

---

# The Cane Grower

---

The Newsletter of the South African Cane Growers' Association  
170 Flanders Drive, Mount Edgecombe, 4300 • Telephone: 031-508 7200 Facsimile: 031-508 7201  
e.mail: central@canegrowers.co.za • Website: www.sacanegrowers.co.za • Reg No. 1928/001125/08

VOLUME 17 • NUMBER 11

MARCH 2011

---

## Back to Basics: Cash Flow Budgeting

By G Ducasse—Area Manager: Umzimkulu

**A**t the heart of every business is *cash*. Any business, regardless of type or size, requires a constant flow of cash to keep it operational. How much financing will your farm business require this year? When will money be needed, and from where will it come? A useful planning tool which helps to answer these questions and can assist you to avoid short-term shortages of cash is that of a cash flow budget.

A cash flow budget is simply an estimate of the timing and quantities of cash inflows and outflows over a specific period (usually one year) which enables a business to identify cash requirements in advance and make the necessary arrangements and adjustments. It is common for a farmer to avoid the preparation of a monthly cash flow budget under the view that he/she is too busy doing business (farming) and thus would rather monitor cash flow by watching his/her bank account. However, since *cash* is the heart of your farming operation, monthly cash flow budgeting should be seen as an essential business tool.

The main feature of the cash flow budget is that it focuses on *cash* and does not include non-cash items such as inventory valuations and depreciation. Accordingly, it is important to note that cash flow budgeting looks only at money movements, *not* at profitability. Rather, it should be viewed as a tool to facilitate the financial planning of the farm.

The compilation of a cash flow budget requires monthly estimates of all cash receipts and all cash expenditures during a certain time period (typically one year/season). These estimates may include income and expenditure from both farm and non-farm activities. Common farm cash inflows include cash operating and capital receipts, while cash outflows usually include such items as farm operating expenses and capital outlays, family living expenses (drawings), and loan repayments. It is a prerequisite,

therefore, that the farmer follows a simple record keeping system in the organisation of the data which will assist in the formulation of these estimates. In the compilation process, two fundamental principles need to be considered:

- Cash flows must be matched to the month during which they actually occur. For instance, if fertilizer is purchased in April, but only planned for application in October, it should be recorded in April (as this is when the cash actually moves). However, if fertilizer is purchased on credit, this should only be recorded in the month that the payment is actually made.
- Your cash flow budget should be *realistic* and *achievable*. That is, cash sales and expenses forecasted for the months ahead should be achievable taking current market conditions into account. Thus, the magnitude of your estimates should be carefully

(Continued on page 2)

Shepstone & Wylie  
ATTORNEYS

Field Specialists

contact:

NICK THEUNISSEN : 031 575 7402 or hnt@wylie.co.za - Commercial  
JENNIFER FINNIGAN : 031 575 7406 or finnigan@wylie.co.za - Commercial  
MICHAEL MAESO : 031 575 7207 or maeso@wylie.co.za - Employment Law  
BEV NELSON : 031 575 7104 or nelson@wylie.co.za - Property  
BRUCE ARMSTRONG : 031 575 7510 or armstrong@wylie.co.za - Litigation

www.wylie.co.za

(Continued from page 1)

considered. Ideally estimated cash-flows would equate to actual cash-flows. However, in reality it is often sensible to adopt a conservative approach in budgeting to account for unanticipated changes in conditions.

