
Surrounding Works	37,000
TOTAL	E1,148,500