A financial analysis of management models in land reform in South Africa

By

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DECLARATION

I, Quinty Malekopo Moroaswi, declare that this dissertation, submitted for the Master's Degree in Agricultural Economics at the University of Pretoria, is my own work and has not previously been submitted by me or another person for degree purposes at any other university.

Signature: ……………………………… Date: ……………………

DEDICATION

To my son, Tlou Junior, whom I love with all my heart.

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First and foremost, all glory to Lord God the Father for being with me throughout this journey and for my continuous blessings.

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KE A LEBOGA!!

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ABSTRACT

The Land Reform Programme in South Africa has fallen behind schedule since its establishment in 1994 due to a number of trials and challenges. By 2006, twelve years after its inception, the Department of Land Affairs had managed to transfer only 4.1% of the land to black people. The Department is also only now approaching the conclusion of claims lodged by the 1998 deadline. Of the 4.1% (5.9 million ha) of land transferred, only a small percentage was productive due to a lack of financial and business management skills and institutional support from the government. In an effort to accelerate progress and ensure the productivity of transferred land, the Limpopo Provincial Department of Agriculture identified potential farm business management models to enable beneficiaries to secure capital and managerial skills. These management models include individual production, group access to land, and joint ventures with external parties through contractual arrangements.

This study aimed to determine the effect of two management models (strategic partnership model and appointed manager model) on the financial position of land reform projects. Two projects were selected from the Sustainable Restitution Support of South Africa (SRS-SA) Programme, where an operational strategy for land restitution was developed for the Land Claims Commission. The farms are located in KwaZulu-Natal (Tala Valley

Citrus) and Limpopo Province (Mogotle Citrus). Tala Valley Citrus entered into an agreement with a strategic partner, while Mogotle Citrus employed a manager.
Qualitative and quantitative research methods were used for data collection, while a semi-structured questionnaire was used to obtain qualitative data from the CPA and Trust members, the manager, strategic partner, co-ordinator and facilitator. The study also made use of a financial model developed by ABSA to construct financial statements for both farms to determine their financial status. These financial statements of both farms were analysed and compared.

The findings of the study reveal that at project or farm level, more focused interventions by key specialists are important for the execution of a project. Capacity-building of the CPA and Trust members and the community is essential in respect of the specific needs identified. Land use planning, especially during the pre-settlement phase, should be discussed with the relevant community and should, as far as possible, include the needs of the claiming community. The possibility of maintaining the current farming business concern must be addressed during the pre-settlement phase, and everybody involved in the settlement process should be informed. The specific training of beneficiaries in enterprise management (citrus) and business planning is essential for sustainable project implementation. The maintenance of claimed land during the transfer phase is essential and should receive the necessary attention by the key role players involved. The drafting of an interim business plan is crucial for beneficiaries to access funds, while the training of beneficiaries in this regard is important.

Over the short term, the net profit, bank balance and return on equity (ROE) of Mogotle Citrus were found to be higher than that of Tala Valley Citrus due to the fact that Tala Valley Citrus made huge capital investments by acquiring new farming equipment, while Mogotle Citrus did not invest in new farming equipment. From the financial analysis of the two business management models, it is evident that Tala Valley Citrus was performing better than Mogotle Citrus due to the management model adopted.

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ABBREVIATIONS AND ACRONYMS

AFAP	Agricultural Financial Assistance Policy
ANC	African National Congress
ASGISA	Accelerated and Shared Growth Initiative for South Africa
BATAT	Broadening Access to Agricultural Thrust
CASP	Comprehensive Agricultural Support Programme
CEO	Chief Executive Officer
CPA	Communal Property Association
CRLR	Commission of Restitution on Land Rights
CVC	Citrus Variegated Chorosis
DLA	Department of Land Affairs
DoA	Department of Agriculture
ESTA	Extension of Security of Tenure Act
EVA	Economic Value Added
FAO	Food and Agricultural Organisation
FGP	Farmers' Graduation Programme
FISP	Farmers' Intermediary Support Programme
FSP	Farmers' Support Programme
GAAP	General Accepted Accounting Principles
IDC	Industrial Development Corporation
ISRDS	Integrated Sustainable Rural Development Strategy
KZN	KwaZulu-Natal
LCC	Land Claims Commission
LDA	Limpopo Department of Agriculture
LRAC	Land Reform Advisory Commission
LRAD	Land Redistribution for Agricultural Development
LTA	Labour Tenants Act
MAFISA	Micro Agricultural Financial Institution Scheme of South Africa
MEC	Member of the Executive Council
MLRR	Minister of Land Resettlement and Rehabilitation
MT	Metric Ton
NDA	National Department of Agriculture
NP	National Party
OABS	Optimal Agricultural Business System
PLAAS	Programme for Land and Agrarian Studies
PPE	Property, Plant and Equipment
RDG	Restitution Discretionary Grant
RDP	Reconstruction and Development Programme
RLCC	Regional Land Claim Commission
ROA	Return on Assets
ROE	Return on Equity
SPG	Settlement Planning Grant
SAFE	South African Fruit Exporters
SLAG	Settlement/Land Acquisition Grant
SMME	Small, Medium and Micro Enterprise
SRS-SA	Sustainable Restitution Support South Africa
UNCTAD	United Nations Conference of Trade and Development

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

The Native Land Act (Act No. 27 of 1913), also known as the Black Land Act, was the first law separating blacks and whites and remained the foundation of apartheid until the 1990s (Matas, 1996). It encouraged the compulsory removal of black people from their homes and rejected black land ownership. As a result, black South Africans owned only 13% of agricultural land and white people 87% of the land (Van der Westhuizen, 2005), and a total of 3.5 million blacks were relocated from their homes to the homelands (Thwala, 2003). The homelands were areas characterised by high rates of mortality and illiteracy, low incomes, malnutrition, poor housing and inadequate water (Lahiff, 2007a).

In 1914 the South African Native National Congress (currently the African National Congress) submitted a petition to the Imperial Parliament requesting the abolition of the Act, but this petition failed. Even today, the black population in South Africa is characterised by poverty, illiteracy, low incomes, malnutrition and unemployment, which according to Thwala (2003) is a direct result of the apartheid laws. De Villiers (2003) concurred, adding that the dispossession of land in South Africa, the violence that accompanied forced resettlement, the overpopulation and the poor quality of land in the homelands all played a contributing role to the current poor economic status of the majority of black South Africans.

To rectify and redress the injustices of the past, the African National Congress (ANC) promised the implementation of a Land Reform Programme to address the injustices of forced removals and the denial of access to agricultural land for black people. Land can be used as a means to empower or disempower people (Bowyer-Bower & Stoneman, 2000). Black people in South Africa were disempowered when they were denied access to land ownership, and the Land Reform Programme was aimed at encouraging them to be involved in farming, thus leading to a highly efficient small-scale farming sector that would improve economic growth in South Africa (ANC, 1994). When it was implemented in 1994, the primary objective of the Land Reform Programme was to transfer 30% of white-owned land to black communities within five years (Lutchmiah, Pillay, Govender & Khanyile, 2004).

In order to achieve the objective of 30% land transfer by 2014, the Land Reform Programme is structured around three pillars:

- Land Redistribution – aims to create equality by providing black people with access to land for either productive or residential purposes;
- Land Restitution – aims to return land to black South Africans who were forcibly removed from their land by the apartheid system; and
- Land Tenure – aims to provide labour tenures with secure tenure (ownership or occupancy rights) of land (DLA, 1997).

Since its establishment, the Commission on Restitution of Land Rights has endured a number of trials and challenges, playing a pivotal role in facilitating development initiatives and relevant support measures to all stakeholders. Between 1994 and 2006 the Department of Land Affairs (DLA) transferred 2.2 million hectares of agricultural land to disadvantaged South Africans, of which 761 524 hectares were transferred through state land disposal and 1 477 956 hectares through the redistribution programme (Lahiff, 2007a). This implies a transfer of only 4.1% of the total agricultural land in South Africa. Given the objective of transferring 30% of agricultural land, the process of land transfer is perceived to be very slow by the general public. Moreover, after obtaining the land, most communities struggle to continue with the farming operation due to lack of finances (both working capital and capital expenditure), infrastructure, business and marketing skills and government (post-settlement) support, as well as lack of co-ordination between community members and also between government organisations (Jacobs, 2003).

These constraints are also considered to be the main reason for delays in land reform programmes in other countries like Namibia and Zimbabwe. In Namibia there are claims of farm negligence following the transfer of land, causing the productivity of farms to decrease. The blame is directed at lack of management skills, poor social services and financial problems (Werner, 1997). In Zimbabwe the delays are blamed on rising land prices and other social, economic and welfare problems (Bowyer-Bower & Stoneman, 2000).

If constraints like these are not addressed in a timely manner, the Land Reform Programme in South Africa will continue to lead to frustration, and the successful execution thereof relies on integrated and co-ordinated efforts from all role players to deliver efficient support to the newly settled farmers. It also implies substantial inputs from the relevant government department responsible for the implementation of the Programme.

1.2 PROBLEM STATEMENT

The successful implementation of the Land Reform Programme is important to the South African economy and is concerned not only with giving people back their land, but also reducing poverty and unemployment, increasing economic growth, and generally improving people's quality of life (Groenewald, 2003). A successful land reform programme has been one of the challenges in agricultural development around the world. In Africa, Asia, Central and South America and Eastern Europe, the agricultural sector is characterised by problems such as uneven access to land resources, severe rural poverty, unproductive use of land and resources, as well as economic, social and political inequality (Groenewald, 2003).

Although the Land Reform Programme is viewed as one of the mechanisms to reduce poverty and to rectify the injustices of the past, there has been little evidence of its success. By 2006, the Department of Land Reform and Rural Development had transferred 4.1% (5.9 million ha) of agricultural land to black people; however, only a small percentage was productive due to lack of business principles, poor governance, and limited financial and institutional support from government. For example, the 20 top crop and dairy farms in the Eastern Cape Province that were purchased for R11.6 million and returned to the Kokstad community as part of the Land Reform Programme are currently being used for informal settlements, while a high-potential potato farm in KwaZulu-Natal is currently being utilised as a makeshift soccer field. A former multi-million-rand tea estate in Magoebaskloof in the Limpopo Province has also turned into an overgrown forest (Mthethwa, 2009). These few cases indicate how the Land Reform Programme in South Africa has fallen behind schedule and failed to meet expectations due to lack of business management skills, good governance and support from government. In a study on post-transfer production trends conducted by Lubambo and Kirsten (2012) on 37 land reform projects in the North West Province, it was established that production on 43% of the farms visited had decreased, while 27% of the projects were no longer in operation. The blame can be directed to limited access to capital and markets, poor financial, marketing and general business management skills, and lack of knowledge amongst other things. In most cases, land reform beneficiaries are people from rural areas with limited education and skills, and specific training such as enterprise management and business planning should therefore be given to the beneficiaries to ensure sustainable implementation.

The South African government has realised that the progress of the Land Reform Programme is inadequate and it is therefore putting mechanisms in place to boost the progress of land redistribution and ensure successful and sustainable resettlements. The government has recently started exploring new mechanisms to support beneficiaries of the Land Reform Programme through access to training, skills transfer, capital, markets and other services required in farming. Several management models have been proposed by the government in order to secure working capital and business management expertise from the role players in the agricultural industry. These management models include individual production, group access to land, and joint ventures with external parties through contractual arrangements (also known as the strategic partnership model). In October 2003, the Regional Land Claims Commission of Limpopo established a partnership for sustainable land reform, which requires that the Department of Rural Development and Land Reform makes significant changes with regard to their vision, mission and objectives (Limpopo Department of Agriculture, 2006). The above-mentioned issues point to clear disturbances between challenges at governance and project level.

1.3 RESEARCH OBJECTIVES AND SPECIFIC RESEARCH QUESTIONS

This study compares two citrus fruit farms, which were recently redistributed to the Nkumbuleni community in KwaZulu-Natal (KZN) and the Mashishimale community in Limpopo Province, and which were settled following the Minister's approval of the section 42D documentation. In this document, the Nkumbuleni community farm is referred to as Tala Valley Citrus and the Mashishimale community farm as Mogotle Citrus. Both farms have received limited support from the state in terms of financial and technical assistance,

and in order to be sustainable both communities engaged indifferent management models to secure capital and skills transfer. Tala Valley Citrus chose the profit-sharing relationship model with a strategic partner, while Mogotle Citrus hired a manager to manage the farm on behalf of the community. These two farms were redistributed approximately at the same time, but due to the difference in the speed of transferring land to the various communities, the settlement of the farms was at different stages upon the commencement of the research.
The aim of this study was to describe, analyse and compare two management models selected for the production of citrus in two culturally diverse communities, and to identify potential support institutions for the post-settlement stage.

The following objectives were identified for this study:

- To identify institutional support and funding opportunities available for land reform projects in South Africa;
- To identify the business structure and financial governance structure on both farms included in this study;
- To provide an overview of various business management models used by the two communities on the respective farms;
- To provide an overview of the financial management structure used for farm management on the respective farms; and
- To compare the impact of the two business structures on the effectiveness of the land settlement process.

1.4 HYPOTHESIS OF THE STUDY

The following hypothesis was set for the study:

H1: The involvement of a strategic partner in a land reform project contributes to the potential financial success of the project.

1.5 OUTLINE OF THE STUDY

- Chapter one introduces the background information and the problem statement for the study.
- Chapter two consists of the research methodology followed to conduct the study.
- Chapter three provides the literature review in relation to the South African Land Reform Programme, the support services institutions and the agricultural credit available for land reform projects.
- Chapter four provides an overview of the business ownership and management models.
- Chapter five provides an overview of important theoretical concepts of the financial management of a farm, including financial statements and ratio analysis.
- Chapter six contains the overview of the citrus fruit industry in South Africa and the world.
- Chapter seven captures the history and process of land transfers to the Mashishimale community farm, the identification of stakeholders participating in Mogotle Citrus, the selected business structure, and the financial governance.
- Chapter eight captures the history and the process of land transfers to the Nkumbuleni community farm, the identification of stakeholders participating in Tala Valley Citrus, the selected business structure, and the financial governance.
- Chapter nine contains the analysis of the financial performance of these farms from 2007 to 2009.
- Chapter ten consists of concluding remarks and the recommendations for policymakers.

CHAPTER TWO

RESEARCH METHODOLOGY

2.1 INTRODUCTION

The aim of the study was to determine the impact of the selected management models on the financial performance of two farms situated in the Limpopo and KwaZulu-Natal provinces. These farms were selected as land reform pilot projects by Sustainable Restitution Support South Africa (SRS-SA), which was established by Regional and Development Law and Policy with the aim of implementing and testing restitution communities between 2007 and 2009. The programme addressed the competency and efficacy of the pre- and post-settlement support provided to the beneficiaries of the Land Reform Programme.

This chapter provides an overview of the research methodology selected to collect and analyse the data on Tala Valley Citrus and Mogotle Citrus. A comparative research model was used to compare the impact of the two management models on the economic viability of the two projects.

2.2 RESEARCH AREAS

2.2.1 Tala Valley Citrus

This history of this area dates back to 1828 with the death of Shaka, king of the Zulus, and the subsequent rise to power of Dingane, who persecuted all of Shaka's followers, including Zihlandlo, chief of the Embo tribe. As a result, the Embo tribe took refuge in what is today known as the KwaZulu-Natal Province, mainly between Umkhomazi and Pietermaritzburg, finally settling in the area of the IthalaNgomankulu Valley (SRS-SA, 2006). In 1933 Bob Wool, a local shop owner, informed the community that they would have to move away from the area, because he needed more land to practice farming. Some of the community members remained in the area adjacent to Wool's land on condition that they would work on his farm or pay rent, and they named the place Nkumbuleni – a word derived from the manner in which they had been forcibly removed (SRS-SA, 2006). Tala Valley Citrus is situated here in Nkumbuleni, in the Camperdown district of Umkhambathini Municipality; approximately 25 kilometres from Pietermaritzburg (see the map in Figure 2.1).

The area is well known for its large-scale sugarcane production, with some agri-processing also taking place. This area is also characterised by the production of cabbage, citrus, subtropical fruits, potatoes, tomatoes and cotton, as well as stock farming, on a medium scale. Tala Valley Citrus is situated close to a tarred road, namely the R603, which gives the community easy access to the local Shongweni, Pietermaritzburg and Karkloof farmers' markets.

The Nkumbuleni claimant community consists of approximately 250 households that were forcibly removed, of which only 211 could be verified. The extent of the claim amounted to 25 000 hectares of land, but due to a dispute by the previous owners only 800.65 hectares was made available to the community. The farmland consists of a citrus farm, Tala Valley (308.24 ha), and a sugarcane and timber farm, Leeupoort (492.41 ha). The majority of the claimants reside at Sankhotshe, with a few at Hammersdale and KwaXimba and the rest in and around the cities of Pietermaritzburg and Durban. This study focused only on the citrus-growing areas comprising 82 hectares. More details on the history and layout of the area can be found in Chapter 8.

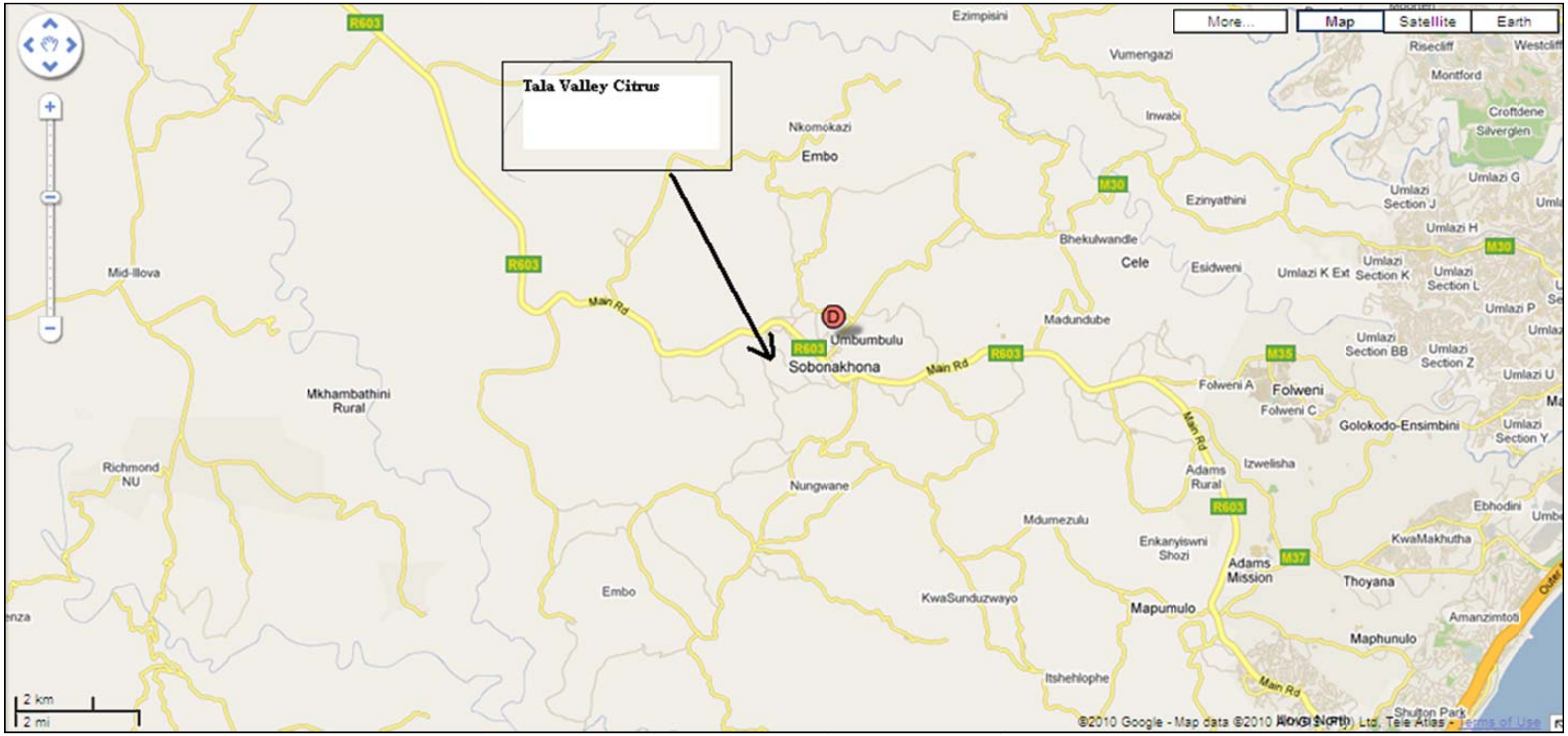

Figure 2.1: Location of Nkumbuleni Community Farm in Tala Valley, KwaZulu-Natal
Source: Google Earth

2.2.2 Mogotle Citrus

Mogotle Citrus is situated in the municipal district of Mopani in the vicinity of Phalaborwa (see the map in Figure 2.2). The district is well known for game and cattle farming, with the world-famous Kruger National Park in close proximity. The district contributes nearly 50% towards horticulture income in the Limpopo Province, with vegetable production also prominent. The climatic conditions in the area are mild, with daily temperatures ranging between a minimum of 14 to 17 degrees Celsius and a maximum of 28 to 30 degrees Celsius. The Mashishimale community is situated approximately 10 kilometres from the town of Phalaborwa, which provides easy access to markets.

The Mashishimale community originally occupied a stretch of land between the Mashishimale Mountain and Mulati Spruit, bordered on the west by a series of hills stretching southwards from Kasteelkoppies up to Mashishimale Mountain, on the east by the Ba-Phalaborwa Ba GaMakhushane tribe, and to the south by the Ba-Phalaborwa Ba Ga-Maseke tribe (SRS-SA, 2006). When the community was removed from the land, they received no compensation and only a small piece of land at Mashishimale Location 800 LT on which to live (SRS-SA, 2006). Since this land belonged to the Mashishimale tribe prior to the surveying and demarcation, it is not regarded as compensation. Even after being removed, the community maintained contact with the land through rituals at ancestral graves, as well as various traditional ceremonies and social and cultural activities.

The claimant community (Ba Phalaborwa Ba Mashishimale) consists of 9 449 beneficiaries farming on 15 497 hectares of claimed land, divided up into nine different farms (more details can be found in Chapter 7). The area is mostly used for game farming, followed by citrus production and ecotourism. The game farm, which has excellent infrastructure and facilities, falls within the Phalaborwa Spatial Development Initiative (SRS-SA, 2006). This study focused only on the citrus fruits area, which covers 62.53 hectares and forms part of farm Bosbok 793 LT.