Having provided estimates of cash inflows and outflows, the cash flow budget calculates the cash surplus/shortfall for the month. This surplus/shortfall represents the net movement in the bank account for the month and can thus be added to the opening bank balance for the month to calculate the bank balance at the end of the month. At this point interest must be considered. This is generally calculated as the average of the beginning-of-month balance and end-of-month balance multiplied by the monthly interest rate. The closing bank balance obtained is simply the end-of-month bank balance adjusted for the interest. This closing bank balance then rolls over and forms the opening bank balance for the following month. A cash flow budget is a useful management tool for the following reasons:

- It forces you to think clearly through your production and marketing plans for the upcoming year/season.
- It tests your farm plans: will you produce sufficient income to meet your cash needs? Thus, it predicts your business's cash flow gaps – periods when cash outflows exceed cash inflows. Various aspects of your farm plan may need to be altered so as to reallocate cash inflows/outflows such that the anticipated liquidity problem is alleviated. Alternatively a bank overdraft may be required.
- Since farming typically requires large amounts of money to be spent before any income is realised, the need for cash flow management cannot be overstressed. A cash flow budget is of assistance in this regard as it projects your need for operating credit and your ability to repay borrowed funds. You are required by most financial institutions to prepare a cash flow budget before any production loan (or overdraft facility) will be granted. Indeed, a cash flow budget is often the critical document analysed by financing institutions when considering an application for production finance. In essence, a cash flow budget helps you communicate your farming plans and credit needs to your lender and also gives an indication of when this loan can be repaid.
- A cash flow budget helps you control your finances. It is wise to continually compare your budgeted to actual cash flows as discrepancies can be identified that may require attention. For instance, you may be able to identify developing problems because of an unexpected drop in income or rise in input prices. On the other hand, you may spot opportunities to save or invest funds if net cash flow is higher than expected.

(Continued on page 4)

## Think twice about your finance strategies

By M Gina—Regional Economic Advisor: North Coast

The drought that was experienced during the season has severely impacted cane growers and negatively effected yields obtained. The effect was heavily felt in dry land regions where farmers depend on rain as a source of moisture. Some farmers have experienced a yield decrease of more than 40% of the estimates submitted in April 2010. A decrease in yield means that farmers will generate lower income. This situation will be further aggravated by the fact that there will be a long off crop season due to the slow ratooning of the harvested cane and the previous milling season being short. This puts cane growers in a tight financial situation. The drought has not only had an effect on the yield achieved last season but will also effect subsequent yields. Much of the sugarcane roots could not cope with the drought; as a result they were destroyed and will need re-establishment. This adds to the difficult financial circumstances of cane growers.

This is a difficult situation for most cane growers considering they are currently experiencing poor cashflow due to the lower yields they had last season. Most of the farmers revert to seeking additional debt on top of their existing debts. This is quite difficult especially for the New Freehold Growers who are already heavily indebted due to the bond repayments for their farms. Adding further debt on the existing high debts is not a remedy to this situation instead it makes the situation, much worse.

Debt consolidation may be a good move if done for the right purpose, but may also be detrimental if done for the wrong reason. Debt consolidation will help in reducing the debt repayments, get lower interest rates, rescheduling loan repayment and dealing with one creditor. The reduced debt repayments, rescheduled repayments and lower interest rates will ease the financial burden but it will take longer to settle the debts. The longer the repayment period, it will be more costly to repay the loan in the long-run. Farmers may go for debt consolidation for wrong reasons. They may opt for debt consolidation so that they can receive reduced repayments in order for them to be able to take another debt. Taking another loan after a debt consolidation is not a good move because it takes you back to the high level of financial burden.

Growers should continue to cut back on unnecessary spending and improving efficiency, while additional debt should be avoided, although may be required. The repayment implications during normal seasons should be carefully considered. Drawings during this period should continue to be controlled and carefully considered in line with a well planned farm budget to determine when additional cash will be available. ●

# A land reform success story at Mkuze

By I Madiba—Regional Economic Advisor: Zululand

Traditionally, one seldom hears reports of genuinely successful land reform projects from the Zululand region. Reasons for the failure of these ventures are as numerous as they are varied. More generally, small-scale agricultural systems in South Africa are often constrained by limited access to agricultural inputs, credit facilities and information. Markets are sometimes further inhibited by high transaction costs. Some of the more successful land reform projects to date are those that have been actively involved in mentorship arrangements. Here, it is often necessary to create a mutually beneficial situation for both the established farmer/mentor and beneficiaries through the provision of incentives, in so doing enabling genuine, broad-based empowerment to occur over time.

