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A diversified approach for greater liquidity

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Meshack Ndongeni: A diversified farm planning approach for greater liquidity

By Rachichi Marokane, Potatoes SA

To an emerging farmer, a complex planning scenario might entail the inclusion of uncorrelated farming enterprises. When it comes to capital injected into a diversified farm entity, an on-farm value chain approach is essential. Most importantly, retaining good cash flow remains a key factor in any successful entity.

In this context, reference can be drawn from Meshack Ndongeni, a potato producer on the verge of running a potato enterprise on a sustainable commercial scale.

A case of bartering

Having lost his father at a relatively young age, Meshack found it a challenge to follow his dream of farming. In the village where he grew up, the majority of households were farming maize on a small scale on communal land. His mother identified an opportunity to plant potatoes on 4 ha on a rotational basis.

At the time, formal marketing channels were limited. Coupled with asymmetric information, the villagers would participate in bartering where, in Meshack's case, he would trade a 10 kg bag of potatoes for a 20 kg bag of maize. As potatoes are highly perishable compared to maize, he would store the maize once it was harvested in July and later resell it in the local villages in December when prices were relatively high. This allowed him to, unlike others, trade throughout the year.

With government shifting its focus to socio-economic development and inclusive agrarian reform, he saw an opportunity to participate in the Massive Food Production Programme launched by the Eastern Cape Department of Agriculture in 2005. As part of the programme, Meshack joined the service providers who planted grains for other farmers, using his one tractor. From there on he expanded by purchasing more tractors and was subsequently able to offer his services at other rural development projects. He currently owns 21 tractors.

Meshack started farming at commercial level in 2013 when he received a 942 ha portion of land under the Proactive Land Acquisition Strategy of the former Department of Rural Development and Land Reform (DRDLR). Before that, he farmed on leased land where he planted grains. Obtaining land from the DRDLR enabled him to expand his production capacity and to consider other commodities for a diversified farming approach.

An effective crop rotation plan

As a general rule, a field planted with potatoes cannot be replanted for at least four years. However, having land without any farming activity can, in economic terms, defer under-utilisation, especially where a business has the capability of diversifying production.

Access to capital, infrastructure and affordable production inputs will also enable a farming entity to unleash its diversification potential. Equipped with state-of-the-art infrastructure and having mechanised over 940 ha of arable land, Meshack has invested in various agricultural commodities which include:

- Potatoes: 50 ha.
- Maize: 600 ha dryland.
- Wheat: 100 ha dryland.
- Cabbage: 30 ha under irrigation.
- Cattle: 200 livestock units.
- Sheep: 400 livestock units.

Meshack planted 50 ha of potatoes in September 2021, and harvesting commenced in February and will continue until May this year. Cabbage that was planted on 30 ha has been staggered in such a way that only 10 ha has been harvested from January to March this year, while the remaining 20 ha will be harvested between April and August.

As far as the grains are concerned, 600 ha of maize is expected to be harvested in July. He is, however, not planning to sell all the maize at once, but rather over a period of five months, while 100 ha of wheat will be harvested in December.

Output, revenue and KPIs

Running a diversified farming enterprise comes with a number

Meshack started farming commercially in 2013 when he received a 942 ha portion of land under the Proactive Land Acquisition Strategy of the former Department of Rural Development and Land Reform.

Meshack's farming business employs approximately 40 permanent and over 200 seasonal workers.

of risks. The output and revenue generated from each commodity are influenced by several factors, ranging from yield per hectare to the weight of livestock. For this reason, Meshack applies the prudence conceptual framework.

This implies that factors that exhaust the net profit (such as downgraded yield, mortality rate as well as variable and fixed costs) should be overestimated in the planning phase. In contrast, revenue factors (such as yield per hectare, marketable yield and selling prices) should be underestimated. A benchmark for forecasting should be informed by the producer's past experiences, current capacity and future outlook.

There are various key performance indicators (KPIs) and cashflow ratios that producers can use to understand their financial position each year. For Meshack, the business must have sufficient cashflow to support farming activities without external funding or additional loans. This will allow the farm to be regarded as a liquid entity.

By understating the liquidity of an entity, farmers may utilise the main cashflow components, namely operating, investing and financing activities.

As producers start operating at a commercial production level that requires formal financial reporting, an income statement is often used and includes non-cash expenses such as depreciation. Meshack also values the strength of working capital in determining the liquidity of his entity. In this regard, he makes use of the balance sheet components (current assets and liabilities) to see how promptly he can generate revenue/cash.

An effective labour force

Meshack defines his labour force as effectively structured and result orientated. The secret to his consistently positive results has always been helping employees understand the benefits they derive from the collective success of the business. His farming business employs approximately 40 permanent and over 200 seasonal workers.

Working alongside him is his daughter, who studied financial economics, and two sons who both studied agriculture. This allows Meshack to have an excellent succession plan in place, and he clearly sees the need to stabilise his children's interests in the farm. Furthermore, he has employed an agricultural economist who forecasts production plans, as well as an accountant who maintains his financial records.

Continuous market research

To Meshack, staying ahead of the game and adapting to market trends is one of his key success factors. Investing in infrastructure that could be rendered obsolete in the next few years following acquisition, might not be a wise decision. Over the years new potato cultivars have emerged that offer a competitive advantage at various levels of the value chain.

As a farmer, one must develop a thorough understanding of potato buyers' preferences and consider the costs that accompany common or niche markets. Meshack has spread the risk of cultivar correlation by planting Sifra and Valor on his 50 ha of potatoes. According to him, these cultivars are in high demand among his buyers (retailers in KwaZulu-Natal and the Eastern Cape).

Additionally, before planting, the producer needs to find out what other local farmers are planning to plant and how much they have planted, so that he does not form part of a flooded market that could yield lower prices.

A 'conservative' risk appetite

According to Meshack, the biggest risk in any farming business is not taking any risk. However, risks should be calculated, and viable mitigation measures put in place.

A diversified farming approach requires land that is not marginal. Access is needed to abundant natural resources, and their long-term availability must be well calculated. This year, he plans to expand his potato production to 70 ha. Since he has sufficient infrastructure and machinery that can be ceded as collateral for loan applications at financial institutions, he still considers equity to be the most sustainable option.

Producers should, however, develop business plans based on realistic financial forecasting of how they can accumulate capital and reinvest in a manner that will retain liquidity and limit the need for interventions through external funding.

For more information, contact Potatoes SA on 012 349 1906 or visit *www.potatoes.co.za.*