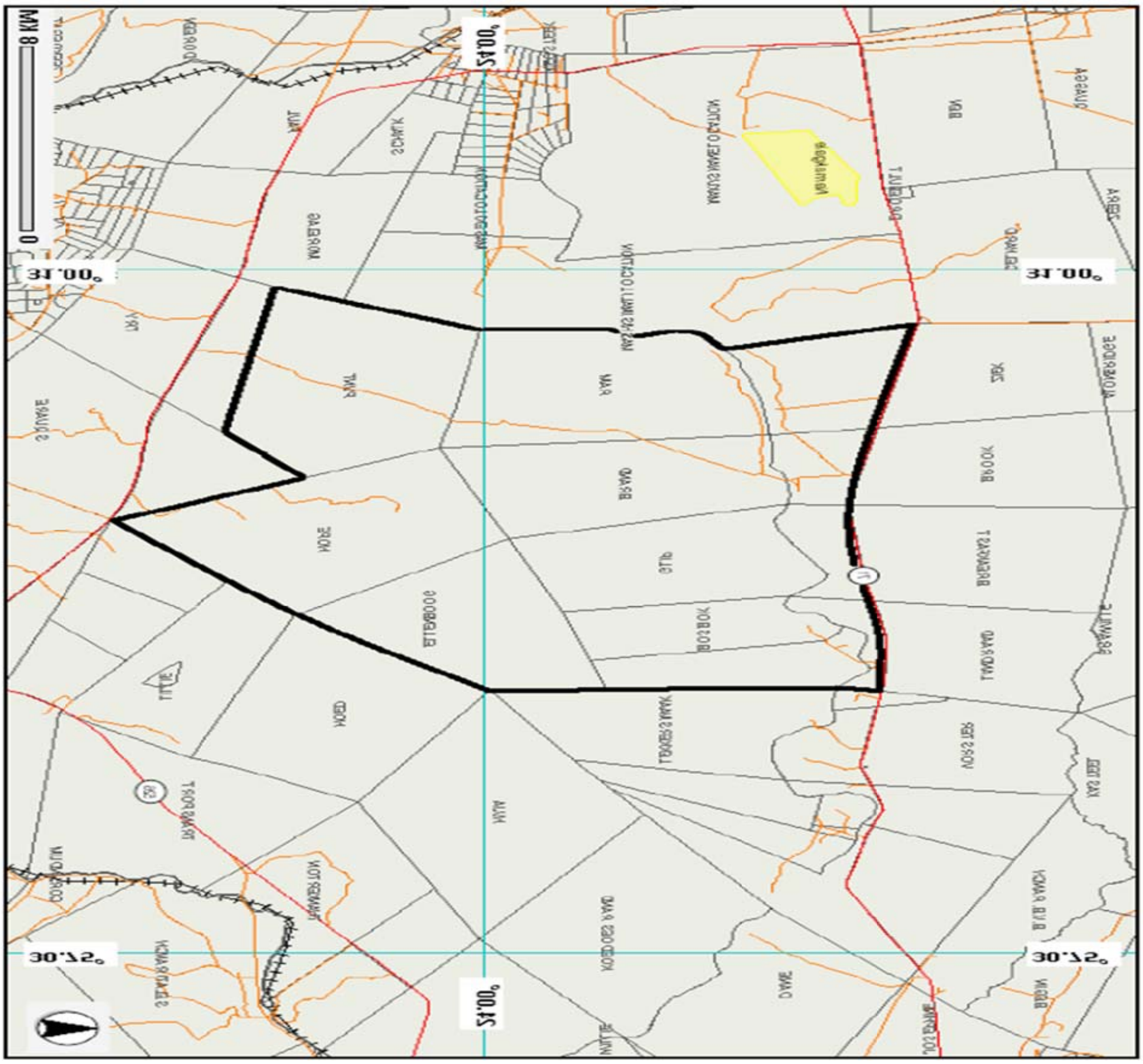

Figure 2.2: Map of Mashishimale Community Farm in Phalaborwa, Limpopo Province

2.3 SAMPLING

Semi-structured interviews were conducted with members of the legal entity (three CPA members from Mashishimale community farm and four trust members from Nkumbuleni community farm), as well as two co-ordinators appointed by SRS-SA on behalf of the community to facilitate and co-ordinate the settlement process and their business partners (manager and strategic partner). In total, eleven people were chosen to be interviewed by virtue of their involvement from the beginning of the project and the fact that they were deemed to have the background information required for this study.

2.4 RESEARCH METHODS

Two approaches were taken to data collection in this study, namely a qualitative and a quantitative approach. The study investigated the business and legal entities adopted, as well as the contributions of the key role players (co-ordinator, facilitator, strategic partner, manager, CPA and Trust), and analysed the financial performance of the two farms in question.

2.4.1 Quantitative Approach

The quantitative survey involved the analysis of financial statements to determine the financial position of the farms. Financial data for both farms was obtained in the form of an Excel spreadsheet and bank statements outlining monetary transactions that had taken place on the farms and the amounts paid for those transactions for the period November 2007 to January 2009. The financial information was analysed using the financial model developed by Mr Pine Pienaar of ABSA Bank. Financial models are tools used to construct financial statements and to forecast or estimate the future financial position of a particular business. The financial model used for this study is no different from other financial models in that it was used to construct income statements, cash-flow statements, balance sheets, long-term budgets and the financial ratio analysis. From the analysis of the financial statements, business sense recommendations can be provided.

2.4.2 Qualitative Approach

The qualitative approach was used to get a better understanding of the business structure, the financial governance of the farms, legal entities (CPA and Trust) and the challenges being faced on the farms owned by the two communities. Semi-structured interviews were conducted with key informants of both farms, i.e. the CPA and Trust members, the co-ordinators, strategic partner and manager. A number of specific key questions were developed beforehand to ensure that relevant information was collected. This was followed by a focus group discussion held with the CPA and Trust members to understand the challenges being faced. The key interview questionnaires for both farms are attached as Appendix 3.

2.5 DATA ANALYSIS

The data collected from the semi-structured interviews was presented in two meaningful reports, explaining the business structures and legal entities, as well as the challenges faced by the two farms (see chapters 7 and 8 for more details). Two balance sheets, income statements, cash-flow statements, summaries of financial analysis and long-term budgets for each farm were drawn up – in the first instance involving both the strategic partner and post-settlement support from government, and in the second instance involving only post-settlement support. This information helped to determine the current financial position of the farms and to forecast the future financial position over the next 10 years. The quantitative data was organised, sorted, triangulated and compared before being presented.

CHAPTER THREE

OVERVIEW OF THE LAND REFORM PROGRAMME IN SOUTH AFRICA

3.1 INTRODUCTION

This chapter provides a theoretical framework and literature review of the Land Reform Programme in South Africa, discussing the financial grants and services available from government and private institutions, as well as the role of agricultural credit institutions.

It is an irrefutable fact that land reform is vital when it comes to improving the livelihood and household income of previously disadvantaged people, not only in South Africa but also in other countries such as Namibia and Zimbabwe. The Land Reform Programme extends way beyond land use; it also has an impact on labour and entrepreneurial skills, employment, social structure, poverty and economic growth (De Villiers, 2003; Partnership, 2005). Land is an important element of livelihood to South Africans, but the support services for land reform projects are generally inadequate. Prior to 1994, agricultural support services were not available to all people, as they were reserved exclusively for white commercial farmers (Partnership, 2005).

Having inherited widespread rural poverty and an urgent need for land reform, the post-apartheid democratic government made the issue of post-settlement support central to its agrarian and land reform strategy from the beginning. Visagie (1997) identified the following types of support that the government should provide to land reform projects:

- Legislative and regulatory conditions
- Access to finance
- Access to markets
- Good infrastructure
- Access to training
- Access to marketing and procurement

3.2 LAND REFORM PROGRAMME IN SOUTH AFRICA

The Land Act of 1913 was passed in order to make more land available to white farmers and to deprive black people of their land through dispossession, for the purpose of enforcing the policy of racial segregation (Rugege, 2004). The phenomenon of land dispossession and skewed distribution is not exclusive to South Africa, but has occurred in many countries around the world. In Albania, for instance, five families were in possession of 36.7% of the land at one time (Cungu & Swinnen, 1997). In Zimbabwe, prior to 1980, 50% of the agricultural land was owned by Europeans (Naldi, 1993), while in 1990 Namibia inherited a highly skewed system of land distribution where 4 500 commercial farmers owned 43% of the agricultural land (Werner, 1997).

After the National Party (NP) gained power in South Africa in 1948, the Group Areas Act of 1950 was passed. The apartheid state used this act to implement the forced removal of black people from their own land and to create different residential areas for different races. The Prevention of Illegal Squatting Act of 1951 was subsequently passed as a means to evict black people without formal land rights, thus allowing government officials to demolish the homes of black people and force them off their land (Republic of South Africa, 1998). The displaced people were then taken to the crowded "Bantustans" or "homelands" where they were allowed to live until that land was needed for other purposes – and they would then be evicted again. Between 1960 and 1983, a total of 3.5 million people were forcibly relocated under apartheid laws (Rugege, 2004).

In 1955, the African National Congress (ANC) adopted the Freedom Charter, containing the following statement: "Restriction on land ownership shall be ended, and all the land re-divided among those who work it, to banish famine and hunger. All shall have the right to occupy land wherever they choose" (ANC, 1955). Fortunately for South Africa, democracy was not won through war, but through a negotiated settlement.

One of the priorities of the ANC after winning the 1994 elections was to redistribute land to an estimated 25 million people who had been evicted during the apartheid era(Lutchmiah. *et al*, 2004), but the five-year redistribution target was subsequently postponed by 20 years to 2014. However, as the situation currently stands, it is unlikely that the Land Reform Programme will be able to meet that target. According to government, this slow progress is due to the high price demand for land and conflicts between landowners and claimants, while studies have also pointed to corruption, incompetence and complex application procedures as reasons for the lack of progress (Hall, 2004). Table 3.1 presents the data on land transfers from 1994 to 2006.

Table 3.1: Land Transfers through the South African Land Reform Programme in 2006

Programme	Number of Hectares	Contribution (%)
Tenure Reform	126 519	3.7
Redistribution	1 477 956	43.8
Restitution	1 007 247	29.9
State Land Disposal	761 524	22.6
Total	**3 373 246**	**100**

Source: Lahiff, 2007a

According to Table 3.1, approximately 3.4 million hectares of agricultural land was transferred to black people through the different pillars of the Land Reform Programme(redistribution, restitution, and land tenure), benefiting an estimated 1.2 million people in 2006. Of the 3.4 million hectares of land, 43.8% was transferred through the redistribution programme, 29.9% through restitution, 22.6% through state land disposal, and only 3.7% through the land tenure programme. The initial objective was to transfer 30% of the land within five years, while the land transferred is equivalent to only 4.1% of the land earmarked for transfer between 1994 and 2006. This is an indication of the huge backlog facing the Department of Rural Development and Land Reform (the former Department of Land Affairs) and other related government organisations.

3.3 AIMS AND OBJECTIVES OF THE LAND REFORM PROGRAMME

There are a number of different motivations behind the Land Reform Programme, such as improving sustainable livelihoods, poverty reduction, local economic development and growth in line with macro-economic policy, wealth creation, social justice and righting the wrongs of the past, placating or suppressing mass mobilisation, and/or de-racialising land ownership, amongst other things (Walker, 2004). According to De Villiers (2003) the objectives of land reform in Zimbabwe, which regained independence in 1980, were to reduce civil conflict by returning land to black people, giving opportunities to landless people, easing the population strain on communal lands, and improving welfare and production.

The main objectives of the South African Land Reform Programme are to redress the social injustice of the forced removals of the past and to alleviate rural poverty by empowering women and the poor in rural South Africa (ANC, 1994). Through these objectives, the Land Reform Programme aims to achieve food security, rural transformation, economic growth, and reduced unemployment rates. When the ANC came to power in 1994, the Land Reform Programme was placed among its top priorities and was intended to address the problems inherited from the past by compensating black people by means of access to land. Those who had lost their land due to the Land Act of 1913 were given the opportunity to reclaim it through the restitution programme, identified by the South African Constitution and the Reconstruction and Development Programme (RDP) as one of the approaches to be followed in ensuring justice for previously disadvantaged South Africans.

Giving people access to land for productive usage is recognised as fundamental to the survival strategy of the rural poor (Norfolk & Liversage, 2001). In rural areas, land is the main means of survival and source of employment, and the distribution of land can help to reduce poverty, crime and unemployment rates in rural areas. Approximately half of the black South African population live in rural areas where the primary source of employment is small-scale farming (Orkin & Njobe, 2000), but the majority of people are unemployed (Dias, 2002).

According to the RDP, women would also be empowered through the Land Reform Programme as a means to alleviate poverty. In this regard, the Land Redistribution for Agricultural Development (LRAD) grant was designed to assist the previously disadvantaged to access land for agricultural purposes and to redress gender imbalances in terms of land access and land ownership. As such, LRAD creates opportunities for women to develop in many spheres of life and gives them security against poverty by attaining an independent economic status. If the above-mentioned objectives are met, economic growth will also be achieved.

3.4 THREE PILLARS OF THE SOUTH AFRICAN LAND REFORM PROGRAMME

As stated in the 1997 White Paper on Land Policy, the RDP and the Constitution of South Africa, the Land Reform Programme consists of three pillars, namely land restitution, land redistribution and land tenure.

3.4.1 Land Restitution Programme

In the apartheid era, rural removals were common and frequent, occurring in different categories such as removal of labour tenants, black spot removals, removal from mission stations, and removal for the sake of forestry requirements. Legislatures that applied to rural areas included the Land Act (Act No. 27 of 1913), the Development Trust and Land Act (Act No. 18 of 1936) and the Prevention of Illegal Squatting Act (Act No. 52 of 1951). The situation in urban areas fell under the Urban Areas Act or Group Areas Act.

To counter these acts, the Restitution of Land Rights Act (Act No. 22 of 1994) was passed, in terms of which any person or community forcibly removed from a property after 19 June 1913 would be entitled to lodge a claim for restitution of that property (Sibanda, 2001). The interim Constitution of South Africa formed the basis of the Land Restitution Programme, which was introduced in 1994 with the objective of redressing the injustices of the past created by unfair racial practices by enabling people to reclaim land that had been lost due to racial laws or illegal means.

A total of 68 878 restitution claims were registered with the Land Claims Commission (LCC) in 2004 (Vink & Kirsten, 2003). The LCC is responsible for investigating the validity of each claim and for making recommendations in the event that the claim is contested. As shown in Table 3.2, a total of 74 417 claims were settled between 1995 and 2007, of which 65 642 were in urban areas and 8 775 in rural areas.

Table 3.2: Statistics on Settled Restitution Claims in Rural and Urban Areas 1995 - 2007

Areas	Number of claims settled	Number of beneficiaries
Urban	65 642	483 988
Rural	8 775	789 055
Total	**74 417**	**1 273 043**

Source: CRLR, 2003

By March 2010, the Commission on Restitution of Land Rights (CRLR) had settled approximately 96% of all restitution claims lodged since 1994 (DRDLR, 2010)

3.4.2 Land Redistribution Programme

The Land Redistribution Programme aims to give previously disadvantaged South Africans access to land for either productive or residential purposes in order to improve their income and quality of life, and has the potential to improve the lives of the rural poor and to contribute to economic development (Lipton, 1996). The programme is targeted at labour tenants, farm workers and the poor (DLA, 1997).

The state assists communities and applicants to purchase land from landholders and makes land acquisition grants available. The Land Redistribution Programme is based on the "willing buyer, willing seller" arrangement. Between 1995 and 1999, land redistribution was supported through the Settlement/Land Acquisition Grant (SLAG), which allocated a maximum of R16 000 to each beneficiary to be used to purchase land on the open market. This amount proved insufficient to purchase land and farm implements, however, and SLAG was replaced with LRAD in 2001, giving beneficiaries access to between R20 000 and R100 000 depending on their own contribution. Beneficiaries must be South Africans citizens over the age of 18 years, and may farm on any scale.

The Land Redistribution Programme is divided into the following sub-programmes (NDA, 2004):

- Agricultural Development, which aims to make land available to people who are interested in agriculture
- Settlement, which aims to give people land for residential purposes

- Non-agricultural Business, which aims to give people land for non-agricultural purposes

3.4.3 Land Tenure Reform Programme

The Constitution of South Africa stipulates that all people should have access to land. The Land Tenure Programme aims to give people secure tenure and to prevent uninformed and illegal evictions and other similar discriminatory practices while addressing the apartheid legacy of overcrowding, overlapping rights and land-related conflicts.

Parliament passed two legislative acts in respect of land tenure, namely the Communal Property Associations Act (Act No. 28 of 1996) and the Interim Protection of Informal Land Rights Act (Act No. 31 of 1996) (Sibanda, 2001). The Interim Protection of Informal Land Rights Act was passed to defend people against abuse by their leaders, while the Communal Property Associations Act was passed to enable people to own land jointly and to organise their occupancy accordingly. The Land Rights Bill was passed in 1998 to bring about tenure reform in rural areas by repealing apartheid laws related to land administration and bringing tenure laws in line with the Constitution. In implementing land tenure on commercial farms, government passed the Extension of Security of Tenure Act (Act No. 62 of 1997), which protects occupants of privately owned land against uninformed eviction, and the Land Reform (Labour Tenants) Act (Act No. 3 of 1996), which gives secure tenure to labour tenants on privately owned farms.

3.5 FUNDING FRAMEWORKS IN THE FORM OF GRANTS SUPPORTING LAND REFORM PROJECTS

The RDP stipulates that government resources such as financial grants will be made available for Land Reform Programme beneficiaries (DLA, 1997) in view of economic, social and infrastructural development. Through these grants, beneficiaries would be able to contribute towards the effort to alleviate poverty, improve food security and facilitate rural transformation.

The government has introduced a range of financial grants to assist land reform beneficiaries, namely:

- Settlement/Land Acquisition Grant (SLAG)
- Land Redistribution for Agricultural Development (LRAD)
- Grant for the Acquisition and Development of Land for Municipal Commonage
- Settlement Planning Grant (SPG)
- Restitution Discretionary Grant (RDG)
- Recapitalisation and Development Programme

3.5.1 Settlement/Land Acquisition Grant (SLAG)

The main objectives of SLAG were to help develop occupancy and to expand land ownership for poor and previously disadvantaged people in South Africa. The grant supported only the Land Redistribution Programme and the Restitution Programme, covering tenure, non-agricultural and settlement projects, and was available to South Africans earning less than R1 500 per month. SLAG provided a maximum of R16 000 per household to purchase land in urban or rural areas for development or residential purposes, as well as equipment and assets for land development, improvements through infrastructure (e.g. sanitation), tenancy and equity in land-based business. The grant amount of R16 000 proved insufficient to purchase land and farm implements, however, and groups of applicants ended up pooling their grants for commercial agricultural purposes.

Although SLAG proved inadequate, a total of 599 projects were approved, involving the transfer of 358 201 hectares of land and benefiting 95 871 people by the end of 2004. Most of these projects were situated in the Eastern Cape, followed by the Free State and KwaZulu-Natal, with the Northern Cape having the fewest projects. Due to the numerous challenges involved, SLAG was de-registered on 1 November 2005. The statistics per province are reflected in Table 3.3.

Table 3.3: SLAG Project Data by Province, 2004

Province	Projects	Hectares	Beneficiaries
Eastern Cape	105	43 865	40 390
Free State	98	37 469	2 576
Gauteng	43	5 094	6 505
KwaZulu-Natal	89	68 293	8 974
Limpopo	77	45 181	6 714
Mpumalanga	53	58 858	6 973
Northern Cape	27	51 394	703
North West	36	30 554	18 124
Western Cape	71	17 493	4 908
Total	**599**	**358 201**	**95 871**

Source: Hall, 2004

3.5.2 Land Redistribution for Agricultural Development (LRAD)

LRAD, which replaced SLAG in 2001, is aimed at assisting previously “underprivileged” African, Indian and Coloured South Africans to purchase land for agricultural development, settlement or non-agricultural enterprises (e.g. ecotourism). LRAD has proven to be more successful than SLAG, as the grants are larger and are paid out to individuals or groups of individuals, rather than households as in the case of SLAG.

Beneficiaries can access a grant of between R20 000 and R100 000 depending on their own contribution, which must be at least R5 000. The approval of the grant depends on the project’s viability and the beneficiary’s ability to leverage the grant with his/her own resources, based on the forecasted cost and income.

According to Hall (2004), the objectives of LRAD are as follows:

- To assist with the redistribution of land to previously disadvantaged South Africans
- To help improve the income and standard of living of the rural poor
- To reduce congestion in overcrowded “homeland” areas
- To create opportunities for women and the youth in rural areas
- To address the effects of past gender and racial discrimination
- To assist black people with an interest in establishing small businesses
- To improve agricultural growth
- To form connections between farm and non-farm income-generating activities

- To create opportunities for talented youth residing in rural areas
- To empower beneficiaries to improve their social and economic wellbeing
- To help landowners improve the productivity of their land
- To encourage the environmental maintenance of land and other resources

Since the introduction of LRAD in 2001, the total land area involved in redistribution and tenure reform has increased significantly. As seen in Table 3.4, a total of 1 001 projects benefited from LRAD in 2004.

Table 3.4: LRAD Project Data by Province, 2004

Province	Projects	Hectares	Beneficiaries
Eastern Cape	268	96 346	3 146
Free State	200	45 664	1 424
Gauteng	103	6 237	2 134
KwaZulu-Natal	70	29 505	1 658
Limpopo	98	44 425	688
Mpumalanga	39	27 326	3 991
Northern Cape	50	41 560	478
North West	111	49 984	2 302
Western Cape	62	36 889	2 644
Total	**1 001**	**376 936**	**18 465**

Source: Hall, 2004

Table 3.4 illustrates the implementation of LRAD in the nine provinces of South Africa. According to this data, the majority of LRAD projects, i.e. 268, can be found in the Eastern Cape, followed by the Free State, North West, Gauteng, Limpopo, KwaZulu-Natal and Western Cape.

3.5.3 Grant for the Acquisition and Development of Land for Municipal Commonage

The main aim of this grant is to allow municipalities to acquire land for commonage with the intention of establishing agricultural or other productive schemes for underprivileged and disadvantaged residents. This grant does not cover the improvement of the land that is acquired. The decision with regard to the beneficiaries rests with the municipalities as the grant applicants.

Beneficiaries must comply with the following requirements:

- Be South African citizens
- Not earn more than R1 500 per month
- Be recognised as poor by the municipality

The White Paper on South African Land Policy (DLA, 1997) distinguishes between two types of municipal commonage, namely traditional or existing municipal commonage land and newly acquired commonage land. Traditional municipal commonage refers to land reserved by the government on the establishment of towns in the 1800s, while newly acquired commonage refers to land purchased from private owners after 1994 for the purpose of public reform.

Municipal commonage is regarded as a ready opportunity for land reform by the post-1994 government (Anderson & Pienaar, 2004), enabling the poor to use municipal land to improve their income and standard of living. Municipal commonage grants account for the majority of land transferred (DLA, 2003). Of the 1 348 940 hectares transferred early in 2003, 420 812 hectares were transferred through the commonage programme. However, Van der Merwe (Personal Communication), cited by Anderson and Pienaar (2003), characterised the commonage programme as underperforming and weak in terms of post-transfer management, with no clear evidence of the outcomes.