In the case of Zululand, new freehold growers often attribute their poor performance to: (i) a lack of state support (due to poor access to credit facilities, land reform beneficiaries are heavily dependant on grant funding); (ii) poor timing of state support (delivery delays associated with government bureaucracy creates cash flow problems and/or less than optimal farming practices); (iii) a lack of agricultural equipment (e.g., tractors and ploughs); and (iv) conflicts amongst beneficiaries associated with collective ownership (e.g., free rider problems associated with suboptimal institutional arrangements). A possible exception to this unfortunate trend could be the farming operation run by the Inhlanhlayethu Communal Property Association (CPA), which is located near Mkuze in northern KwaZulu-Natal. Like most land reform projects in the province, they have faced the abovementioned challenges, yet they appear to have combated some of the institutional problems to an extent, as the project is doing relatively well some ten years since its inception. What is interesting is that the members attribute this relative success to their organizational structure – both the transparency and understanding thereof – as well as the expert mentorship/training they have received.

The Inhlanhlayethu CPA was initiated in 2001 by a commercial grower, Mr CH Senekal, with the intention of providing benefits to all farm staff that had dedicated their services to the “Senekal Farming” operation over the years. The project set about cultivating some 175 hectares of cotton, but due to adversities associated with the distance to markets and poor product prices, the operation was deemed to be unviable. In 2004, they started the process of establishing 300 hectares of sugar cane. Importantly, Senekal has remained an active role player and mentor throughout this process, which has contributed to their consistent production performance over the years (Table 1). Expectations are that this trend will continue into the future.

Season	Tons Cane	Tons Sucr	Tons RV	AUC (ha)	HARV(ha)	IRR (ha)
2005				278	0	278
2006	15 985	1 898	1 656	280	123	280
2007	33 263	4 011	3 544	280	280	280
2008	30 737	3 515	3 082	290	280	290
2009	27 717	3 407	3 028	300	278	290

The project performs well in terms of the key criteria of job creation, stimulation of economic activity, community empowerment and currently employs 32 staff to conduct the cane husbandry operations, all of whom live in the surrounding communities. The project has 78 members with approximately 300 indirect beneficiaries. Despite limited start-up capital, the project has managed to raise funds to build infrastructure which include an office, a manager’s house and a labour cottage. These growers are keen to learn and have clearly benefitted enormously from the dedicated efforts of their mentor and other stakeholders involved in the project who have also assisted with training, budgeting, agronomic support, project monitoring/evaluation, as well as keeping growers abreast on important developments in the sugarcane industry. Today, members who first started out as unskilled farm labourers can be regarded as relatively well qualified farmers.

Stakeholder participation in assisting and explaining fundamental concepts to project participants with regards to project planning and implementation, management and monitoring of agricultural activities should not be underestimated. Inhlanhlayethu is an example of a CPA that has actively nurtured and maintained good working relationships with their mentors and have made every attempt to maximize the benefits received from this dedicated support. In terms of the decision-making process, the project has a committee of nine members which are elected on an annual basis. There is also a distinctive and valued “chain of command” flowing from an Estate Manager, to the Section Manager and finally to the Irrigation Manager. Inhlanhlayethu has illustrated that community-run projects can make a success of land reform irrespective of the many challenges they face.

I truly believe that the key secret behind the success of this project lies in the fact that the participants have shown an adequate understanding of the ownership principles as well as the necessary discipline and desire required in order to run a successful and sustainable operation. Consequently, the Department of Rural Development and Land Reform is considering acquiring additional land for these farmers. Other initiatives of a similar nature that involve group participation can certainly learn from the general spirit and ‘attitude’ of this project, which will go a long way to increasing the success of government’s land reform initiatives. The success of land reform does not only depend on the efforts of mentorship, committed extension services, or government funding – a significant portion of it is very much in the hands of the project members themselves! ●

## Promoting sustainable youth in agriculture

**C**ANEGROWERS often receives requests from students enquiring about internships on farms. Against the backdrop of sustainability of farming in general, we thought we would ask cane growers if they would like to be involved in internships and start the debate.

