Adhering to financial management principles and re-investing for future generations

By Rachichi Marokane, national transformation co-ordinator, Potatoes SA

The momentum in preparations for the 2023 potato production season is building in Limpopo, where the popular planting window from March to July has arrived. Producers are rushing to prepare amid inconsistent climatic conditions. Added to that, the current energy crisis is not only disruptive in respect of irrigation for first ripping, but has also increased scepticism among producers regarding optimal hectares that must be planted.

"There is still hope that the last rains during late March and early April will allow sufficient moisture so that we can commence with field preparations," said Robert Chauke, a Potato SA enterprise development farmer who attended a financial management training session presented in Vivo, Limpopo in March this year.

Over 70% of potato operations costs are usually spent during the first three months of the operational period. In Limpopo, where operational costs amount to over R150 000, and to a farmer with a poor cashflow, the current challenges spell another difficult year.

Re-investing for a wealthier generation

As part of its transformation objectives, Potatoes SA identified the need to offer financial management training – hence the session held in Vivo, Limpopo for developing farmers partaking in its development programmes.

The two-day session exposed producers to numerous factors that affect potato cropping as well as financial management principles relating to farming. Gert Bester, who is also the chairperson of the Potatoes SA board, shared his path to becoming a successful commercial potato farmer producing under dryland conditions. With re-investment highlighted as the main 'take-home' message for the day, a number of principles relating to financial management were explained to the attendees.

Gert explained that producers need to understand what makes potatoes grow the way they do, in order to understand why they also react in a certain way. Over history, the potato has evolved itself as a crop with genetic potential that can yield up to 170 t/ha. Yield variations across different countries are mainly due to factors such as climate, soil potential, pests, and the like.

Managing non-allocated costs

In respect of financial management principles, producers were advised that planting fewer hectares and maximising yields through dedicated efforts relating to seed quality, optimal fertilisation and chemical application can result in a profitable and manageable enterprise. With various expenses related to farming, these items can be categorised into allocated and non-allocated costs.

Gert defined the latter as the most difficult to manage as it does not vary in accordance to the level of outputs. He reiterated that farmers must make sure that they take care of the non-allocated costs as part of their break-even goal.

Non-allocated costs discussed included:

- Overheads.
- Capital.
- Replacement costs.
- Personal costs.

Managing a farming business holistically is vital for determining cashflow status. However, one would ideally have to distribute non-allocated costs across enterprises. Not only does this measure the productivity of an individual enterprise; it also assists the farmer when deciding whether to increase his/her production scale to generate sufficient operating profit that will at least offset the non-allocated costs.

When developing a consolidated cashflow plan, it is important to develop cost centres that allow the producer to develop parameters that will apportion non-allocated costs per enterprise.

Running a solvent and liquid enterprise

With most formal lending institutions requiring land as security, farmers

Attendees at the financial management training session held in Vivo, Limpopo during March 2023.

Table 1: Apportioning non-allocated costs: Fictional scenario of a diversified farm.

Expense	Total
Administrative	R 5 456
Repairs	R 25 467
Salaries (3 staff members)	R 180 000
Insurance	R 13 546
Electricity	R 24 567
Fuel bakkie	R 15 469
Personal salary	R 145 321
Instalment	R 36 678
Total	**R 446 504**

Weight determining factor

Branch	Income	% of income	Branch responsibility
Potatoes	R 3 532 235	75%	R 334 878
Cattle	R 321 789	7%	R 31 255
Beans	R 756 006	16%	R 71 440
Cabbage	R 120 987	2%	R 8 930
Total	**R 4 731 017**	**100%**	**R 446 504**

are urged to aim at investing in such a fixed asset which, in most cases, appreciates in value. Current assets such as a positive bank balance, proper production facilities and disposable livestock are crucial in maintaining the liquidity of the farm. Repayment of liabilities and increased retained earnings should also be prioritised by producers to bolster the solvency of their enterprises.

Financial management remains pivotal in the sustainability of any farming enterprise. Developing farmers need to understand that they are in the business of making money. Re-investing as much as possible and asking the right people for help, can realise the dream. Although a liquid and solvent state is not a panacea in farming, individual farmers must know how to manage their entities by planning ahead and adhering to sound financial principles.

For more information, contact Rachichi Marokane at email rachichi@potatoes.co.za.

Mondstuk van die Suid-Afrikaanse aartappelbedryf • Mouthpiece of the South African potato industry

CHIPS

VOL 37 NO 3 • MAY / JUNE 2023

MARKET AGENTS REMAIN A CRITICAL LINK IN THE POTATO VALUE CHAIN

SUIDWES-VRYSTAAT KULTIVARPROEF ONDER BESPROEIING OP PETRUSBURG IN 2022

Baseline and market dynamics for the coming season

Weerstandigheid teen plaagdoders

Oorlewing van *Ralstonia* spp. in die grond