3.5.4 Settlement Planning Grant (SPG)

The aim of this grant is to help poor communities with the planning involved in acquiring and settling land in support of restitution, redistribution and land tenure. This grant also allows beneficiaries to hire planners and other professionals to assist in the planning of land settlement.

Most beneficiaries of land reform are not familiar with the planning involved in utilising their land after settlement and therefore require professional help in this regard. The grant helps to cover the costs of professional services, as well as infrastructure, legal fees and land use planning. The grant is paid in two instalments – the first on the finalisation of the project proposal, and the second on the implementation of the settlement plan. The grant is computed as part of the R16 000 received by each household, from which the professional fees are deducted. In 2003 a total of 42 556 projects were funded through SPG, benefiting 55 4547 people and paying a total of R66 417 902 to projects in all nine provinces of South Africa (CRLR, 2003).

3.5.5 Restitution Discretionary Grant (RDG)

This grant is available in cases where land has been acquired or granted through the negotiation of a settlement through restitution and also where the settlement was in terms of section 42D of the Restitution of Land Rights Act (Act No. 22 of 1994). Beneficiary households are entitled to a maximum of R3 000, allowing them to take full control of the land immediately after transfer.

Table 3.5 illustrates the distribution of RDG in all nine provinces of South Africa, benefiting 42 556 projects to the value of R174 537 000.

Table 3.5: Restitution Discretionary Grant Data per Province, 2003

Province	Claim settled	Beneficiaries	Grant
Eastern Cape	12 408	109 298	R43 128 000
Free State	1 257	14 534	R3 987 000
Gauteng	8 620	42 876	R1 524 000
KwaZulu-Natal	8 700	114 907	R33 201 000
Mpumalanga	688	56 554	R14 472 000
North West	1 223	60 592	R30 252 000
Northern Cape	1 134	25 971	R9 661 000
Limpopo	1 102	64 657	R23 028 000
Western Cape	7 424	65 158	R15 284 000
Total	42 556	554 547	R174 537 000

Source: CRLR, 2003

The RDG and SPG grants have recently been combined to form the Restitution Settlement Grant (RSG), which currently offers R6 595 per beneficiary household to be used for the following purposes:

- Establishing infrastructure
- Engaging the services of professionals (e.g. planners)

- Post-transfer support

3.5.5 Recapitalisation and Development Programme

After witnessing the failure of highly valued land reform projects, the Department of Rural Development and Land Reform committed itself to turning around more than one thousand unproductive land reform projects through the introduction of the Recapitalisation and Development Programme. The farms funded by this programme are closely supervised by the Department to ensure sustainability (DRDLR, 2012), and each farm is assigned a strategic partner with experience in the industry, who invests their own resources and guarantees uptake along the value chain or the purchasing of products from the beneficiaries. The release of the grant is guided by the business plan requirements, and all projects are funded 100% based on a five-year funding model.

The following selection criteria apply to this grant (DRDLR, 2012):

- All beneficiaries who received land under the Land Reform Programme and whose farms have failed or have proven to be unsustainable and in need of agricultural support
- Beneficiaries on land-reform farms that have a mortgage component and which are on the verge of being repossessed
- Emerging farmers who purchased farms with loans from different financial institutions with no support from the state and who are experiencing the same challenges as land-reform beneficiaries
- Farmers on irrigation schemes and farms in communal areas

3.6 POST-SETTLEMENT AGRICULTURAL FINANCING OPPORTUNITIES

In addition to the aforementioned grants, financial support is also available to beneficiaries. The lack of appropriate financing is one of the top five problems plaguing land reform (Jacobs, 2003). Without appropriate financing (working capital and capital expenditure), land reform projects will never be successful. Various private and public organisations are prepared to provide financial assistance to land reform beneficiaries in the form of loans, while the strategic partners can also apply for loans to invest in the farms.

3.6.1 Industrial Development Corporation (IDC)

One of the major institutions willing to provide financial aid to land reform beneficiaries is the IDC, which was established in 1940 with the aim to promote economic growth and industrial development (IDC, 2012). The objective of the IDC is to contribute towards the Accelerated and Shared Growth Initiative for South Africa (ASGISA) by providing funding that will stimulate job creation, investment activity and economic growth.

The core strategies of the IDC are as follows:

- To serve as a catalyst for balanced and sustainable development
- To identify and support opportunities that are not addressed by the market
- To provide risk capital in partnership with the private sector
- To build on skills and industry knowledge to add value to entrepreneurs and businesses
- To optimise financial management

Land Reform beneficiaries who do not qualify for support grants can apply for financial assistance from the IDC.

3.6.2 Micro-agricultural Financial Institutions of South Africa (MAFISA)

This scheme is committed to providing financial support to beneficiaries of the land reform programme in order to facilitate skills development, job creation and economic growth in South Africa. MAFISA provides a range of services in areas such as tourism, land reform and conservation among the working poor in South Africa.

Applicants seeking to access credit must meet the following requirements (GEP, 2010):

- Be active within the agricultural sector, whether in rural or peri-urban areas
- Be able to embark on self-help initiatives to improve their livelihoods, develop viable businesses, reduce poverty, and show potential to graduate to larger commercial businesses
- Be willing and able to repay the money borrowed

3.6.3 Khula Enterprise Finance Ltd (Department of Trade and Industry)

Khula Enterprise Finance Ltd was established in 1996 as an independent agency of the Department of Trade and Industry (Khula Enterprise Finance Ltd, 2007) and operates mainly as a financial facilitator for the development of small, medium and micro enterprises (SMMEs). Khula provides loan facilities to commercial banks to enable them to acquire land, equity in land or agribusiness or ecotourism enterprises owned by previously disadvantaged people in South Africa. Such loans can be used to acquire land, as well as production facilities and assets. Khula has a well-developed relationship with the private and public sectors, including commercial banks, retail financial institutions, specialist funds and joint ventures, bridging finance gaps not addressed by commercial financial institutions in the small business sector.

3.6.4 Agricultural Financial Assistance Policy (AFAP)

The financial assistance design team of the Broadening Access to Agriculture Thrust (BATAT) proposed the Agricultural Financial Assistance Policy (AFAP) as a basis for strategies to improve access to financial services for new entrants to agriculture. Although AFAP is targeted at broadening efficient agricultural financial services to the lower end of the market, which has been previously disadvantaged in terms of access to services, the Department of Agriculture, Forestry and Fisheries has the responsibility of applying the principles contained in the White Paper on Agriculture to promote national growth and employment.

AFAP encompasses six primary programmes aimed at achieving the objectives of the White Paper on Agriculture (NDA, 1996):

- **Financial Intermediary Support Programme (FISP):**
  The main objective of FISP is to promote greater reliance on the market system by enhancing the role of public and private financial intermediaries and reducing direct state lending. This is done by encouraging retail institutions to finance small farmers, phase out direct state delivery to farmers, and support small farmers in rural financial markets. The ability of FISP to broaden access depends on the availability of schemes to address the high cost and risk associated with emerging farmers, as well as their lack of collateral and creditworthiness.

- **Farmer Support Programme (FSP)**

  FSP aims to complement the credit function under FISP in order to empower farmers – especially emerging small farmers – to optimise the use of services and products rendered by financial intermediaries. FSP also seeks to remove constraints such as natural agricultural risks, limited input supply, marketing services, acquisition of agricultural land, and poor institutional and infrastructural support – all of which increase risk and uncertainty in farming – and thereby create incentives for small farmers to farm effectively and efficiently and for financial institutions to provide credit.

- **Farmer Graduation Programme (FGP)**
  This programme aims to foster the graduation of farmers through various support mechanisms so as to make them independent and self-reliant. The scheme aims to ensure that small farmers who enter FSP will definitely leave the programme after a predetermined period, at which point the farmers should have acquired sufficient expertise and experience and a financial track record to be able to access credit from financial institutions in their own right.

- **AFAP Monitoring and Evaluation Scheme**
  This scheme aims to monitor the compliance of financial institutions with norms and standards, as well as key performance indicators.

3.6.5 Land Bank

The Land Bank is guided by the South African government to provide financial services and assistance to the farming sector (both commercial and emerging or small-scale farmers) and agribusinesses in South Africa. Established in 1912 (Land Bank, 2012), the bank strives to be the number one financial services provider to farmers, thus contributing to job creation, social upliftment, rural development and stability. To ensure that farmers achieve success, the Land Bank has created alliances with the private sector to ensure the delivery of important aspects such as financial resources, land and capacity/skills development.

The objectives of the Land Bank include the following:

- To develop financial products that suit both emerging and commercial clients
- To influence the private sector to invest savings in the agricultural sector
- To develop methods for funding high-risk agricultural projects
- To support the Ministry of Rural Development and Land Reform by aligning the Land Bank's products with the Ministry's programmes
- To aid rural development through the connection of government arrangements and activities

3.6.6 Development Bank of Southern Africa (DBSA)

DBSA is a financial institution that affords the beneficiaries of land reform the opportunity to borrow money to sustain their businesses. While accelerating sustainable socio-economic development by funding physical, social and economic infrastructure, DBSA also plays a multiple role as a financier, advisor, partner, implementer and integrator to mobilise finance and expertise for development projects (DBSA, 2012).

3.7 POST-SETTLEMENT AGRICULTURAL SUPPORT SERVICES

In addition to the aforementioned financial support mechanisms in the form of loans and grants, institutions such as the Department of Agriculture, Forestry and Fisheries and the Department of Rural Development and Land Reform, as well as programmes such as the Land and Agrarian Reform Project, provide land reform beneficiaries with services including access to markets, infrastructure, development training, advisory and technical services, business development and management information. The following institutions play a role in the settlement of beneficiaries on new land.

3.7.1 Provincial Departments of Agriculture

The nine provincial departments of agriculture serve the beneficiaries of land reform through various support services, most notably the Comprehensive Agricultural Support Programme (CASP), which was established in August 2004 to stimulate support services to land and agrarian reform programme beneficiaries for the promotion and facilitation of agricultural development (NDA, 2004). The target groups of CASP are the beneficiaries of the Land Reform Programme and the producers of agricultural products who obtained land by private means, as well as other agribusinesses adding value to products for the domestic and international market.

CASP supports areas in business development and marketing, production inputs and on-/off-farm infrastructure, financial assistance, regulatory services, advisory and technical assistance, capacity building, training and technology, and information management. These are the core areas that are essential to every business enterprise, and assistance in those areas will contribute to the success of land reform projects and ensure the achievement of the goals of the Land Reform Programme. CASP is expected to create wealth in rural areas through agriculture by reducing unemployment, improving food security (household and national), increasing income and foreign exchange earnings through product exports, decreasing poverty and discrimination in land ownership, reducing crime and violent behaviour, and promoting rural development.

A total of 21 070 households and 45 245 farmers had benefited from CASP-provided training and capacity building, on-farm infrastructure services and technical and advisory services by March 2005 (NDA, 2005). By all indications, CASP is an efficient support services programme for land reform projects.

3.7.2 Land and Agrarian Reform Project (LARP)

The Land and Agrarian Reform Project (LARP) is another programme offering land reform support services to ensure sustainability of the projects. LARP aims to deliver and collaborate on land reform and agricultural support to accelerate transformation and ensure sustainability through joint action by all stakeholders (LDA, 2008). LARP is based on the concept of a one-stop service centre, which creates a delivery paradigm for agricultural and other support services, and is managed jointly by the Department of Agriculture, Forestry and Fisheries, the Department of Rural Development and Land Reform, the provincial departments of agriculture, state-owned agricultural enterprises and sector partners.

The objectives of LARP (LDA, 2008) are as follows:

- To redistribute five million hectares of white-owned agricultural land to 10 000 new agricultural producers
- To increase black entrepreneurs in the agribusiness sector by 10%
- To give black farmers access to agricultural support services
- To increase agricultural production by 10 to 15% under the LETSEMA-ILIMA Campaign
- To increase agricultural trade by 10 to 15%

These objectives contribute to the goals of the Agricultural Sector Plan, namely participation, global competitiveness and sustainability, as well as to the policies outlined in the White Paper on South African Land Policy.

3.7.3 Accelerated and Shared Growth Initiative for South Africa (ASGISA)

ASGISA offers support services to SMMEs in all sectors, not only land reform, with the fundamental goals being to leverage increased expenditure and to develop SMMEs while addressing issues such as the following:

- Access to finance
- Favoured procurement in the labour-demanding division
- Review of regulations with an impact on the sector

The beneficiaries of the Land Reform Programme are considered to be small businesses operating on a small scale, and they therefore also qualify to access the services offered by ASGISA. Finance is regarded by the government as one of the core requirements for the development of entrepreneurs, and ASGISA can assist in this regard, thus encouraging entrepreneurship development in South Africa. The intention is not only to help entrepreneurs start their own businesses, but also to assist with procurement through preferential procurement policies and the facilitation of the purchasing of goods and services from these entrepreneurs, thus helping to grow and sustain these businesses.

3.7.4 Department of Agriculture, Forestry and Fisheries (DAFF)

The DAFF Division for Land Settlement aims to co-ordinate and facilitate the development and implementation of land and agrarian reform projects through various support programmes and to promote viable and sustainable agriculture for improved livelihoods.

The objectives of the Division for Land Settlement include the following:

- To assist and guide the implementation of the Land Reform Programme and CASP in the different provinces
- To monitor and evaluate CASP-funded projects
- To establish and maintain co-ordination with relevant stakeholders on behalf of the beneficiaries
- To co-ordinate agricultural support for land reform beneficiaries

3.8 CONCLUSION

The provincial departments of agriculture, financial institutions, municipalities, non-government organisations and the private sector have introduced various grants, loans and support services to assist the beneficiaries of the Land Reform Programme after settlement.

Despite all these efforts to make the Land Reform Programme successful, many communities continue to face major challenges. It is clear from this chapter that the responsibility for implementing land reform lies with many different role players. The Limpopo Department of Agriculture realised that the grants and support services offered to the beneficiaries of the Land Reform Programme do indeed contribute to the success of the programme, but that in order to achieve the set targets there is a need to explore new mechanisms in the form of management models in land reform projects.

Chapter four provides an overview of various business ownership and management models in land reform, with a special focus on contractual arrangements with external parties (also known as strategic partnerships).

CHAPTER FOUR

OVERVIEW OF VARIOUS BUSINESS OWNERSHIP AND MANAGEMENT MODELS IN LAND REFORM

4.1 INTRODUCTION

This chapter provides an overview of the business ownership and management models offered by government to newly settled communities, namely the individual production model, group access to land model, joint ventures, appointed manager model, and contractual arrangements model, where a claimant community enters into a profit-sharing relationship with a strategic partner in exchange for managerial expertise.

4.2 INDIVIDUAL PRODUCTION MODEL

With this model, individual households are allocated equal pieces of land where they can practice agricultural production individually on a small scale. This model came about as a result of conflicts between beneficiaries who found it impossible to work together. There are a number of communities practising individual production, such as the Klipgat community in North West, the Ximange community in Limpopo and the Makhoba community in the Eastern Cape (Lahiff, 2007b), where the relevant claims and business plans were prepared with the assumption that the communities would work together, but the allocated land ended up being used on an individual basis. The individual production business model is suited to situations where there are differing opinions and interests among beneficiaries – for instance the Communal Property Association (CPA) and the chief or indunas may have different views concerning the utilisation of the land, and in such a situation the individual production model would be ideal.

The advantage of this model is that it allows immediate access to land and requires few skills and capital resources, therefore livelihoods are improved within a short space of time, (Lahiff, 2007b). The model also reduces the need for an on-going collective process for the organisation of production, the allocation of resources and the distribution of benefits among the beneficiaries. An analysis of the individual production model revealed the following shortcomings:

- The model is not favourable in the view that it separates the community from their destiny.
- Community development is not possible, because the community members work individually and do not empower one another (Lahiff, 2007b)

4.3 GROUP ACCESS TO LAND MODEL

This model involves the collective use of land by the claimant community, with little involvement by outsiders. This is the most commonly used model in land reform projects within South Africa, but the success rate is very low (Lahiff, 2007b). The model requires skills, capital and support from the government, outside organisations and community members (Lahiff, 2007b), but the participants rarely manage to garner all the required support necessary for this model to work. It requires continuous investment in the form of money and skills from the community members, which is difficult in practice (Lahiff, 2007b), making this model less favourable and successful. The model was used by the eMpangeni, Groenfontein and Klipgat communities, but their farms showed no improvement (Lahiff, 2007b), with the blame being attributed to lack of support by the government.

Although this model has failed in the majority of instances, there have been a few success stories, such as the Mangethe community, which successfully engages in the collective production of sugarcane, and Vuki farm in the Western Cape Province, where the community farms on a commercial scale and the entire workforce (community members) receive a salary and their debts are serviced on schedule (Lahiff, 2007a).

4.4 JOINT VENTURE MODEL

This model focuses on finding new ways of production and ownership by joining hands with previously privileged communities. A joint venture is not obliged to continue with the same operation as before, but creates the opportunity for new enterprises to be explored by individuals able to contribute certain resources to the venture. Responsibilities and tasks are shared by all parties involved, and new entrants to agriculture have an advantage in terms of access to capital, expertise and markets. Mayson as cited in Lahiff (2007b) identified five different types of joint ventures:

- **Contract or out-grower schemes**

  Share-equity and municipal commonage schemes are not directly relevant to restitution. The contract farming or out-grower scheme is a joint venture where the farmer or the producer and the processor enter into a contract whereby the farmer agrees to provide a specific commodity in certain quantities and according to certain quality standards (Lahiff, 2007b). In return, the processor supports production in terms of physical inputs, accounting services, access to credit and technical training. The farmer is obliged to supply the product to the processor at the specified time, quality and quantity. Even though contract farming seems to create opportunities for small-scale farmers, there are risks involved (Prowse, 2007):

  - Loss of independence and control of the enterprise
  - Production risks if the company projections are inappropriate
  - Purchase rights that can depress the producer price or lead to late and/or partial payments, thus contributing to indebtedness
  - Manipulation of contract conditions by the purchaser

- **Share-equity schemes**

  A share-equity scheme is a joint venture whereby farm workers, small-scale farmers or other disadvantaged people are allowed to buy shares in a commercial farm. In general, the commercial farmers and the workers form separate businesses, which they then merge (Lahiff, 2007b).

- **Company-supported schemes**

  Company-supported schemes are formed by large companies with the aim of uplifting communities as part of their social responsibility programmes, contributing to the development of the local environment in which they are located or based. Such a scheme serves as a marketing tool in that it showcases the company as one that is not only concerned with profits, but also cares about the wellbeing of the community.

The major shortcoming of the Joint Venture Model in general is that profits are shared between the partners, and most communities are not willing to share their profits. Another issue is the loss of autonomy, since the farm workers and small-scale farmers are dependent on their partners.

4.5 APPOINTED MANAGER MODEL

In terms of this model, the community hires a professional to undertake the farming operation on the community's behalf. The manager makes decisions on behalf of the owners and manages the business in return for a monthly salary, with the possibility of a bonus where agreed. The manager owns no shares in the business, but is merely an employee. The advantage of this model is that the community does not share its profits with the manager, while the major disadvantage is that the manager may be reluctant to take risks if he perceives this as possibly jeopardising his job or reducing his personal wealth (Gitman, 2003).

4.6 CONTRACTUAL ARRANGEMENT MODEL

This model is ideal to ensure the success of high-value enterprises that have been returned to claimant communities (LDA, 2006). An example of a contractual arrangement is a strategic partnership, whereby the claimant community enters into a profit-sharing relationship with agribusiness to ensure the success of their enterprise.

This model is a relatively new concept in South Africa, which means that there is little literature available on the topic. The model was first proposed by the Limpopo Department of Agriculture in 2001 with the aim of supporting new land owners in their newly acquired business ventures (LDA, 2006). It came about after a number of high-value agricultural enterprises failed after being transferred to the claimant communities in the province, forcing the Limpopo Department of Agriculture, the Regional Land Claims Commission

(RLCC) and other interested parties to devise mechanisms to address the high level of failure and loss (LDA, 2006). The first strategic partnership in Limpopo was implemented by the Bjatladi community for the Zebediela citrus estate in 2003, followed by Levubu.

The model does not require any changes to land reform legislation, and not all land reform projects require the involvement of a strategic partner. The appointment of a strategic partner depends on the scale, type, intensity and capital requirements of the operation (LDA, 2006).

In terms of this model, a newly settled community enters into a medium-term (one to three years) or long-term (three or more years) profit-sharing relationship with a commercial farmer, agricultural business, commodity organisation, co-operative, financial institution or non–government organisation working in the land and agricultural sector to secure managerial expertise and working capital (LDA, 2006). The strategic partner invests money in the venture and takes control of farm management decisions for the period agreed upon between the strategic partner and the community. The model can be viewed as a form of privatised post-settlement support that minimises the need for government-funded support, because the strategic partner provides the necessary finance, skills and expertise on the farm (Fraser, 2007). The model ensures sustainable settlement and continued agricultural production.

According to Derman, LAhiff and Sjaastad (2006), the following assumptions can be made in respect of this model:

- The claimant community is relatively poor and possesses neither the skills nor the capital necessary to take over and successfully operate the business
- The organisation or individual assuming the role of strategic partner has the necessary managerial expertise, as well as access to the markets and working capital to make a success of the business
- The strategic partner is attracted by the opportunity to make a profit
- The strategic partner and beneficiaries share the same goals and vision for the farming operation

The Limpopo Department of Agriculture identified a group of institutions, both public and private, with the necessary resources to assist the community and which can therefore serve as potential strategic partners. Figure 4.1 provides an overview of possible institutions that can play a strategic partnership role in the settlement of farmers.