### How it works

As part of diploma courses, the second or third year of training consists of a year of experiential learning on a farm. The student must work with the farmer on a farm and also complete assignments based on the practices followed by the farmer. An example of this would be the identification of all the grasses on the farm and develop a pasture system for the farmer as part of the learning experience. The main objective of internships is to give the student some background on the realities of a farm and the continued challenges that must be faced, problems solved and daily actions required. The student must also do farm work (with the labourers – not as their supervisor) so that the student can in future supervise such work and have an understanding of the job and what is required.

### What are the obligations on the farmer?

The farmer must spend some time with the student sharing his management practices. The farmer will also be required to sign the assignments declaring that it reflects the actual situation on the farm and that the farmer takes note of the recommendations by the student. There is no signed agreement/contractual arrangement. Depending on the institution where the student is registered, the university will visit the student probably twice a year on the farm to monitor his learning experience. Essentially he is still a full time student but in the field and not in the classroom.

### What will it cost the farmer?

Payment to the student is not compulsory but the farmer may provide a stipend if the student is doing work on the farm that is of value to the farmer.

If you are interested in this type of initiative, please contact Thandokwakhe Sibiyi ([tsibiyi@canegrowers.co.za](mailto:tsibiyi@canegrowers.co.za)) on 031 508 7208 or Jayne Ferguson ([jferguson@canegrowers.co.za](mailto:jferguson@canegrowers.co.za)) on 031 508 7225. ●

#### DISCLAIMER

*The Cane Grower is the official newsletter of the South African Cane Growers Association [CANEGROWERS]. Articles included in the newsletter are published with the intention of generating interest and debate in the various issues and to provide information to our readership. Contributions are welcome, but the right to edit any contribution is reserved. The opinions expressed in any published article or insert do not necessarily reflect the opinion of CANEGROWERS.*

## Price of Recoverable Value (RV) in Cane

### FEBRUARY 2011 RV PRICE FOR 2011/12 SEASON

The Sugar Association has declared the February 2011 RV price for cane delivered in **January 2011**:

RV PRICE:	R2 550.20 per ton of RV
"d" factor	0.369107

The price is based on a crop of **16 015 649** tons of cane which converts to **1 920 946** tons of sugar at a cane to sugar ratio of **8.34**. The average RV content is **12.89%**.

### EXTENSION LEVY

The average regional levy (excl. VAT) payable by participating growers for Extension Services for cane delivered during the 2010/11 season is:

**R0.76 per ton of cane**

*(Continued from page 2)*

A slight variation to the standard one year cash flow budget is that of a continuous or rolling budget. This is a method of budgeting where as each month passes, an additional budget month is added such that there is always a 12-month budget. Thus, a rolling budget can be created by inserting the actual cash flow figures over the budgeted figures for the past month, and the impact carried forward using the budgeted figures in the subsequent months. At the same time an additional month is added at the end of the budget such that the number of months being budgeted remains constant (12). This method of budgeting eliminates the need to compile a new cash flow budget every year as the rolling budget is essentially updated and revised monthly. However, a drawback to the rolling cash flow budget is that it is more management intensive and time consuming as it requires monthly attention.

Developing a cash flow budget for the first time is certainly not an easy task. Indeed, effective budgeting requires a certain amount of practice, skill, judgement and consultation. While a budget is not a faultless series of commands to be followed blindly, it does present an invaluable financial planning tool and the associated benefits are undoubtedly worth the effort involved in its compilation.

**"Four steps to achievement: Plan purposefully. Prepare prayerfully. Proceed positively. Pursue persistently." W.A Ward**

You can consult your regional CANEGROWERS' staff for assistance with compiling your cash flow budget. ●