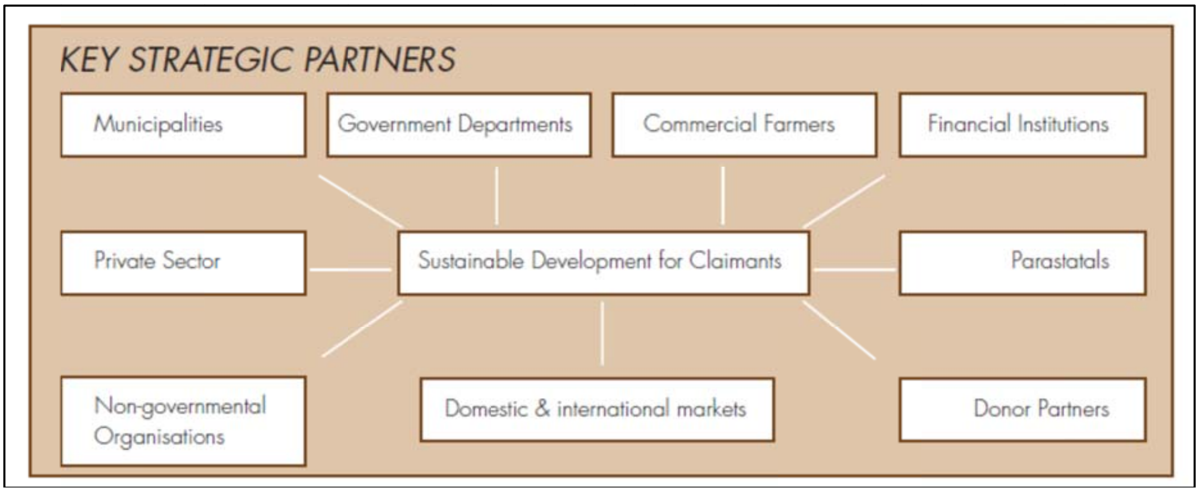

Figure 4.1: Key Strategic Partners
Adopted from CRLR, 2007

The municipalities play a role in terms of local economic development, infrastructure and planning. The relevant government departments could assist according to their areas of expertise, for example farming, conservation and forestry, while experienced commercial farmers could act as mentors to the beneficiaries. Financial institutions could provide accessible financial assistance and loans with low interest rates as part of their social responsibility programmes within the communities. Donor partners could offer their expertise or financial support to beneficiaries, while the domestic and international markets could show their support by purchasing the products, and the private sector could enter into partnerships with the beneficiaries.

The equity of the farm business is shared by the community property association (CPA), the strategic partner, the provincial department of agriculture and the workers' trust. Upon redistribution, the community should form a legal entity such as a CPA or Trust in whose name the title deed of the property is registered. The CPA members or the trustees serve as community representatives who vote on behalf of the community at board meetings.

The strategic partner usually provides capital, managerial and technical expertise to the farm business. However, the strategic partner should not own the majority of equity in the farm business, because the aim of the Land Reform Programme is to develop and empower communities. The employees, as the beneficiaries of the farm business, should preferably form a workers' trust to represent them at board meetings. The workers therefore become shareholders by virtue of providing labour on the farm. Even though the provincial department of agriculture would not be a shareholder, it would provide infrastructure, training and advisory services to the claimants and facilitate the process between the CPA and the strategic partner. All these parties combine their contributions through an operating company. Figure 4.2 illustrates the proposed equity shareholding model of the Limpopo Department of Agriculture (LDA, 2006).

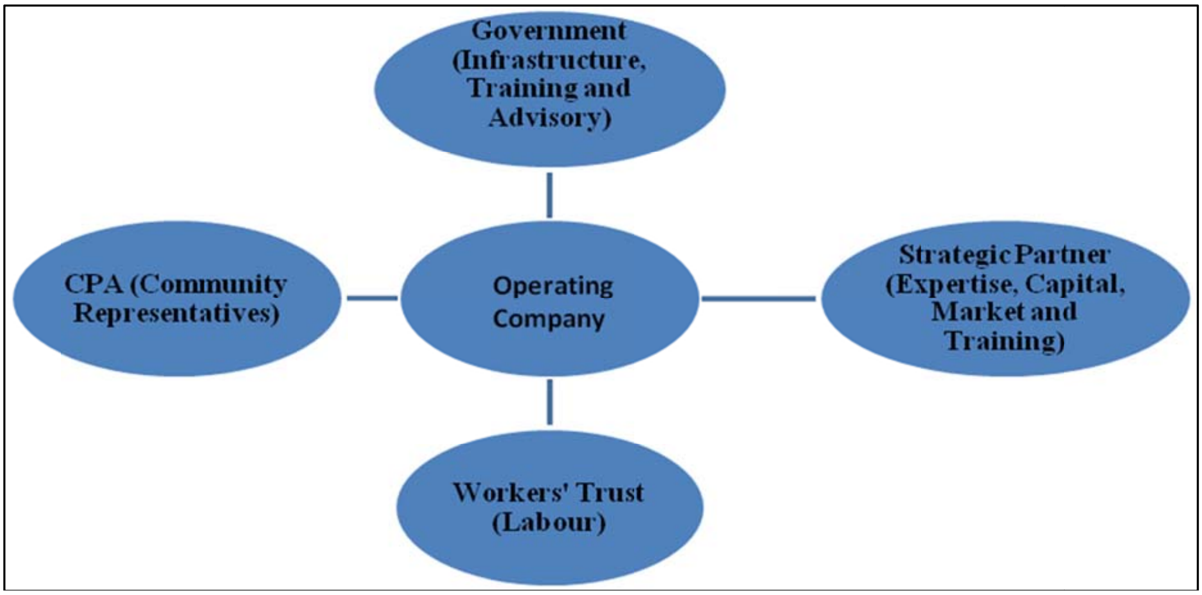

Figure 4.2: Proposed Equity Shareholding Model under the Strategic Partnership Model

Source: LDA, 2006

The strategic partners are expected to co-ordinate and provide settlement support in the land reform projects and strengthen the managerial and technical skills of beneficiaries. The strategic partner should ensure that resources, capital and capacity from the private sector are allocated where possible. It is the responsibility of the strategic partner to ensure that the farm has sufficient capital and resources to make the farm business function effectively. Furthermore, the strategic partner should provide skills to new settlers and ensure that progress is regularly monitored. The main aim of a strategic partnership is to give the community the ability to inherit full control of the business without assistance.

Given proper training and work experience during the initial phase, it is assumed that the community will over time be in possession of a sufficient number of skilled managers and labourers to operate the farms on a commercial basis (Derman *et al*., 2006). Sustainable development of capacity among beneficiaries is required to operate the farm business on their own after the term of the strategic partnership expires.

The parties that are involved in the operating company should own a percentage of the company according to their contributions. The strategic partner's percentage of ownership depends on the amount of capital invested in the business and the risks involved. The members of the CPA/trust are the owners of the land and should be the majority shareholders.

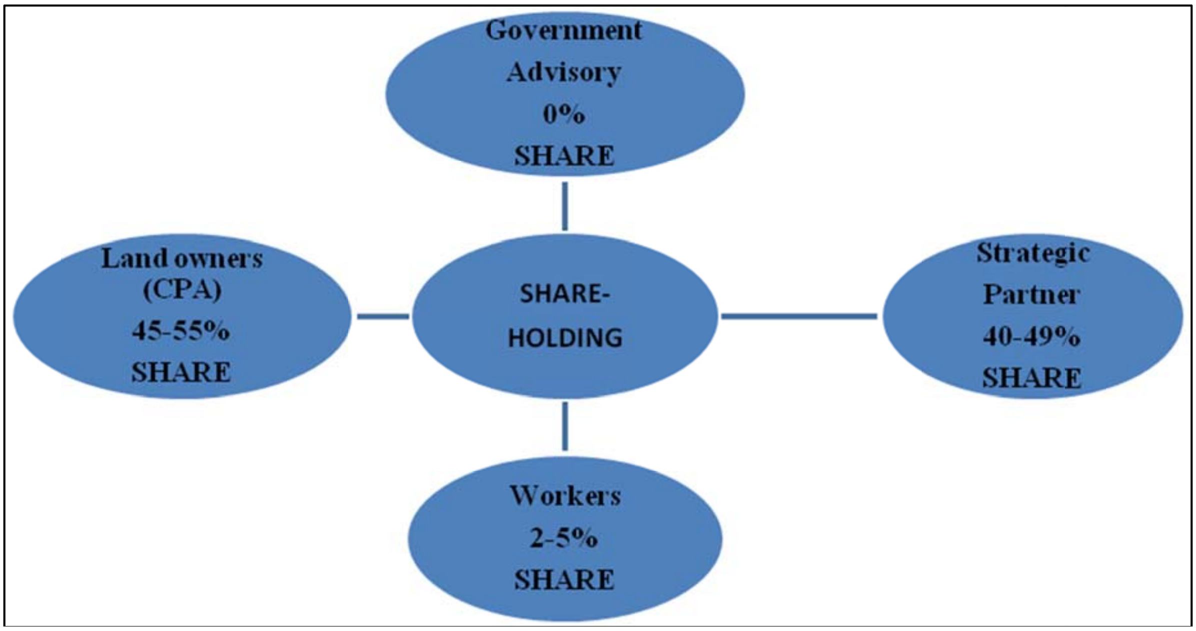

Figure 4.3: Recommended Percentage Ownership
Source: LDA, 2006

According to Figure 4.3, the CPA should own 45 to 55% of the farm business, the strategic partner should own 40 to 49%, and the workers' trust (community members) should own 2 to 5% of the farm business. The provincial department of agriculture, although not a shareholder, would have one seat on the board to protect the interests of the CPA.

The strategic partnership model provides the community with many benefits. According to Derman *et al.* (2006), the potential benefits include a flow of revenue and associated material benefits, opportunities for employment and access to training, and acquisition of skills in farm management and labour.

The strategic partnership model has the following shortcomings:

- The strategic partner is allowed to apply full control over the decision-making process related to the farm, and unless the strategic partner avoids this, the CPA will be excluded from business decisions (Derman *et al.*, 2006; Lahiff, 2007b).
- Since the CPA is not directly involved in the decision making, there is uncertainty with regard to community benefits. Derman *et al.* (2006) criticised the model for its lack of certainty on community benefits and the exclusion of community members from direct access to their land.
- Another shortcoming of this model is that the strategic partner might not transfer the desired skills and training to the community during the duration of the contract as a means to extend the contract. The strategic partner can then extend the term, claiming that the community has not acquired the skills necessary to take control of the farm. The respective department of agriculture and the Regional Land Claims Commission should be involved to protect the interests of the beneficiaries (Derman *et al.*, 2006; Lahiff, 2007b).

Since its implementation in 2003, the involvement of a strategic partner has produced some positive results for the Land Reform Programme. In most projects where a strategic partner has been involved, progress has been made. For example Tswelopele Farmers' Co-operation, a farming enterprise situated in Praktiseer within the Sekhukhune District, had been operating poorly for six years (LDA, 2008) when the Limpopo Department of Agriculture linked the farm with a strategic partner in 2007 to rescue the operation, resulting in a R33 million investment in infrastructure development and 83 farmers on 310 hectares of land, growing potatoes for sale to the Simba Company for the production of potato chips (LDA, 2008).

As another example, two strategic partners were allocated to the Moletele community for a ten-year contract in terms of which the strategic partners own 48% of shares while the CPA

holds 50% and the workers' trust holds 2%. The Baphalane Ba Ramoroka community in Limpopo also benefited from the assignment of a strategic partner to assist in making their project a success (LDA, 2008).
Other provinces in South Africa have also started adopting the strategic partnership model. In Mpumalanga, the Ngoanesi community project in Nelspruit acquired Ekhaya iAfrica as a strategic partner to assist them in the operation of Riverwild Lodge, while the Hlangwini community formed a strategic partnership with Slip Knot Investment (CRLR, 2007). In the Eastern Cape, the Magwa and Majola communities were allocated two strategic partners, allowing them to successfully take ownership of a massive tea plantation (CRLR, 2007). In KwaZulu-Natal the Nkumbuleni community has also benefited from the involvement of a strategic partner in their project (CRLR, 2007).

The use of the strategic partnership model is spreading across South Africa and it will hopefully be implemented in other countries around the world, as it has clearly shown potential in terms of improving the progress of land reform in South Africa. It is not a perfect solution, however, and although it has been effective in many communities, some negative results have also been reported. In Levubu, situated in the southern region of the Southpansberg between Makhado and Thoyandou, several difficulties were experienced with the appointment of Mavu Management System (MMS) and South African Farm Management (SAFM) as strategic partners (Fraser, 2006). The strategic partnership model created opportunities for the strategic partners to consolidate farms that belonged to multiple communities, with potential risks for individual communities through excessive specialisation, leading to a decrease in aggregate employment (Lahiff, 2007b).

4.7 CONCLUSION

This chapter provided an overview of land reform management models identified by the South African government. The advantages and the disadvantages of the various models were pointed out, with the strategic partnership model being viewed as a solution to the lack of post-settlement support from the government. This does not mean that the strategic partner should be solely responsible for the provision of all the resources required; the government must play a contributory role in assisting the strategic partner in the form of financial support and certain support services in order for this model to successfully improve the progress of land reform in South Africa. To make the project a success, the strategic partner must have the required skills and capacity. The strategic partner should also be familiar with all the functions of the business, including administration, research and development, logistics, quality control, purchasing, production, marketing and sales, human resources, and financial management and analysis. The strategic partner's knowledge of financial management is vital to the project, since finance is key to every business enterprise. Other models such as the joint ventures model also have the potential to be successful.

In the next chapter, the important concept of financial management and analysis is discussed.

CHAPTER FIVE

THEORY OF FINANCIAL MANAGEMENT AND FINANCIAL ANALYSIS

5.1 INTRODUCTION

This chapter provides an overview of the theoretical concepts of the financial management of a farm, as well as financial statements and ratio analysis. These concepts are important in deciding on measures or ratios that will be used to test the hypothesis set for the study. The measures and the ratios will be compared for both farms and the implications will be discussed. The structure of the finance function, duties of the financial manager, the financial statements and financial risk assessment (using financial ratios) are covered in this chapter.

5.2 DEFINITION OF FINANCIAL MANAGEMENT

The finance field is broad and dynamic and directly affects each and every organisation and its people, no matter the size (Brigham & Houston, 2004). The finance function is made up of three interrelated areas: money and capital market, investments, and financial management. For purposes of this study, only financial management will be discussed. Financial management is defined as the art of managing money (Gitman, 2003). According to Barry, Ellinger, Hopkins and Baker (2000) the financial management of a firm involves the acquisition and use of financial resources and the protection of equity capital from various sources of risk.

The farm owner, with the help of the bookkeeper, is responsible for managing the financial affairs of the business, with the main responsibilities being financial planning, extending credit to customers, evaluating proposed expenditure, deciding on how much inventory the farm should carry, and raising money or funds for the business operations (Van Reenen & Marais, 1992). These factors are important for decision-making involving a high degree of risk and uncertainty, as with an agricultural business that is characterised by production risks, market risks, financial risks, human risks and institutional risks (Topp & Shafron, 2006).

5.3 STRUCTURE OF THE FINANCIAL MANAGEMENT TEAM

In the average farm business, the chief executive officer (CEO) takes on the responsibility of the financial manager with the assistance of the managers of the respective enterprises and the bookkeeper, who is usually a temporary employee. The CEO is responsible for forecasting, planning and making financial decisions. Figure 5.1 illustrates the typical structure of the financial management team of a farm.

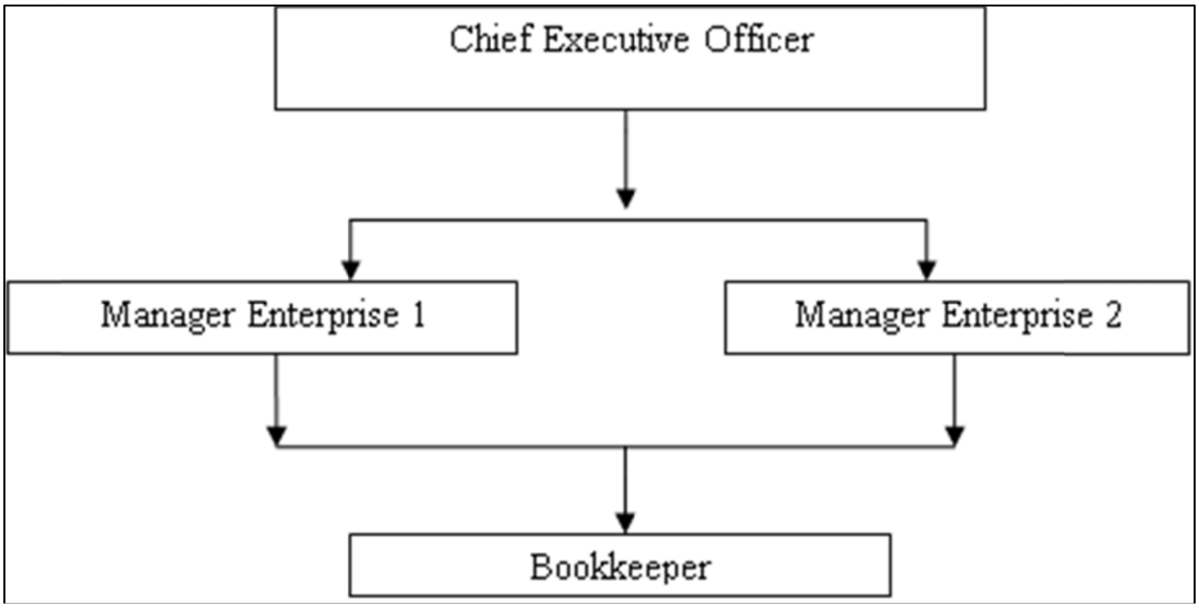

Figure 5.1: Structure of the Finance Function of a Farm
Source: Brigham & Houston 2004; Gitman, 2003

The enterprise managers, who report to the CEO or farm manager, maintain and control the farm's daily cash balances. Their responsibilities include frequent management of cash collections and disbursement activities, as well as short-term investments and banking relationships. The bookkeeper is responsible for financial administrative duties.

5.4 FINANCIAL STATEMENTS/REPORTS

Financial management is also concerned with the development of a timely and comprehensive information system that provides direction for decision making in order to measure, evaluate, control and improve the financial performance of a farm business (Barry *et al.*, 2000). This information system is based on a set of financial statements with organised data needed to analyse the profitability, liquidity, risks and other performance measures. Financial statements are the summary of all the financial transactions of the farm (Brigham, Gapenski & Ehrhardt, 1999) and serve as a record of a farm's financial activities. Financial statements or reports are prepared for internal stakeholders (including management and employees) and external stakeholders (including creditors and government). Bankers also need the accounting information to make intelligent decisions, while managers need it to operate the business (Barry *et al.*, 2000).

There are four main financial statements that the farm must compile for reporting, namely balance sheets, income statements, statements of cash flow, and the projected cash flow budget to project the future financial performance of the farm. Together all these statements give an accounting picture of the farm's operations and financial position.

- **Balance sheet or statement of assets and liabilities**

A balance sheet or statement of financial position is a summary of the farm's assets, liabilities and ownership equity (Gitman, 2003). It contains information on what the farm owns and all that it owes at that specific point in time (Barry *et al.*, 2000). A balance sheet is often described as a snapshot of a farm's financial condition at a given time (Van Reenen& Marais, 1992) and is based on the following fundamental model:

Assets = Liabilities + Owner's Equity

This model indicates that the farm's assets must always equal the farm's liabilities plus the owner's contribution, with such assets classified into long-term assets, movable assets and current assets. Long-term assets, also known as property, plant and equipment (PPE) or tangible assets are purchased for continued and long-term use in the profit-generating process of the business. The movable assets or intermediate assets are assets with a useful life of one to ten years that are mostly used to support production, including vehicles, breeding livestock and equipment. The current assets includes cash in the bank, accounts receivable, inventory, prepaid expenses and other liquid assets that can be readily converted into cash (Gitman, 2003).

The liabilities are obligations that a farm has arising from a past transaction, the settlement of which may result in the transfer or use of assets, the provision of services or other economic benefits in the future. Liabilities include loans, accounts payable and accrued expenses. They can be classified as either long-term liabilities or short-term or current liabilities. Long-term liabilities are not expected to be liquidated within a year and include issued long-term bonds and long-term leases. Current liabilities are debts or obligations that are expected to be liquidated within a year, including payables such as wages, taxes, accounts and accounts payable, short-term obligations and other bills due to creditors and suppliers within a short period of time (Gitman, 2003).

The owner's equity represents the money the owner had contributed to the business and is made up of capital invested and retained earnings, which is the cumulative total of all the earnings that have been retained and reinvested in the farm (Gitman, 2003).

- **Income statement**

An income statement, also called a profit and loss statement, is a financial statement of a company that indicates how assets were utilised over a specific period of time. It shows all the revenue received and expenses paid in that specific period of time, which will then indicate whether the company has made profits or losses (Barry et al., 2000).

- **Cash flow statement**

The cash flow statement is a financial statement that shows a farm's incoming and outgoing money over a period of time. The cash flow statement also allows investors to understand how a farm‘s operations are running, where its money is coming from and how it is being spent. The cash flow statement consists of income, expenditure and bank balance sections. The income section is made up of operating income, capital income and non-farming income. The expenditure section is classified as operating expenditure, capital expenditure and non-farming expenditure. The surplus or deficit is calculated by subtracting the expenditure from the income. The sum of the deficit or surplus and the bank balance give the new bank balance, which can be positive or negative. If positive, interest will be earned, and if negative the farm must pay the interest (Gitman, 2003).

- **Projected cash flow budget**

The farm needs to set goals and objectives for the future outlook and potential financial performance of the farm (Barry et al., 2000). The projections on the future cash demands and debt-carrying capacity of the farm must be determined in advance in order to institute measures to prevent bankruptcy and other problem that will be faced by the business in the future. The future outlook can be achieved with the aid of the historical information, which can be obtained from the farm records (past balance sheets, income statements and cash flow statements). The future outlook can be compiled using the cash flow budget on a monthly or quarterly basis.

The cash available is made up of the bank balance from the balance sheet in the short-term assets section plus cash received for the sale of farm products and other non-farm income received such as dividends for shares the farm has in other businesses or the sale of farm assets. The cash required is the money needed to finance the expenses incurred by the farm for operational purposes in that specific period. Historical information is used to project these expenses. The new borrowing and savings withdrawal is the cash that is needed to be borrowed to maintain the required cash balance in the bank. The repayment of the operating loan and savings deposit is the money paid to the saving accounts if the net cash position exceeds the cash required in the bank. The information from the cash flow budget can help the farmer in terms of liquidity management. With the use of the cash flow budget the farmer can see how much money must be borrowed each month to meet the projected demands of cash.

- **Financial ratios**

Financial ratio analysis is the calculation and comparison of ratios derived from the information in a business' financial statements. Ratio analysis involves the methods of calculating and interpreting the financial ratios to analyse and monitor the farm's performance. The comparison of the farm's current performance with its past performance will enable analysts to determine the progress of the farm. The ratios can also be compared to a rule of thumb – a ratio below the rule of thumb may indicate financial problems in the specific area of business. The rule of thumb will differ for established and young farmers, different regions, and small and commercial farmers.

For the analysis of this study, a rule of thumb will be used for ratio comparison and the implications will be discussed. There are many categories of financial ratios; however, for purposes of this study, only solvency ratios, liquidity ratios, profitability ratios and debt ratios will be discussed. The liquidity ratios, solvency ratios and debt ratios measure the risk faced by the farm, while the profitability ratios measure the return realised by a farm over a specific period of time. The aim of the study is to compare the financial status of two land reform projects; hence only the risk ratios and the return ratios are required to make the comparison.

- **Liquidity ratios**

The liquidity ratios are ratios used to determine the farm's ability to pay its short-term debt obligations, including production costs and interest. The higher the value of the ratio, the larger the margin of safety that the farm has to cover short-term debts. The liquidity of the farm can be accessed through the use of current ratio and quick or acid test ratio. The current ratio indicates the farm's ability to meet its short-term obligations. The higher the ratio, the greater the liquidity of the farm. If the current assets of a farm are more than twice the current liabilities, then the farm is generally considered to have good short-term financial strength. A quick ratio measures the farm's ability to meet short-term obligations with its most liquid assets. The higher the quick or acid test ratio, the better the position of the farm. The quick ratio excludes inventory from the current assets, because inventory cannot easily be converted into cash.

- **Debt-serving ratios**

Debt ratios indicate the amount of borrowed money being used in the business to generate profits. This ratio is more concerned with long-term liabilities of the business, because they are paid over a long run. The more debt the farm uses compared to its assets, the greater its financial leverage. Debt ratio is the ratio used to measure the ability of the farm to meet its long-term obligations as they come due. The ratio indicates the proportion of the farm debt compared to its assets. A debt ratio greater than one indicates that a farm has more debt than assets, while a debt ratio of less than one indicates that a farm has more assets than debt. Using debt ratio, the investor can determine a farm's level of risk.

- **Profitability ratios**

Profitability ratios are the class of financial metrics used to assess a farm's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. Profitability ratios are classified into return on assets (ROA) and return on equity (ROE). ROE is also called return on investment and indicates the profitability of a farm relative to its total assets. ROA shows the earnings generated from invested capital (assets) and gives investors an idea of how effectively the farm is converting the money it has to invest into net income. The higher the return figure the better, because the farm is earning more money on less investment.

ROE is a measure of a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested. It also measures the farm's potential growth. Businesses that have a high return on equity with little or no debt are able to grow without large capital expenditure, allowing the owners of the business to withdraw cash and reinvest it elsewhere.

- **Solvency ratios**

Solvency ratios measure the ability of the farm to pay its short-term and long-term obligations as they come due, providing a measure of how likely a farm will be to continue meeting its debt. Acceptability of the solvency ratio differs from industry to industry, but generally speaking the lower the farm's solvency ratio, the greater the probability that the farm will default on its debt obligation. Solvency ratios are classified into net capital ratio, gearing ratio and facility ratio. Net capital ratio measures the farm's aggregate indebtedness compared to the net capital. The lower the net capital ratio, the better the financial condition of the farm. The gearing ratio, also called the debt equity ratio, measures the relationship between the farm's own money and its liabilities and also shows the degree of flexibility of the farm. If the gearing ratio is relatively low, the farm has a greater chance of acquiring more finance from financial institutions. A highly geared farm will generate more profit in good economic times, but if it is too geared and the economy turns down, there is a greater risk of collapse.

5.5 CONCLUSION

This chapter briefly discussed the theory of financial management and analysis in view of selecting measures or ratios to be used to test the hypothesis that the involvement of a strategic partner in a land reform project contributes to the potential financial success of the project. This hypothesis will be tested using the financial positions of both farms. To determine the financial position of the farm, both financial statements and financial ratios must be analysed. The results from the financial statements will be used to calculate financial ratios, which will then be analysed to ascertain the financial position of the farms. The solvency, debt and liquidity ratios will be used to measure risk, while the profitability ratios will measure returns. All the above-mentioned ratios will be used in the testing of the hypothesis.

The next chapter gives an overview of the citrus industry. This information will be used to make assumptions on the production level, input costs and output prices when the financial statements are drawn.

CHAPTER SIX

OVERVIEW OF THE CITRUS INDUSTRY

6.1 INTRODUCTION

This chapter presents background information on the citrus industry in South Africa and abroad, which will be used as input into later chapters to develop assumptions around citrus prices, costs, yields and demand.

6.2 BACKGROUND TO THE GLOBAL CITRUS FRUITS INDUSTRY

This section provides some background information on the citrus fruit industry around the world by looking at world production, consumption trends and trade.

6.2.1 World Production of Citrus Fruits

A total of 140 countries around the world produce citrus fruits, with the main producers being Brazil, the United States of America, China and the Mediterranean countries. The world production of citrus fruits has shown major growth. As shown in Figure 6.1, the total production of citrus fruits was 23 million tons in 1996, while in 2004 production rose to 109 million tons. Oranges account for more than half of the global citrus fruits produced around the world.

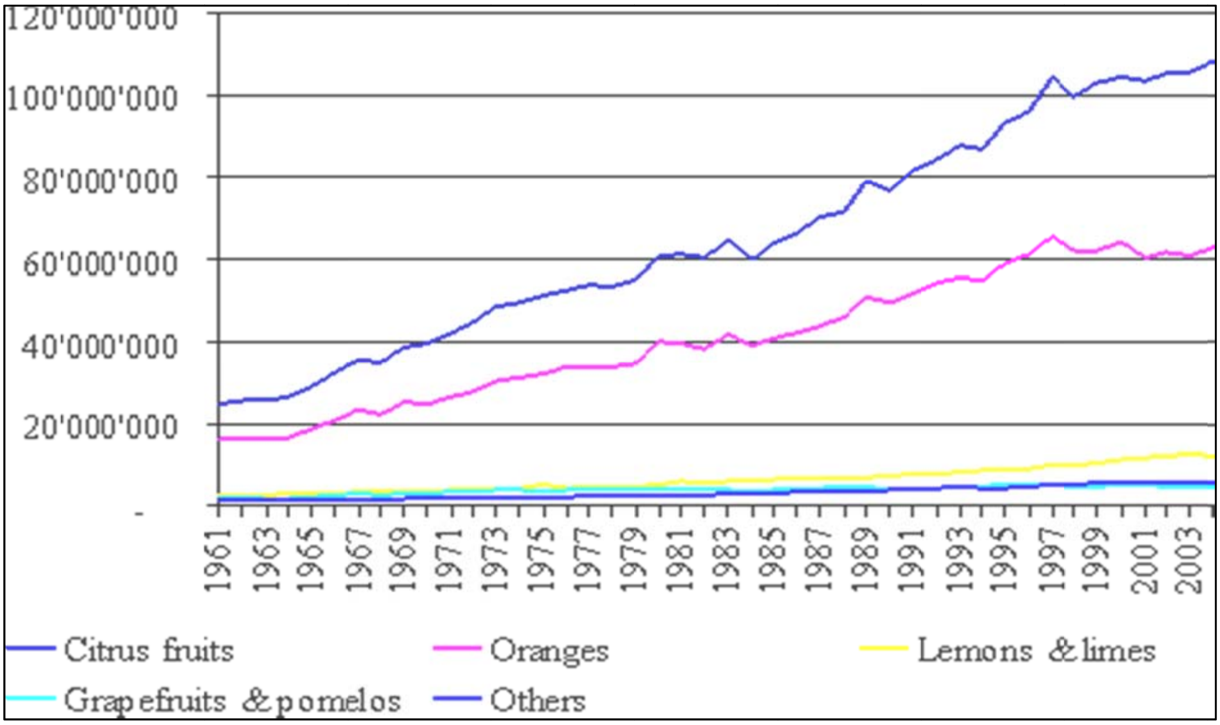

Figure 6.1: World Citrus Fruit Production (in tons), 1961 - 2004
Source: UNCTAD, 2005

The increase in the production of citrus fruits is due to improvements in transportation and packaging, thus lowering production costs and improving the quality of the fruit. Other reasons for the growth are the increase in cultivation area, changes in consumer preferences towards more convenient foods, and rising incomes making citrus fruits more affordable (UNCTAD, 2005).

6.2.2 World Consumption of Citrus Fruits

The consumption of citrus fruits is increasing worldwide, in developed as well as developing countries (UNCTAD, 2005). According to the Food and Agriculture Organization (FAO, 2003) the consumption of fresh oranges in developing countries is mainly in the form of orange juice. This preference and increase can be attributed to improvements in storage and the longer availability of substitute fruits. However, consumption of the fruit itself is increasing in countries such as Mexico, Argentina, Brazil, China and India. In 1961 the per capita consumption of oranges in industrialised countries was 10kg per year, increasing to 22.5kg per year in 2002. In developing countries, per capita consumption was 3kg in 1961 and 6kg in 2002. Figure 6.2 indicates the per capita consumption of citrus fruits from 1961 to 2002.

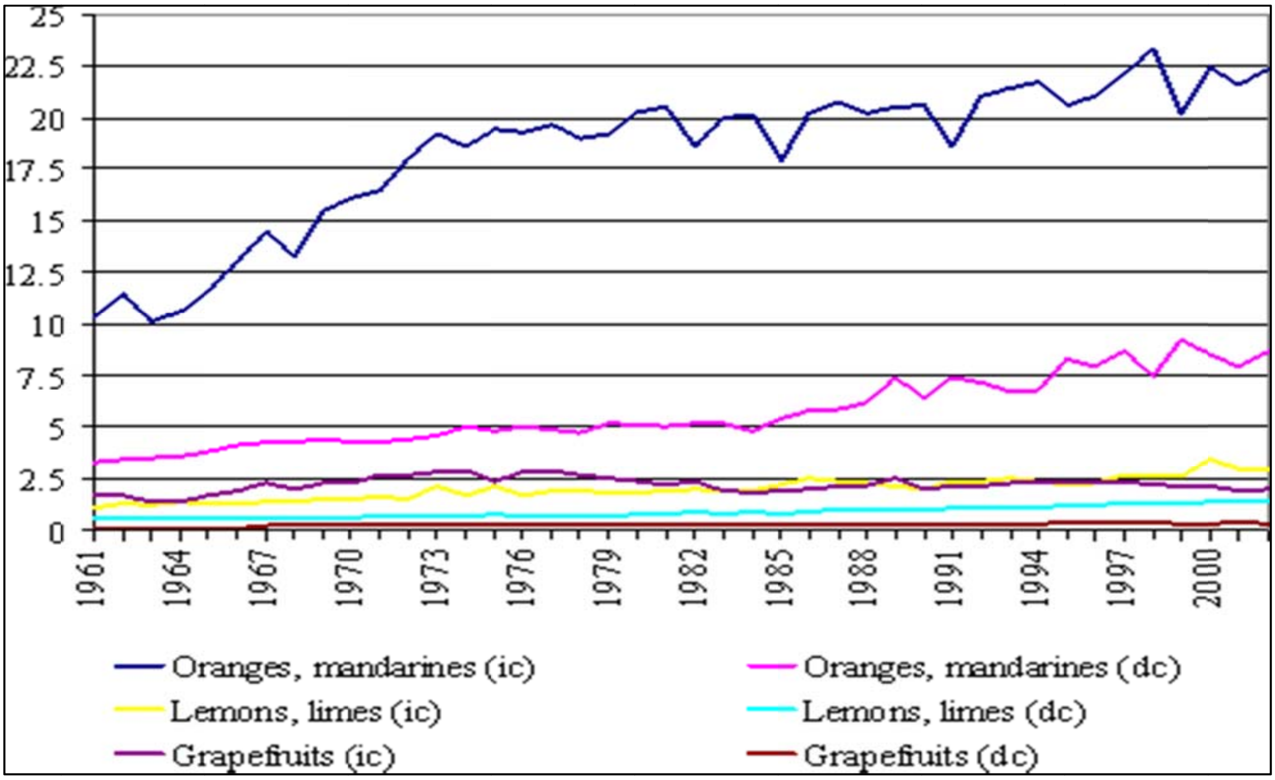

Figure 6.2: Per Capita Consumption of Citrus Fruits (kg/cap/yr), 1961 - 2002
Source: UNCTAD, 2005

6.2.3 World Trade in Citrus Fruits

The northern hemisphere accounts for 62% of the world's exports of fresh citrus fruits (UNCTAD, 2005), led by Spain with 25% of exports, followed by the United States with 14%, South Africa with 11%, Turkey and Argentina with 5% each, and Mexico, the Netherlands and Greece with 4% each (UNCTAD, 2005). The major destinations for these citrus fruits are Germany, which imports 10% of the world's citrus fruits, followed by France with 9%, the Netherlands with 8%, Japan, the United Kingdom and Russian Federation with 6% each, and the United States, Canada and Saudi Arabia with 4% each (UNCTAD, 2005). South Africa's market share in the European Union ranged from 18.3% to 22.5% between 1997 and 2004, increasing to 24.1% in 2005. The United States' market share ranged from 24.8% to 33.7% in the same period. In Japan, the South African market share grew from 11% to 22.7% in 2004, while in 2005 the market share grew to 41.9% due to the hurricane that impacted Japan's domestic production of citrus fruits. South Africa's market share in Canada increased from 1.4% in 1995 to 9.7% in 2005, while the United States' market share in Canada decreased from 98.1% to 76.3% over the same period.

6.3 HISTORY OF THE SOUTH AFRICAN CITRUS FRUITS INDUSTRY

South Africa has been producing lemons and oranges for the past three centuries (NDA, 2003). There are approximately 1 300 citrus fruit export farmers and 2 200 small-scale farmers who supply the local market (NDA, 2000). South Africa is the third largest trader and producer of citrus fruits in the world and exports 64% of its citrus fruits internationally (OABS, 2003).

There have been major changes in the South African citrus fruit industry over the past years due to the deregulation that took place in 1996, resulting in the removal of marketing boards. This allowed numerous marketing agents to enter the industry and compete against one another in the global market, leading to a sharp drop in prices and quality. The main drivers of the deregulation were anti-competition philosophies and concerns about the effective use of the single-channel marketing system. Many important services were lost, especially access to relevant and accurate industry information (Philip, 2006).

However, some innovative new organisations and marketing arrangements were established after the deregulation. The exporter certification, export contract arrangements, minimum price guarantees and export market information exchange process provided by the Fresh Produce Exporters' Forum have led to significant changes that have played a role in the rectification of the problems emanating from the deregulation of 1996 (Philip, 2006).

6.3.1 Citrus Production in South Africa

In South Africa citrus fruits are grown in the Limpopo Province, Mpumalanga, KwaZulu-Natal, Eastern Cape and Western Cape, where subtropical conditions (warm to hot summers and mild winters) prevail. This climate range provides good conditions for growing the full range of citrus fruits.

According to Optimal Agricultural Business Systems (OABS, 2005), the Limpopo Province produced 28.4% of citrus fruits in South Africa during 2005, followed by the Eastern Cape with 22.6%. Mpumalanga is the third citrus fruits producing province in

South Africa. Northern Cape and North West produces the least. Figure 6.3 below shows the distribution of production in the respective provinces.

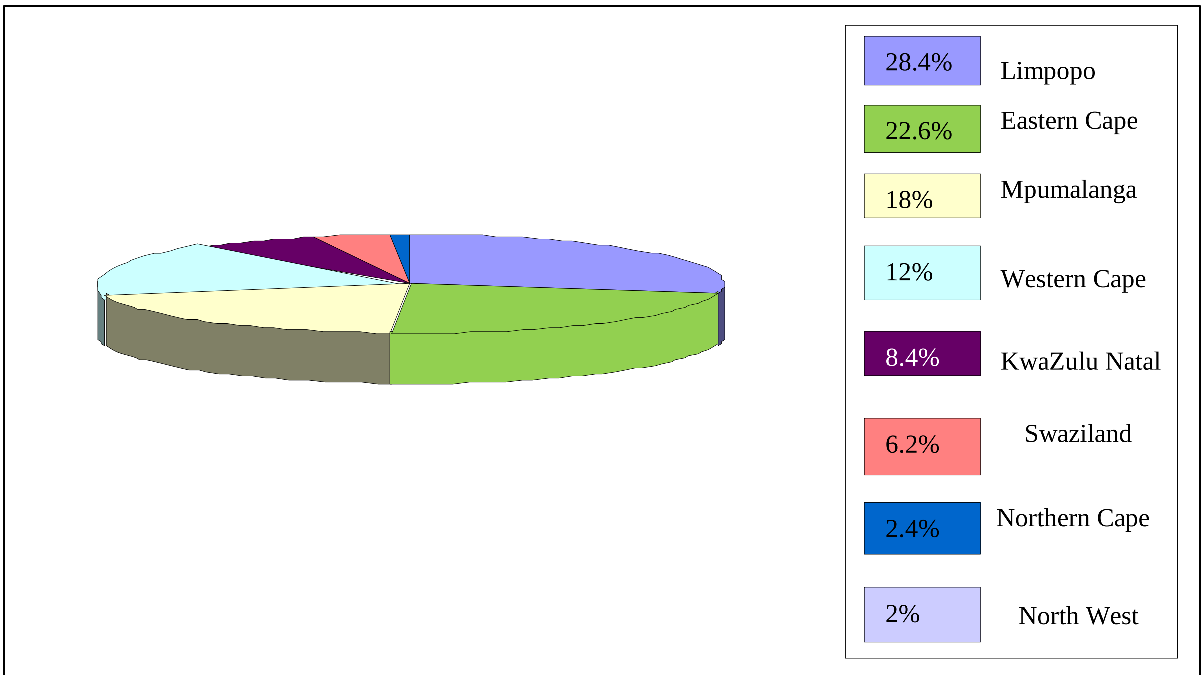

Figure 6.3: Production Areas of Citrus Fruits in South Africa
Source: OABS, 2005

South African citrus fruit growers have an advantage over growers in other countries due to the total management system approach they have in place (Philip, 2006):

- The application of pulse irrigation as determined by the daily water demand of trees
- Nutrient management as determined by tree and crop demands based on the fruit growth cycle
- Regular pruning to achieve greater light penetration and tree productivity
- Orchard densities of around 1 000 trees per hectare to optimise production
- Windbreaks to minimise fruit blemish
- Irrigation water with lower salinity and less acidic soil conditions that provide a natural productivity advantage

6.3.1.1 Oranges

Oranges constitute about 61% of the total production of citrus fruits in South Africa (NDA, 2003). The production of oranges increased from 11% to 78% from 2002/03 to 2007/08 (NDA, 2008). South Africa mainly produces two types of oranges, namely Valencias and navels. Limpopo produces 46.2% of the Valencias in South Africa followed by Mpumalanga with 20.5% and Eastern Cape with 15.7% (OABS, 2005). The Eastern Cape produces 36.1% of the navels followed by Western Cape 27.3% and Mpumalanga with 18.9% (OABS, 2005).

6.3.1.2 Lemons

In South Africa lemons are grown in the Eastern Cape, Western Cape, Limpopo, Mpumalanga and KwaZulu-Natal provinces. The total area planted to lemons was 4 829 hectares in 2005 (OABS, 2005). According to Figure 6.4, the Eastern Cape produced 42.9% in 2004, followed by the Western Cape with 19.1%. Northern Cape and North West produced the least.

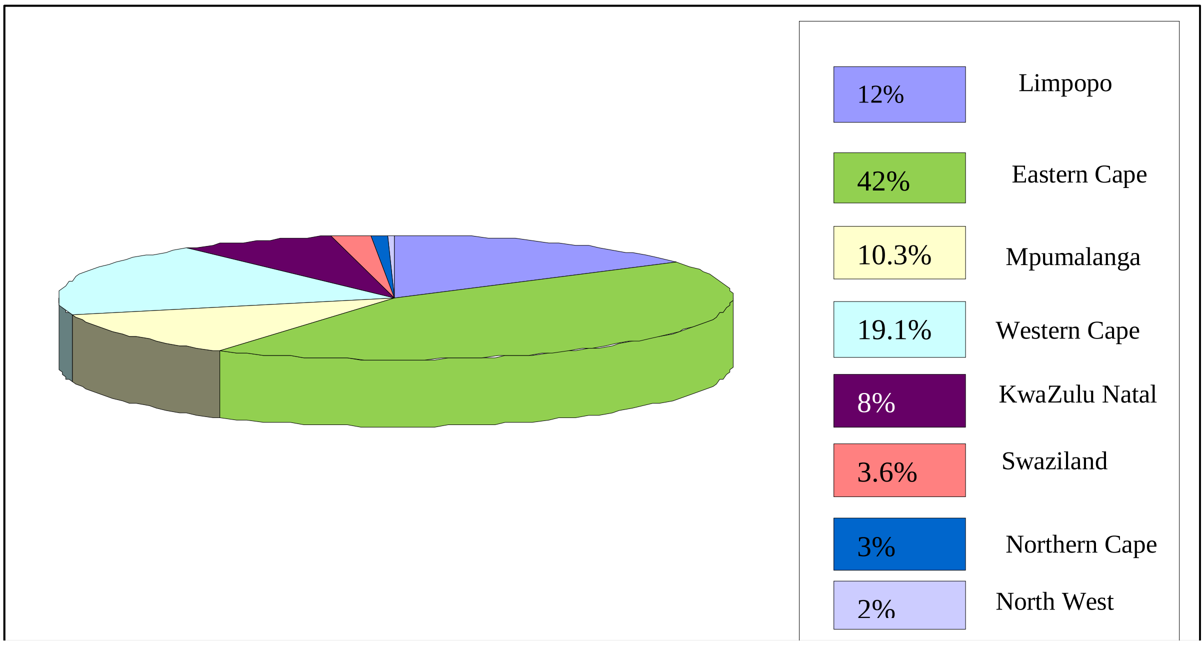

Figure 6.4: Production Areas for Lemons in South Africa
Source: OABS, 2005

South Africa's lemon production increased from 61 360 tons in 1993/94 to 197 266 tons in 2003/04, an increase of 321%. South Africa exports a large volume of lemons, while a small percentage is sold to domestic fresh produce markets. In 2004, an estimated 34% of all lemons were processed locally, while around 57% were exported and the remaining 9% were sold on local fresh produce markets (OABS, 2005).

6.3.1.3 Grapefruit

According to the United Nations Conference on Trade and Development (UNCTAD, 2005) the production of grapefruits in South Africa grew rapidly after the 1990s, more than doubling during the period 2001 to 2005 to reach an average of 240 695 metric tons. In South Africa grapefruits are mainly produced in Mpumalanga, followed by Limpopo, KwaZulu-Natal and the Eastern Cape. According to Figure 6.5, Mpumalanga produced 39% of South African grapefruits in 2004, followed by Limpopo with 24%.

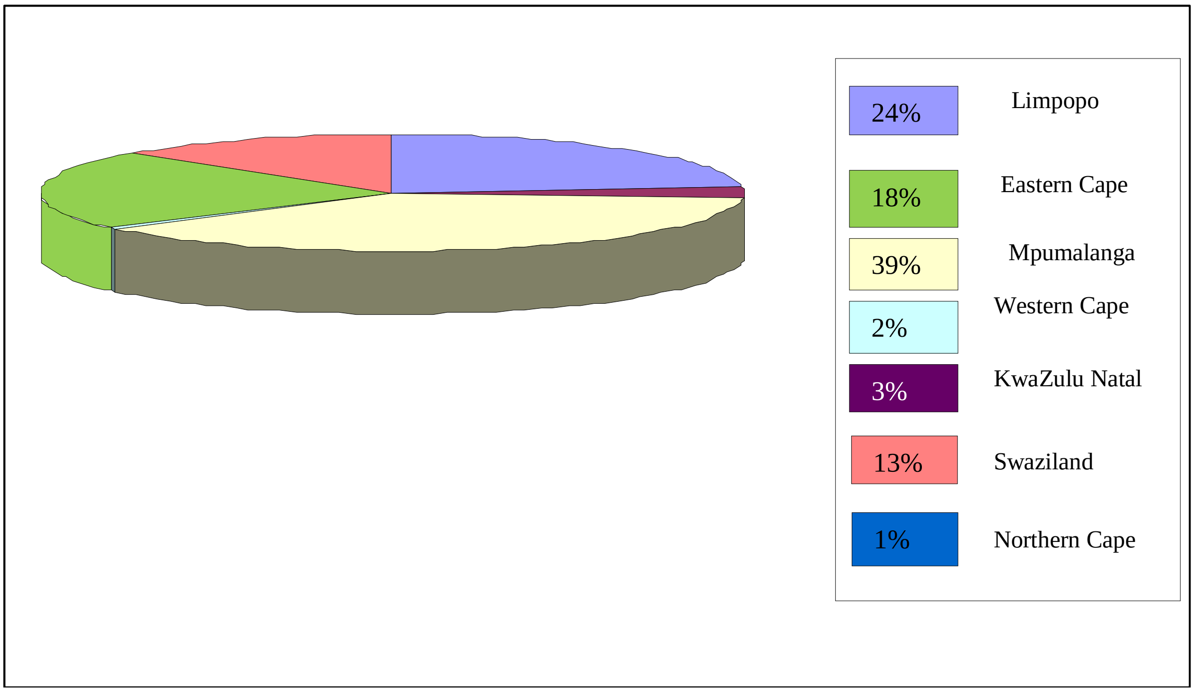

Figure 6.5: Production Areas of Grapefruits in South Africa
Source: OABS, 2005

6.4 DRIVERS OF THE FRUIT INDUSTRY IN SOUTH AFRICA AND THE EXPORT SUPPLY CHAIN

The fruit industry is highly dynamic and dependent on many factors, including:

- Diseases
- Climate
- Quality
- Exchange rate
- Demand, supply and prices
- Time of marketing
- Mode of transport
- Fuel costs

The industry is currently affected by a worldwide oversupply of fresh fruit and changing climate conditions that affect existing fruit cultivars (UNCTAD, 2005).

- **Diseases**

  There are various diseases and pests that affect the quality of citrus fruits by destroying the trees and /or the fruits (UNCTAD, 2005). Major diseases include citrus cancer, citrus variegated chorosis (CVC), tristeza virus, rind-oil spot, brown rot, stem-end decay, and green and blue moulds. Citrus fruit growers have to take some measures to prevent these diseases when growing and handling the fruits. The growers should also be able to predict diseases before they occur and also monitor the disease levels in their orchards.

  In South Africa, citrus trees and fruits are attacked by different insects such as redscale, mealy bugs, ants, fruit flies, soft brown scale, citrus thrips, orange bugs, citrus bud mites and false codling moths (NDA, 2000). Citrus fruits growers must use integrated production systems and spray programmes to control diseases and pests, and research and development activities are essential.

- **Climate**

  Citrus fruit crops are highly vulnerable to weather conditions. In KwaZulu-Natal, summers are hot and humid with temperature ranging between 23 and 33 degrees Celsius, while winter temperatures vary between 16 and 25 degrees Celsius (SAWS, 2008). KwaZulu-Natal is known to experience occasional frost in the interior and snow often falls in the higher altitude areas in winter (De Villiers, 2001). In Limpopo, temperatures average 27 degrees Celsius in summer and 20 degrees Celsius in winter (SA-Venues.com, 2008). Phalaborwa is known to reach a maximum of 45 degrees Celsius in summer (SAWS, 2008). Droughts, frost, hurricanes and wind may affect citrus fruits considerably, resulting in supply disturbances and increased prices (UNCTAD, 2005).

- **Quality**

  The consumers' purchase of citrus fruits is mainly based on their perception of the quality of the fruit and their willingness to pay the price for the given level of quality (Terblanche, 1999). The aspects that govern each stage in the production of citrus fruits have a huge influence on the final product. There are certain quality factors that a consumer considers when purchasing the fruits, including fruit juice content, soluble solids and aid concentrations, fruit size and fruit colour (Mongi, Thomas & Roberts, 2003, Poole & Gray, 2003). Citrus fruit growers should differentiate between the quality factors for the fresh and processed markets. For example, fruit size, colour, shape and maturity date are essential for fresh fruits, but a high juice content and soluble solids content are desired for processed fruits (Mongi et al., 2003).

  Factors that affect the quality of citrus fruits include rootstock, cultivar, pests, nutrition, irrigation, soil and climate (Mongi et al., 2003). These factors should be understood and taken into consideration by citrus fruits growers and production managers, because they affect profitability, sustainability and worldwide competitiveness. Irrigation and nutrition have a direct relation to citrus fruit quality and therefore profitability and competitiveness, while excessive irrigation and fertilization reduce citrus fruit quality (Mongi et al., 2003). Growers should therefore practice sound irrigation scheduling methods and high-priority management practices. Some micronutrients such as copper and boron also have an effect on the quality of citrus fruits if they are deficient in the tree (Mongi et al., 2003). The maturity stage at which fruits are harvested plays an important role in post-harvest processes and the quality of the fruits (Terblanche, 1999).

The above-mentioned factors interact with one another to produce fruits that must adhere to certain criteria in order to be acceptable to consumers. It is vital for citrus fruits growers to understand these factors.

- **Exchange Rate**

  In South Africa, citrus fruits have always been the main agricultural export and a major source of foreign exchange (NDA, 2008). In light of the fact that international trade involves the use of foreign exchange (forex), the value of the exchange rate plays a major role in international trade. The depreciation of the South African Rand against major currencies will be of benefit to South African citrus fruit exporters, as they will receive more for their produce. However, this can also be problematic in the sense that the depreciation of the Rand value can cause an increase in input costs, especially for fertilizer and chemicals. If the Rand value is not favourable to importers, there will be a marked preference for conducting business with economies that have a reasonable exchange rate. On the other hand, the appreciation of the Rand will result in the loss of income and leave South African producers with negative profits.

- **Demand, Supply and Prices**

  Citrus fruit prices are determined by market forces (demand and supply). According to the theory of demand and supply, there is a positive relationship between the demand and pricing of products. If the demand for citrus fruits is high (low) the prices of citrus fruits will increase (decrease). Supply has a negative relationship with prices. Supply factors such as frost, drought, pests and diseases tend to disrupt production by causing severe unintended contractions in supply. The disruptions will result in higher prices for citrus fruits. Demand factors such as an increase in income, changes in preferences, and availability of substitute products at a competitive price relative to citrus can cause the price of citrus fruits to decrease. Lower prices faced by citrus growers will cause reductions in the rate of new plantings and thereby reduce output growth. Given the geographical concentration of citrus production, it is possible that some random event will result in a major reduction in output and stimulate a new round of production expansion.

- **Timing of Marketing**

  The marketing of citrus fruits is seasonal from country to country. In South Africa the marketing of citrus fruits starts in early June and ends in early November. For example, oranges in South Africa are marketed from July to August, while in Texas and California in the USA marketing is from October to January, and in Spain marketing is from January to May. South Africa has an advantage over other citrus-producing countries in that marketing takes place in the season when the demand for citrus fruits is high due to weather conditions, while other countries market their citrus fruits in summer when demand tends to be lower.

- **Mode of Transport**

  Citrus fruits are products with many desirable characteristics for consumers who are health-conscious and who demand convenience and place a premium on food safety. Recently, due to climate change, the transportation system used to distribute citrus fruits is slowly becoming more important to consumers, especially in the European Union. Consumers are becoming more interested and conscious of how environmentally friendly the different modes of transport are. Therefore, suppliers need to become more sensitive towards the selection of the modes of transportation to be used when distributing citrus fruits. Continuing improvements in transportation logistics will allow exporters to provide year-round supplies of high-quality fresh citrus products and will also allow processed citrus producers to provide convenient, reasonably priced products to consumers throughout the world.

- **Fuel Costs**

  Transportation costs contribute significantly to the total expenses of most companies. With higher fuel prices, it becomes more expensive to manufacture and distribute goods. Since the citrus fruit industry in South Africa is export oriented, it depends on fuel to transport citrus fruits from one place to another. Therefore a rise in the fuel price will have a negative impact on the profitability of the growers, as they will have to pay more to distribute their products and some will be forced to sell locally at a lower price because they cannot afford to distribute their products to the export market. If the growers decide to sell to the export market despite the high fuel prices, they will have to price their products higher, which may ultimately result in a lower demand for their products. Growers have to brand their products locally so that when they cannot afford to sell to export markets due to high fuel costs and low prices, they can sell to the local market.

6.5 CONSUMPTION AND SALE OF CITRUS FRUITS IN SOUTH AFRICA

Overall, the consumption of citrus fruits in South Africa is increasing. Citrus fruit sales on the major fresh produce markets in South Africa increased by 9.1%, from 174 759 tons in 2005/06 to 190 693 tons in 2006/07. The consumption of individual citrus fruits is discussed below.

- **Consumption of Oranges**

  The overall consumption and sale of oranges has increased since the 1990s due to increased awareness of their nutritional benefits. Citrus fruits are a natural source of potassium, and are free of sodium and cholesterol (Health & Fitness, 2001). However, in 1997 the sale and the consumption of oranges decreased, resulting in an oversupply of oranges and a significant decrease in prices. Producers then decreased production, causing prices to rise again from R690 per ton to R800 per ton in 1998. Figure 6.6 illustrates the sales of oranges from 1995 to 2005.

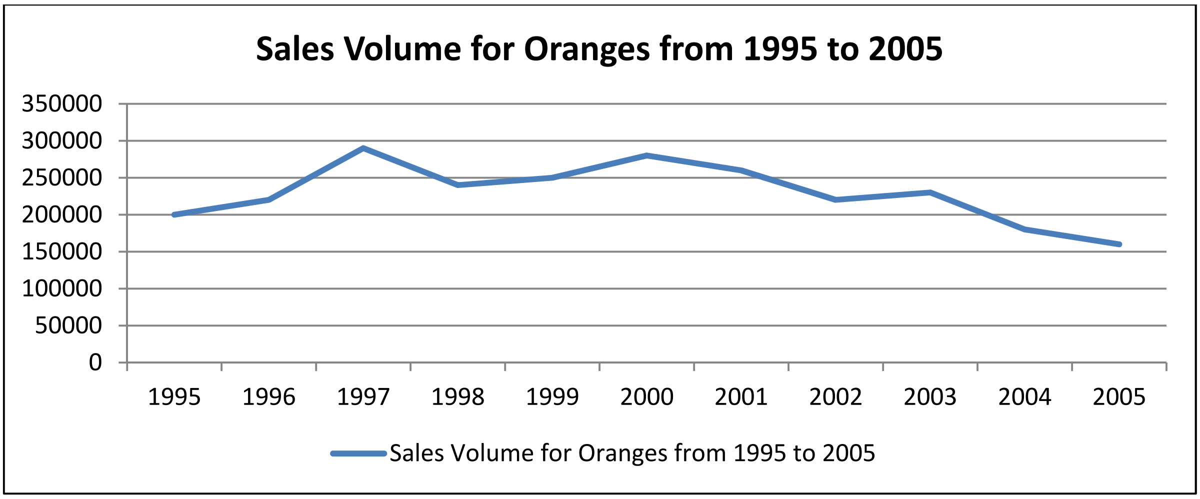

Figure 6.6: Historical Sales of Oranges in South Africa, 1995 – 2005
Source: OABS, 2005

- **Consumption of Lemons**

  The consumption and sale of lemons in the local market has been increasing. As indicated in Figure 6.7, a total of 4 000 tons of lemons were sold to the local market in 1993/94, while 9 000 tons were sold in 2003/04, an increase of 5 000 tons or 225%. The increased consumption of lemons came as a result of consumers becoming more health conscious.

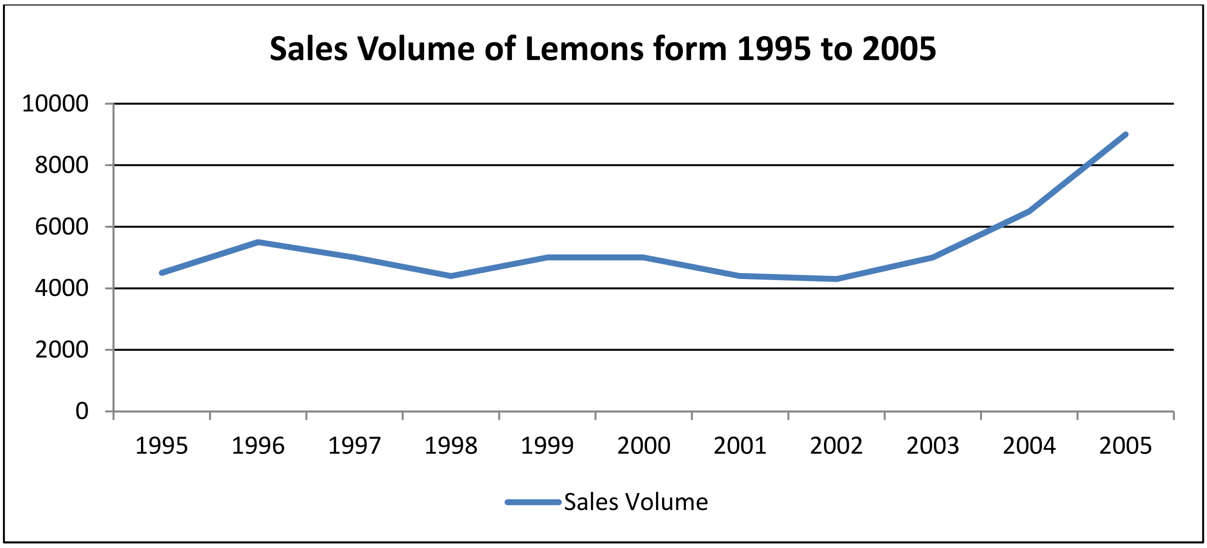

Figure 6.7: Historical Sales of Lemons in South Africa, 1995 – 2005
Source: OABS, 2005

- **Consumption of Grapefruits**

  South Africa produces grapefruits for the export market, namely Japan, Northern Europe, the United Kingdom, Southern Europe and other areas. In the period 1996 to 2006, 65% of the grapefruits produced in South Africa were exported, while 5% was sold on the local market and 30% taken for processing.

6.6 PROJECTIONS OF CITRUS PRODUCTION AND TRADE

These projections are adapted from the projections of world production and consumption of citrus for 2010 (Spreen, 2003), using a mathematical model developed at the University of Florida and modified by experts, as well as other citrus outlook studies. The production, consumption and trade of citrus fruits have grown worldwide and in South Africa since the mid-1990s (Spreen, 2003; Yusuf & Salau, 2007). The production of oranges, tangerines, lemons have grown rapidly (Spreen, 2003), as has the production of processed citrus fruits, as a result of improvements in transportation and packaging and a resulting decrease in the costs of production and improved fruit quality (Spreen, 2003). The rise in the production of citrus fruits is due to increased incomes, changing tastes and preferences of consumers, and increased cultivation (UNCTAD, 2005). The main role players in the citrus industry are listed in Table 6.1.

Table 6.1: Major Citrus-Producing Countries

Fruits	Producing countries
Oranges	Brazil, United States, Mexico, India, China, Iran, Italy, Egypt, Indonesia
Small citrus	Nigeria, China, Syria, Guinea, Japan, Saudi Arabia, India, Sierra Leone, Angola, Tunisia
Lemons	Mexico, India, Spain, Argentina, Brazil, United States, China, Italy, Turkey
Grapefruits	United States, China, South Africa, Mexico, Israel, Cuba, Argentina, India and Tunisia

(Source: Yusuf & Salau, 2007)

Spain and the United States are the leading citrus-producing countries, and production in these two countries is expected to increase. Spain is expected to increase its production of tangerines (Spreen, 2003), while China is expected to increase its consumption and production of citrus fruits overall. Mexico, Cuba and Argentina are also expected to increase production of citrus fruits but at a slower rate (Spreen, 2003). South Africa and countries along the Mediterranean Sea are also expected to increase their production levels.

- **Oranges**

  According to Spreen (2003) the world projections of orange production will decrease due to serious diseases such as citrus cancer and CVC in Brazil and Florida. Spreen (2003) projected the world production of oranges to increase to 66. 4 million metric tons in 2010, which is approximately 10% higher than that realised from 1997 to 2003. The projected annual growth rate is 76% lower than the 3.9% that occurred from 1986 to 1988 and from 1996 to 1998. In Europe small changes in production are expected with Spain's small increase in production, which will be offset by a decrease in production in Italy and Greece. In South Africa production is expected to grow due to its advantage of being an off-season supplier to the northern hemisphere.

  The world consumption of oranges is projected to decrease in developed countries and to increase in developing countries such as Argentina, Mexico, India, Brazil and China (Spreen, 2003). The reason for decrease in consumption is because fresh oranges are being replaced by orange juice, and advances in transportation and storage increase the level of competition between other fruits and oranges. The expansion of production and the decline in the consumption of oranges will result in lower prices for both fresh and processed oranges.

- **Lemons**

  As seen in Table 6.1, Mexico, Argentina, China, India, Iran, the United States, Italy, and Turkey are the main growers of lemons and limes. From 1996 to 1998 the world production of lemons was 9.25 million metric tons, with 7.3 million metric tons sold on the fresh market and 1.9 million metric tons used for processing (Spreen, 2003). The world projection of lemons for 2010 stood at 10.6 million metric tons, which is 15% higher than the value for 1996 to 1998. A slower rate of production growth is projected in the face of declining prices for lemons. Increased consumption is projected across the major world markets. The United States was projected to be the largest importer of lemons, accounting for 20% of the world's imports by 2010 (Spreen, 2003).

- **Grapefruits**

  World production of grapefruits has shown a slow increase from 4.2 million metric tons to 4.9 million metric tons, an annual growth rate of 1.6% (Spreen, 2003). This slow increase is due to competition from other fruits. It was projected that the world production of citrus fruits would increase to 5.5 million metric tons in 2010, an increase of 10%. Production by the United States and Israel is expected to remain constant, while production by Cuba, South Africa, Argentina and Mexico is expected to increase (Spreen, 2003).

  Per capita consumption of processed grapefruits is projected to decline due to its competition with processed oranges, because consumers in developed countries continue to consume more orange juice than grapefruit juice. In South Africa, grapefruit production is projected to increase due to the hurricanes that affected production in Florida in 2004 and 2005.

6.7 CONCLUSION

The chapter provided an overview of the citrus industry in South Africa and abroad. From the discussion above, it is clear that there is potential in the South African citrus industry for both the local and international markets. The information discussed above will be used to make certain assumptions for the long-term budget where the predictions for cash inflow and outflow for the coming ten years will be predicted. The information will be used to make assumptions on citrus prices, inputs prices, demand and supply of citrus fruits.

Chapter seven provides an overview of the Mashishimale community farm, the business structure adopted and the financial governance of the farm.

CHAPTER SEVEN

HISTORY, BUSINESS STRUCTURE AND FINANCIAL GOVERNANCE OF MASHISHIMALE COMMUNITY FARM

7.1 INTRODUCTION

Management models are believed to have an impact on the financial performance of a land reform project and the business structure of a farm. Chapters seven and eight describe the management models used in the two citrus-producing projects investigated.

Chapter seven provides an overview of the business and legal structure of Mogotle Citrus located at Mashishimale Community Farm, and how it affects the financial management of the farm. It starts by providing the overview of the history of dispossession of the Ba Phalaborwa Ba Mashishimale farm and the land claim process, and then provides an overview of the stakeholders involved in the project and their respective roles, Mogotle Citrus' business structure and the financial governance of the farm. Information presented in this chapter was obtained from a semi-structured interview conducted with the key stakeholders on 20 September 2008 in Phalaborwa. Specific key questions were developed beforehand to ensure that the relevant information was collected. Key informants were selected on the basis of their involvement and interest in the project.

7.2 HISTORY OF MASHISHIMALE FARM AND LAND CLAIM

The Ba-Phalaborwa Ba Ga-Mashishimale tribe occupied the land they had claimed from time immemorial (SRS-SA, 2006). The community settled in these areas before the colonial era. When the Ba Phalaborwa Ba Ga–Mashishimale community was removed, no compensation was determined or granted (SRS-SA, 2006). Following the forced removal, the claimants were allocated a small portion of land for residential purposes known as Mashishimale location. This land had also belonged to the Mashishimale tribe even before the surveying and demarcation, so the portion of land was not regarded as compensation (SRS-SA, 2006). As a consequence of the removal, the community lost the use and occupational right to the land they had occupied for many decades (SRS-SA, 2006). Prior to the dispossession they had grazing, hunting and burial rights, which were all lost as a result of the removals. With the arrival of white people, the Mashishimale community were turned into labour tenants and those who refused this practice were expelled from the farm (SRS-SA, 2006). The land is currently used for ecotourism, game farming with four of the big five, and citrus fruit production.

In 1999 the community lodged a claim with the Limpopo Regional Land Claims Commission (RLCC) in Limpopo in compliance with section 11(1) and 2(1) of the Restitution of Land Rights Act of 1994 for 35 350 hectares of land. The claimant community was comprised of approximately 1 885 households who could trace their ancestry to the original inhabitants, plus 99 other households who had migrated into to area after the forced removals (SRS-SA, 2006). The verification of all the claimants was done and adopted on 11 December 2003. The Ba Phalaborwa Ba Ga-Mashishimale community chose restoration of the land where restoration was feasible. Where restoration was not feasible they chose financial compensation (SRS-SA, 2006). The owners of the farms were willing to sell 16 353 hectares back to the community, while the remaining 18 997 hectares are still in the process of being transferred. The 16 353.2 hectares of land were valued at a total of R148 620 000 (SRS-SA, 2006).

The claimed land is comprised of the farms Hope 149KT, Bosbok 793 LT, Ram 799 LT, Brand 789 LT, Glip 797 LT, Punt 151 KT, the remaining extent of the farm Ziek 771 LT, the remaining extent of the farm Brook 772 LT and the remaining extent of the farm Breakfast 773 LT. The claimed land has since been subdivided into various farms and portions in terms of demarcations by the Surveyor General's office. Table 7.1 below gives a description of the farms.

After extensive investigation the RLCC of Limpopo accepted the claim because it conformed to the acceptance criteria in section (2) and section (1) of the Restitution of Land Rights Act (Act No. 22 of 1994). The claim was also accepted because it met the following set criteria for acceptance of claims:

- The claim was lodge as prescribed in the Restitution of Land Rights Act

- The claimants are a community as defined in section 1 of the Act and therefore competent in terms of section 2 of the Act
- The claim was not frivolous or vexatious

Table 7.1: Description of farms in Mashishimale

Farm Name	Owner	Extent in Hectares
Hope 149 KT	Johan Hiemstra	2 904.25
Bosbok 793 LT	Steve SchoemanBeherend (Pty) Ltd	856.54
Bosbok 793 LT	BosbokLandgoed CC	983.3
Ram 799 LT	Henbase 3486 (Pty) Ltd	2 655.91
Brook 772 LT	Henbase 3486 (Pty) Ltd	506.73
Ziek 771 LT	Henbase 3486 (Pty) Ltd	1 149.32
Breakfast 773 LT	Henbase 3486 (Pty) Ltd	479.12
Brand 789 LT	Henbase 3486 (Pty) Ltd	2 141.6
Glip 797 LT	Henbase 3486 (Pty) Ltd	1 888.4
Punt 151 KT	Henbase 3486 (Pty) Ltd	2 788.1
Total		**16 353.2**

Source: SRS-SA, 2006

The Mashishimale community planned to continue with operation of the game farm, the lodge and also the citrus farm on Bosbok. The Mashishimale community is governed by a female senior leader, a traditional council and izindunas. The senior trade leader is also an *ex officio* member of the CPA. Mashishimale can be distinguished from the other restitution communities on the basis that the whole community must benefit from the process and not only the community members legally entitled to the land.

7.3 STAKEHOLDERS AND THEIR RESPECTIVE ROLES IN THE POST SETTLEMENT OF BENEFICIARIES OF MASHISHIMALE COMMUNITY

Three stakeholders play an important role in this project:

- CPA
- Executive Manager (CEO) of the farm
- Co-ordinator

The following external role players provide support to the project: Provincial Department of Agriculture, Department of Local Government and Housing, Department of Roads and Transport, Department of Health and Local Development, the Phalaborwa Foundation, the Traditional Council and Kruger National Park.

Semi-structured interviews were held with CPA members, the executive manager and the co-ordinator for Mashishimale community.

7.3.1 Roles and Structure of the Communal Property Association as a Legal Entity

- The CPA members are the members of the community who were selected to represent the community on the farm. The CPA members were selected because of their passion and the interest they have shown in the community with the lodging of the claim. Initially the CPA was referred to as the Land Claims Commission, but it was converted into a CPA in 2004. It took eight years to establish the CPA, consisting of 10 members (six females and four males).
- Two of the positions on the CPA are held by the Tribal Authority, who are serving ex officio with the chief included. Their main role was to identify people in the village who were there when the community was removed from their land and they were also responsible for attending meetings with the RLCC. Primarily they lodged the claim on behalf of the community.
- The CPA members are not involved in the day-to-day running of the farm business since they have other career obligations, but a Steering Committee (SC) was formed as part of the CPA (see Figure 7.1). The SC comprises representatives of the different enterprises (citrus, packhouse, game farm and lodge) and responds immediately to any crisis on the farm.
- The CPA has completed phase 1 of its claim (comprising the citrus farm, game farm and lodge) while phase 2, comprising another 53 farms, has not yet been completed.
- The SC meets regularly with the executive manager to discuss progress on the farm. The SC is also involved in the financial management of the farm. They are responsible for approving financial transactions by the executive manager. If a

matter is very urgent, the executive manager is allowed to make a financial decision without the approval of the SC and report the transactions to the SC afterwards. The financial transactions are, however, limited to R30 000. The SC meets on a monthly basis with the CPA to update them on the activities on the farm and also to provide feedback on the financial situation of the farm.

- The CPA members require monthly financial statements from the executive manager. An auditor was appointed by the CPA by the end of 2009 to audit the farm's financial statements. Figure 7.1 illustrates the structure of the CPA.

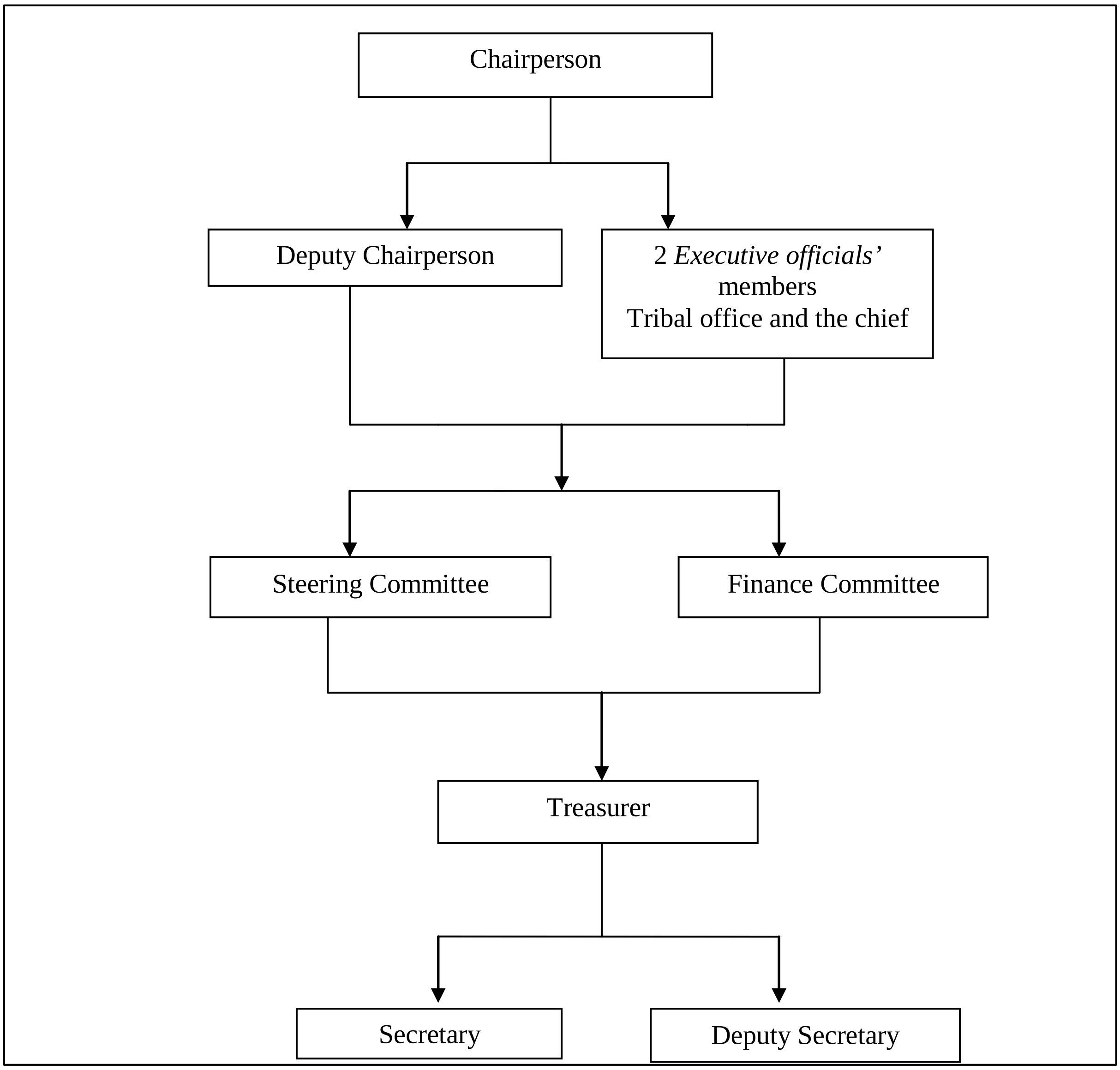

Figure 7.1: Structure of the CPA as on 20 September 2008

- The role of the CPA is to manage the property (land and other assets) on behalf of the community. Their vision is to see that the project succeeds and in response to a question on what they think should happen to the profits generated, they answered that this should be used for the development of capacity amongst the youth (through the issuing of bursaries to the youth) and the improvement of infrastructure and houses in the community.
- The SRS-SA project team and the executive manager, the co-ordinator and some CPA members were involved in the drafting of the interim business plan. The interim business plan was drafted as a requirement to access government funds and as a guide for the business. The interviews with the CPA and key informants also served to assess their general satisfaction with the drafting of the interim business plan. A 10-point semantic scale (1= Not satisfied, 10 = Very satisfied) was used to determine the perceived satisfaction of CPA members with the business plan. The CPA scored their satisfaction on a 10-point scale in terms of their participation and involvement in the drafting of the business plan, as they were able to make suggestions and express their thoughts on the mission and vision of the farm. CPA members believed that the business plan would assist in getting access to finance from commercial banks, the Department of Land Affairs and Limpopo Department of Agriculture. Up until September 2008, however, the CPA had not received any financial assistance or grants from the respective departments.

7.3.2 Role of the Co-ordinator

- A co-ordinator was appointed by the SRS-SA project to co-ordinate the settlement process on the farm. The co-ordinator has a master’s degree in Agriculture and is well experienced in farming and business management. As a co-ordinator he aims to implement the restitution programme successfully and ensure that the Mashishimale community project is a success.
- His main role as co-ordinator of activities between the community, the farm personnel and the SRS-SA involve the following: developing a specific governance model for the Mashishimale community, which could make it successful and sustainable; facilitating the drafting of the interim business plan for

the Mashishimale community farm, and making inputs into the development of the long-term strategic management plan.

- In general the co-ordinator expressed satisfaction with the relationship that exists between the community, the traditional chief, the CPA and the executive manager. He indicated that the community, CPA, tribal office and executive manager are absolutely committed and passionate about the project.
- Apart from his participation in the drafting of the business plan he was also responsible for communicating the business plan to the CPA. The following communication structure was developed between the co-ordinator and the community (Figure 7.2):

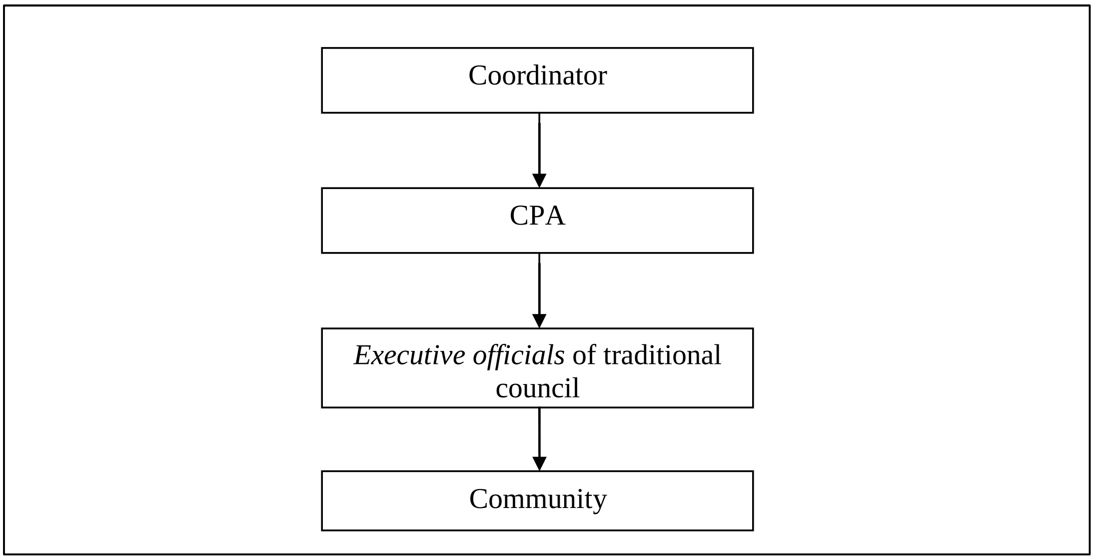

Figure 7.2: Communication Structure between the Facilitator and the Community

- The co-ordinator normally communicates with the community through the CPA, who then passes the information to the community through the Tribal Officials. The co-ordinator was of the opinion that the current communication structure is effective, since the message is delivered to the community in time. Critical attributes required for an effective co-ordinator are:

  - Appropriate knowledge of technical aspects (in this case agriculture knowledge),
  - Appropriate knowledge of policies, acts and legislation
  - Practical experience in facilitation

7.3.3 Role of the Executive Manager

- The executive manager was appointed to manage the farm on behalf of the community and the CPA. He was appointed in 2007 to oversee the three business units (citrus farm, game farm and lodge). The executive manager has two years of experience in farming tomatoes and eleven years of experience in mango farming. He was born in the Limpopo area and has a great passion for game farming and hunting. Although he acknowledges his lack of experience on the citrus farming, he has showed the necessary interest and eagerness to learn. His aim with this project is to optimise the production (yield and quality) of citrus fruits and ensure that all three enterprises become profitable. The executive manager receives a fixed salary package, which includes on-farm housing and 10 % of the net profit.

- The previous owner left the farm in a bad condition, and aspects like orchard management, packhouse infrastructure and management and exporting of fruits are high on the manager's agenda for the citrus farm. Ngulube Lodge offers accommodation, camping and fishing facilities. It also employs community members for housekeeping and gardening. His vision with Ngulube Lodge includes the renovation of the existing staff housing, extension of the camping area, improvement of camping facilities and the building of additional accommodation.

- The executive manager expressed the following visions and goals for the game project:

  - The game farm business has not yet reached its full potential. Since the farm is close to the Kruger National Park, it should become competitive by acquiring the "Big Five'. Currently buffalo and rhino are not included on the farm, which will require additional funding and development.
  - The Kruger National Park has agreed to make certain contributions (like buffalo). His vision is to ensure that this agreement is adhered to.

  - To combat poaching that occurs on the farm through a co-ordinated approach together with the patrol programme of the Kruger National Park.

- The executive manager expressed his concern that some of the goals are in jeopardy due to financial problems that the project has experienced since the start of the settlement. Funds were expected from LDA such as Settlement Planning Grants, Restitution Discretionary Grants and Settlement/Land Acquisition Grants, but only a fraction has been received due to the slow processing of applications.

- The executive manager actively took part in the drafting of the interim business plan and rated his satisfaction expressed on a 10-point sematic scale (1 = Not satisfied, 10 = Very satisfied) as 7. He was very satisfied with his participation in the planning and drafting of the business plan. He is of the opinion that the business plan is essential, because it provides structure to the management and decision making of the farm, and in addition enables access to finance from private and public institutions. Even though it was not easy to implement the business plan on the whole farm, he managed to implement the business plan on the citrus and game enterprises. The executive manager rated the easiness of the implementation of the interim business plan on 3 using a 10- point sematic scale for assessment (1=Difficult and 10 =Easy). He also used the business plan to plan and budget the activities as part of the operational plan. The aim with the drafting of the business plan was to access financial grants (SPG, RDG, etc.) and financial loans from the commercial banks, since at the date of interview the farm had only received a small portion of the promised financial grant(R2 million). The business plan was also submitted to the Limpopo Department of Agriculture for the accessing of CASP funds for infrastructure development on the farm, but no financial support had been received by the time of the interview.

- The executive manager of the three business units is also responsible for the financial management of the farm. He gained financial management experience from his previous positions in ZZ2 farming, mango farming and from his own farming business. He implemented Excel software to record the financial transactions that take place on the farm. He admits, however, that the financial system he adopted for the farm is inadequate since it does not take Value-Added Tax (VAT) into consideration. These shortcomings in the financial recording system also cause problems with the auditors.

- According to his contract with the CPA, he has to consult with the SC on financial decisions of the farm. The CPA has given the executive manager some authority to make financial decisions on his own if the matter is urgent, but limited to transactions of R30 000. All the financial transactions that take place should be communicated to the CPA at their quarterly meetings.

- On a question to the SC about the frequency that is required for the submission of the financial statements, he indicated that they only compile the financial statements when the Department and the CPA request such. He recognises this as a serious shortcoming, as financial statements have to be compiled every month so that monitoring and control of the business is implemented. Knowing the financial position of the farm business will enable the manager to make the right business decisions and steer the manager where the business is going.

- A serious shortcoming identified during the interview was that no official marketing plan exists for the farm. The purpose of a marketing plan is to set the direction on how the promotion of the farm will be carried out, to build a client base and determine any opportunities to make a profit. The marketing plan is one of the most important documents for a farm.

- The executive manager appointed assistant managers for the game and citrus farms and for Ngulube Lodge to ensure effective management of these business units and proper communication between the staff. His communication with the assistant managers responsible for Ngulube Lodge and the game farm is very informal, except for the citrus enterprise. This division meets at least once a week where feedback on the packaging, inputs required and sales of citrus fruits is delivered. More frequent meetings between the executive manager and his assistant managers will help inform him on what everyone is doing and it will also alert the manager on the challenges coming beforehand

7.4 FARM BUSINESS STRUCTURE AND MANAGEMENT MODEL FOR MASHISHIMALE FARM

The community had to choose between two management models, namely the manager model and the strategic partnership model, after the claim had been lodged successfully. The Mashishimale community initially chose the strategic partnership model and entered into a three-month contract with two of the previous owners. After three months the farm was not showing any improvements apart from basic maintenance of the farm. The CPA took a decision not to renew the contract with the strategic partners, but to employ a manager to take care of their business. They also decided not to share their profits with these strategic partners. When the manager was appointed to run the three enterprises, the community looked at aspects such as practical experience, relationship with the farm workers from previous jobs and passion for game farming. Figure 7.3 presents the business structure of the Mashishimale community farm.

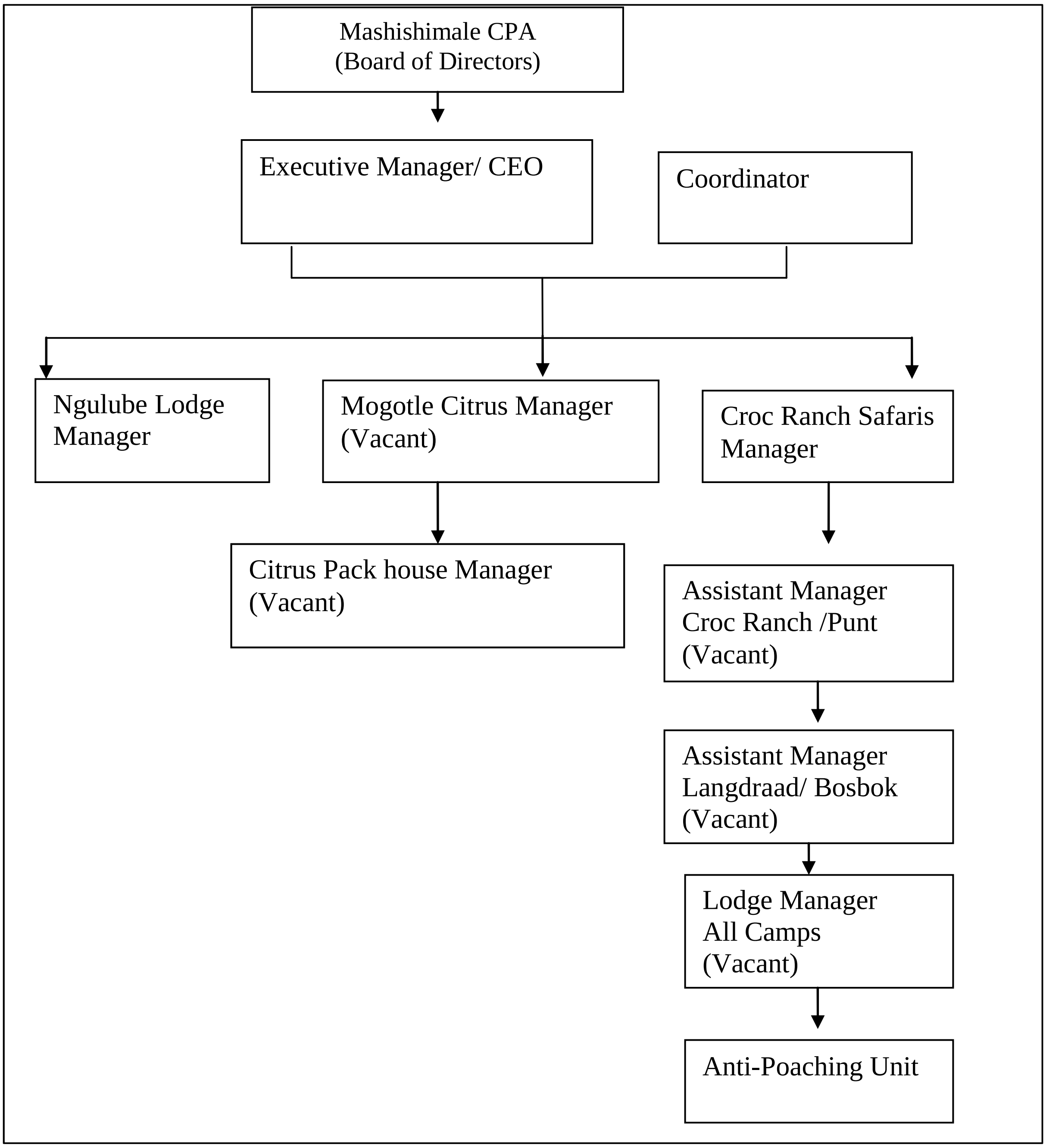

Figure 7.3: Mashishimale Farm Business Structure as on 20 September 2008

Although the farm business structure was developed in collaboration with the CPA, many of the positions are vacant due to mainly financial constraints.

7.5 STATUS QUO OF MOGOTLE CITRUS AS ON 20SEPTEMBER 2008

The following provides an overview of the status of citrus production at Mogotle that was compiled by the Citrus Research Institution and University of Pretoria in the Department of Agricultural Economics, Extension and Rural Development on 20 September 2008.

- **Trees (Oranges, Lemons and Grapefruits)**
  Many fruits were lying on the orchards floor under the trees and hanging on some trees when the farm was transferred. These fruits should be removed as part of necessary orchard hygiene. Although new fruits were harvested in June to September 2008, the fruits were not of the best quality. Most were sold to the juice processors and a small percentage was exported.

- **Pest and Disease Control**
  Due to the fruits that were left on the trees and the orchard floor, the control of diseases and pests was not sufficient. It was recommended that all fruits be removed from the orchards after harvesting.

- **Irrigation System**
  The irrigation system was poor and not functioning properly and effectively due to leaks, pressure problems and irrigation design. The water quality was also found to be inadequate especially during the winter period when the normal stream production flow of the Selati River is low.

- **Permanent Labourers**
  Due to lack of finances the farm was obliged to decrease the number of permanent employees. Of the 116 employees employed before transfer of the land, only 39 were re-employed.

7.6 PRIVATE AND PUBLIC INSTITUTIONS INVOLVED

A number of private and public institutions came forward when the project started, and promised to support the project to make it a success. These institutions are important in post-settlement support. However, many of these institutions showed no interest when they were approached later, during the post-settlement process. Various government departments have been specifically tasked to provide funding (grants and loans) and other forms of support to restitution beneficiaries. The Department of Land Affairs, Land Claims Commission and Provincial Department of Agriculture in Limpopo are the most important government departments with respect to this project. Limpopo Tourism offered a workshop to the community on game farming and promised further support. Provincial Department of Agriculture extension staff visited the farm often, but they did not provide any financial assistance through (CASP) funding. The Department of Land Affairs (currently the Department of Rural Development and Land Reform) through the Land Claims Commission has been co-ordinating the process of land transfers for the community and is responsible for the allocation of direct funding support in the terms of the Settlement Land Acquisition Grant (SLAG) and the Restitution Settlement Grant (RSG). The local municipality is mandated as a driver of development and service delivery and can provide post-settlement support through their Local Economic Development Plan and the Integrated Development Plan. The Sustainable Restitution Support South Africa (SRS-SA) team helped with the drafting of the governance of Mashishimale community and developed an interim business plan for the community. They have also provided technical assistance (game farming and citrus production) and offer training workshops on veld management and financial management to the community as part of post-settlement support. The SRS-SA also appointed the project co-ordinator for the community and provided support with preparing the applications for financial assistance. The SRS-SA Programme helped to improve the communication structures as well as train 15 facilitators of the community in effective communication.

7.7 CONCLUSION AND RECOMMENDATIONS

The interviews with the CPA members, co-ordinator and executive manager identified differential needs and expectations of the community and role players' usage of the farm.

There are some community members who wanted to use the farm as grazing for their cattle, while some of the community members wanted to use the land to extract herbs for traditional healing. However, the majority of the community members according to the CPA wanted to continue with the farm business and promised the cattle owners they would receive grazing during phase two of the claim, when more farms will be transferred.

- **Progress made**

  The findings of the study indicated that some progress in terms of capacity building was made on Ba-Phalaborwa Ba Mashishimale farm. A substantial portion of the citrus fruits harvested in 2008 was exported, while the rest were sold to the local market (mainly for juice market). The number of tourists visiting the game farm and Ngulube Lodge has increased since 2007.

- **Financial problems**

  The executive manager, CPA members and co-ordinator indicated that the farm is experiencing financial difficulties and challenges. At times the executive manager is unable to purchase basic inputs such as fertilizers and chemicals or pay employee salaries or his own salary. The executive manager and the CPA approached the Provincial Department of Agriculture and Department of Land Affairs for financial assistance and restitution for grants, but were not successful.

- **Shortage of staff**

  Another challenge that the Ba Phalaborwa Ba Mashishimale is facing is the shortage of staff. The executive manager is solely responsible for managing the farm, marketing, financial management, human resource administration and also day-to-day activities required on the farm since he cannot hire more staff due to the lack of finances. Training of youth from the community with potential to acquire the necessary skills to help on the farm should be considered.

- **Poor financial management system**

  Although basic financial records are kept, the farm‘s financial management is inadequate and not addressing the challenges of the farm. Financial reporting is poor and also the financial system adopted is not effective. Detailed financial recordkeeping is a problem on the farm since there is no financial recording system applied like the Pastel Accounting System. The Excel spread sheets used do not take VAT into consideration. Effective auditing system need to be in place for them to be able to perform effective financial management.

- **Marketing plan**

  The executive manager also admitted that the only marketing plan in place is the marketing plan of the citrus fruits where they rely on an alliance with an exporting company, Sunglo. Marketing plans are required for the rest of the enterprises on the farm. A marketing plan gives the manager a platform on how to sell the product. Without a proper marketing plan this farm will not be able to achieve its goals.

- **Poor communication**

  The executive manager indicated that he meets with the CPA every quarter to discuss progress on the farm since the project is still in the introductory phase. No formal feedback between the executive manager and the assistant managers from the lodge and the game farm exist. The executive manager and the assistant managers should at least meet once a week to discuss what has been done, what is happening currently and what the futures plans are. This will allow the executive manager to keep track of the status on the farm and prevent potential problems.

- **Cross-subsidisation**

  Citrus fruits are seasonal fruits, which imply that income is generated on a seasonal basis. The income generated from the game farm was used to cover the production costs for citrus such as salaries, equipment, fertilizers and chemicals. This has a definite implication in terms of financial and account management.

CHAPTER EIGHT

BUSINESS STRUCTURE AND MANAGEMENT MODEL FOR THE NKUMBULENI COMMUNITY

8.1 INTRODUCTION

The aim of this chapter is to discuss the business structure and the financial governance of the Nkumbuleni Community. The chapter starts with an overview of the history of dispossession and claim process of the Nkumbuleni community farm. The chapter then provide an overview of the stakeholders involved in the project and their roles, the Nkumbuleni farm business structure, the financial governance and the progress made since the redistribution of the farm. The information presented in this chapter was obtained from a semi-structured interview conducted with the key stakeholders on 29 October 2008 in KwaZulu-Natal. Specific key questions were developed beforehand to ensure that the relevant information is collected. Key informants were selected on the basis of their involvement and interest in the project.

8.2 HISTORY OF THE NKUMBULENI COMMUNITY AND LAND CLAIM

Nkumbuleni is a name derived from the inhumane manner in which the people were forcibly removed (inkumbulayabamtu). The Nkumbuleni community formed part of Embo Tribal Authority, which settled in the IthalaNgomankulu Valley before removals. The Nkumbuleni property is situated in Camperdown approximately 25 km from Pietermaritzburg. The farm is known as Tala Valley Citrus. The community started residing in Camperdown prior to 1911 (SRS-SA, 2006). In 1933, Mr Bob Wool who was popularly known as Mabhhumane, forcefully removed the community from the land. It is recorded that he informed the community that since he was the new owner of the land the people had to live under his instructions and prescripts or else move away. The original inhabitants were forced to move away from the land since they had no rights to use the land. The community lost their houses, cattle and fields where they were cultivating different kinds of crops. People moved of the land without any compensation. However some community members were allowed to settle on an adjacent land known as Nkumbuleni ("the place packed with many people"), while others moved to various other parts of the province. The communities had to endure hardship, losing their belongings and were forced to seek new dwelling places for settlement. Some of the communities moved to the other side of the farm while others scattered around the province, most of them settling within the cities of Pietermaritzburg, Hammarsdale and Durban (SRS-SA, 2006). People who were allowed to stay on the Ithala farm were those who were prepared to work on the sugar plantation on the farm and those who were paying rent.

On 30 October 1998 community representatives lodged a claim on behalf of the community with the Commission on Restitution of Land Rights of KwaZulu-Natal in compliance with section 11(1) and 2(1) of the Restitution of Land Rights Act of 1994 (SRS-SA, 2006). Initially three claims were lodged by three different families and the Land Claim Commission (LCC) advised these families to cooperate. Subsequently the three families formed Nkumbuleni Trust which claimed the land. The Nkumbuleni Community lodged a claim for the retraction of two areas, one location in the Valley of a Thousand Hills and the second one in Kwaximba area which is surrounded by sugarcane farms and game reserves. The Nkumbuleni Citrus farm (Tala Valley Citrus) is located in this area.

The claimant community comprised of approximately 250 households of which a total of 211 households were verified. The land being claimed is about 25 000 hectares (plus 200 properties) however 800 hectares of the land is not disputed and has been made available through restitution with the rest being disputed by present land owners. The land that was redistributed consists of 308 hectares of citrus fruits (lemons and oranges) (Tala Valley) and 492 hectares of sugarcane and timber and grazing (Leeupoort) (CRLR, 2007). The agricultural areas were neglected; as a result the Nkumbuleni community had to attend to it.

After extensive investigation the RLCC of KwaZulu-Natal accepted the claim because it conformed to the acceptance criteria in Section (2) and Section (1) of the Restitution of Land Rights Act 22 of 1994 (SRS-SA, 2006). The community were removed under apartheid laws namely South African Development Act 18 of 1936 and Group Areas Act of 1957.

The claim was also accepted because it met the following set criteria of acceptance of claims:

- The claim was lodge as prescribed in the Restitution Land Rights Act
- The claimants are a community as defined in section 1 of the Act and therefore competent in terms of section 2 of the Act
- The claim was not frivolous or vexatious

The claimant community opted for land restoration and the owners were willing to sell the farm to the community. The aspiration of the community was to continue with the citrus fruits farming. The RLCC facilitated the packaging of the claim in a sustainable manner in line with the development and investment potential in the area. The Nkumbuleni land claim was valued at R13 188 800 and the assets were valued at R945 000.The community initially planned to resettle on the land. However due to a lack of skills , poor farming equipment and the recognition of the responsibilities involved they decided to lease the farm and work together with the strategic partner.

8.3 STAKEHOLDERS AND THEIR RESPECTIVE ROLES IN THE POST-SETTLEMENT OF NKUMBULENI FARM

Tala Valley Citrus comprised of three stakeholders. They are the Trust, strategic partner and the coordinator. They all play a vital role to ensure profitability and sustainability of the project.

8.3.1 Roles and Structure of the Trust as a Legal Entity and Community Trustees

The community opted for a Trust because the project is aimed at benefiting the whole community. Unlike a company, a Trust is not a separate legal entity, it offers assets protection. Figure 8.1 presents the structure of the Nkumbuleni Trust.

- The Trust is responsible for all the ownership and the governance matters of the business. The main roles of the trustees are to make sure that the project succeeds and also to anticipate problems that may arise and come up with solutions. They also lodge the claim on behalf of the community.

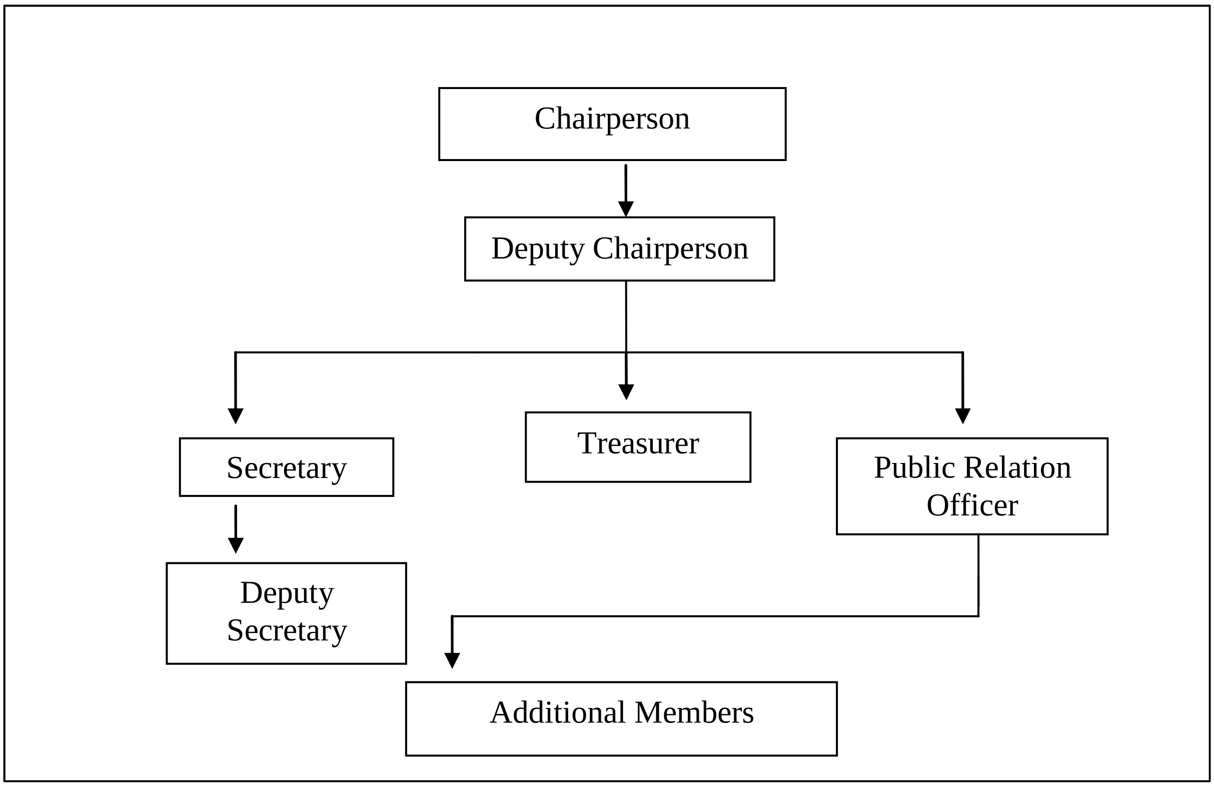

Figure 8.1: Structure of the Nkumbuleni Board of Trustees (as on 29 October 2008)

- The trustees held monthly meeting with the strategic partner to discuss the issues that affect their farm and the progress on the farm. The trustees are not involved in the day-to-day running of the farm because they have other career obligations. The trustees expressed a need to be regularly informed about the financial management of the farm. The trustees and the strategic partner agreed that both parties will be involved in the financial decisions taken on the farm. The strategic partner consults them when buying inputs for the farm. Sometimes when it's urgent, he will inform them after he has purchased what he thought was needed.

- It was clear from the interviews with Trust members that the relationship between the strategic partner and the community was open and positive. The trustees require a monthly financial statement of the farm to monitor progress. The Trust initially agreed to have a monthly meeting with the community, but it became difficult to honour this agreement due to the fact that the community is scattered around Pietermaritzburg and surrounding areas.

- During the initial phases of the post settlement, it was clear that the communities have difficulty in accessing the various government grants for development and resettlement purposes. In order to release funds offered by the RLCC, a business plan was required and all of the trustees took part in compiling it. The Trust as the governing body was trained in basic business skills and development. This formed part of the post settlement support rendered. The Interim Business Plan is imperative to assure the systematic coverage of all important features of the new business and becomes the "model" of what to happen. For the Nkumbuleni Trust and the community the Interim Business Plan served as a sound basis for operation as illustrated in the following figure.

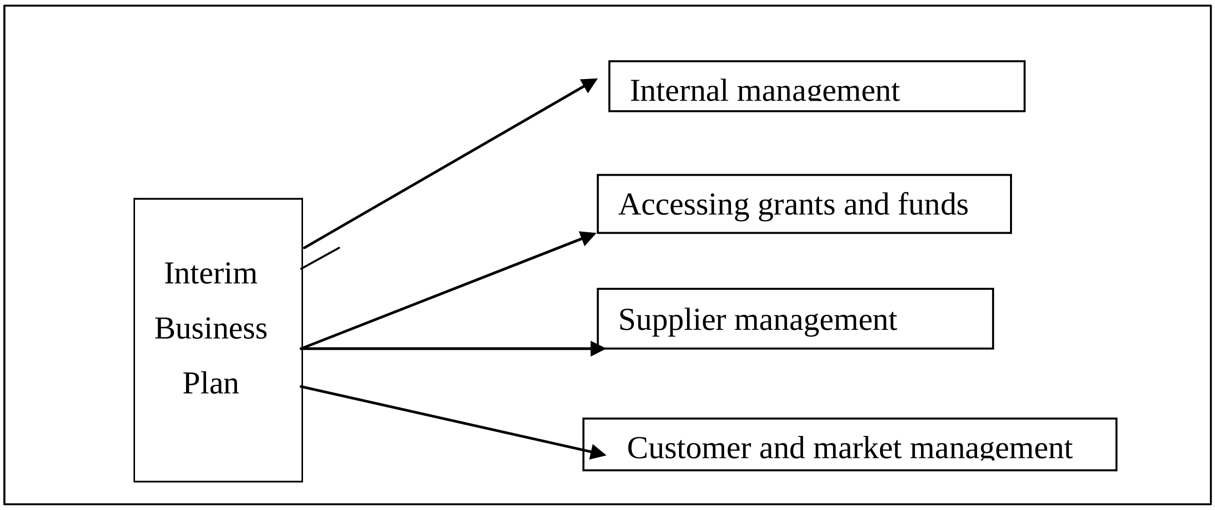

Figure 8.2: Role played by the Interim Business Plan at Tala Valley Citrus

- The trustees brought ideas and made certain suggestions on the mission and vision of the farm, which were incorporated in the business plan. The trustees believed that the Interim Business Plan gave the farm direction and also access to finance from financial institutions such as Land Bank and the Department of Agriculture and KwaZulu Natal Land Affairs. They communicated the business plan to the community but, due to the high level of illiteracy, only a proportional feedback by the community was provided.

- The Interim Business Plan was submitted to the Department of Agriculture and Land Affairs which helped them to access the Settlement Planning Grant of R632 449. This was however less than what they had expected. This payment was transferred to the strategic partner to cover the portion of the investment of R2.8 million made by the strategic partner up to October 2008. The trustees admitted that had the strategic partner not advanced this large amount of money, the partnership would have disintegrated altogether. The Trust has applied for Section 42 C grant from the Department of Land Affairs, which they did not receive during 2008 due to the suspension of the commissioner in KwaZulu Natal. They had to re-submit a new application to the newly appointed commissioner. The Interim Business Plan was used for the long term strategic operation plan where the goals and objectives of the community were set for over 10-20 years.

- The lack of financial support is not the only challenge the Nkumbuleni community farm faces, they also experience challenges such as theft of farm equipment, shortage of farming equipment and lack of infrastructure. Two tractors and part of the fence were stolen. The lack of infrastructure such as lack of transport and shops often leave the labourers unhappy because they have to travel long distances to find shops and transport. Despite all the challenges the Trust was still optimistic that their project will succeed. They also indicated that they will patiently wait for funds from the various government departments. In the mean time they will work hard to optimise production on the farm using the resources they currently have.

- During the interviews with the Trust members of Nkumbuleni Community, the community was in the process of claiming other farms in the area. The potential profits from the citrus farm were earmarked to improve those other farms when these are finalised. The trustees acknowledge the fact that they have learned from this project and are confident to manage the other farms without the support of a strategic partner.

8.3.2 Role of the Strategic Partner

- The strategic partner of Nkumbuleni community entered into a ten years contractual relationship with the Nkumbuleni community in 2006. The formation of a partnership with a strategic partner was perceived to be advantageous to obtain additional funds but also to gain valuable information and skills. The strategic partner entered into this contractual agreement because of his love and passion for farming, and also the desire of transferring farming knowledge to the previously disadvantaged Nkumbuleni community members.

- The strategic partner has no previous experience in citrus farming but he is one of the largest vegetable farmers in KwaZulu Natal. He showed commitment to the success of the farm and therefore advanced R 2.8 million in cash to the farm, supplied seven tractors, some equipment, and transport to deliver the citrus fruits to the market as well as human resources (labour) from his vegetables farm. His involvement on the farm also includes training of the trustees, general managing of the farm, developing of business strategies, marketing and resolving issues as they arise. Initially the partnership between the strategic partner and the trustees was that the strategic partner will own 40% shares in the business. This agreement was later changed to a shareholding of 50: 50.

- The strategic partner is of opinion that the strategic partnership model should be used in all the land reform projects, since the model enables the community to learn from people who have experience in the agricultural industry for a long time. As compared to the manager model, the strategic partnership model provides a number of advantages. Table 8.1 provides advantages associated with the strategic partnership model.

Table 8.1: Advantages of a Strategic Partnership Model

Advantages	Explanation
Transfer of knowledge	Training is provided to community members employed
Skills development	Skills transfer takes place when a knowledgeable partner is involved
Risk sharing	Share risk through involvement
Innovation	Enhance creativity through involvement of partner
Access to markets	Access to additional markets through partnership

Source: LDA, 2006

- Although there are numerous advantages with the model, the following disadvantages were identified by Nkumbuleni Trust members in Table 8.2.

Table 8.2 Disadvantages of strategic partnership model

Disadvantages	Explanation
Profit sharing	Profits are shared between the strategic partner and the community
Decision making	According to partnership agreement shared decision making exists
Control	Share control over processes

Source: LDA, 2006

- The strategic partner took part in the drafting of the interim and the long term business plan for the farm. Even though the Interim Business Plan was not fully implemented on the farm, the strategic partner is of opinion that the Interim Business Plan is vital as it helped open the eyes of the community. Nkumbuleni Trust submitted the Interim Business Plan to the Department of Land Affairs for accessing of the SPG grant.

- The strategic partners' personal accountant was responsible for the financial management of the Nkumbuleni Community farm. He is a qualified a chartered accountant and he have twenty two years of experience in financial management. He was using Microsoft Dynamics GP software to capture the income and expenditure and to do the financial analysis for the farm.

- The strategic partner and the community built healthy relations. One Trust member works on the farm on a full time basis, while a number of youth work as seasonal workers. The strategic partner and the farm managers meet regularly every month to discuss progress, what they are planning to do and their current activities on the farm. The trustees, the strategic partner, the Provincial Department of Agriculture and the KwaZulu Natal Department of Land Affairs' representatives and SRS–SA representatives formed a planning committee who met quarterly to discuss progress. It is expected of the trustees to inform the community on the matters that were discussed at the meeting. The following communication structure of the Nkumbuleni community was adopted (Figure 8.3).

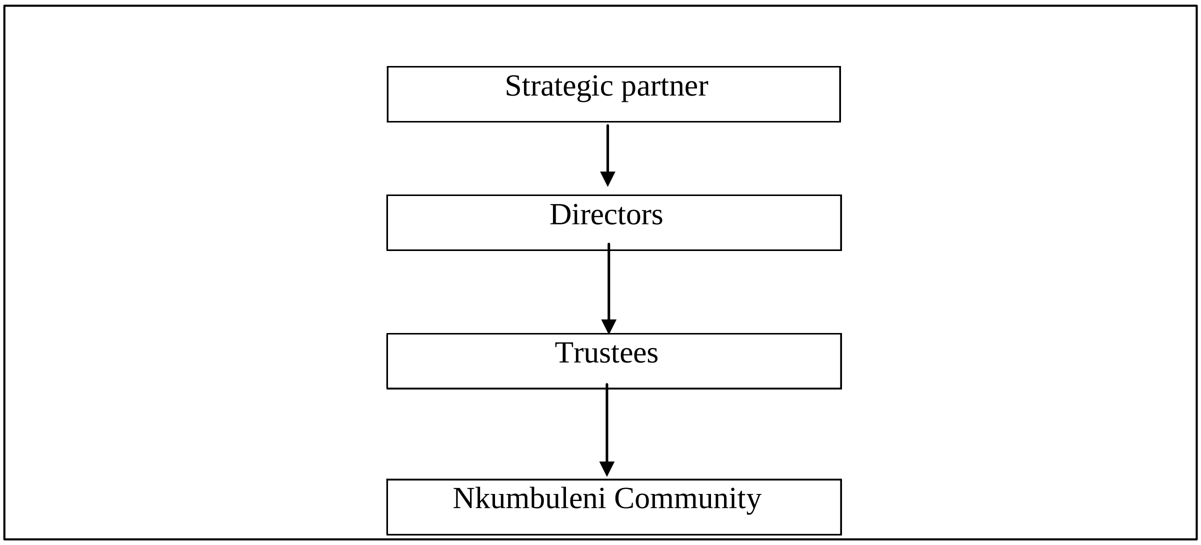

Figure 8.3: Communication structure for Nkumbuleni farm

On a question what typical characteristics of such partnership should look like, the following were stated by the strategic partner

- A written agreement between the community and the strategic partner stipulating the roles and responsibility of different partners
- Active involvement of the strategic partner in the development of the project
- Active involvement of the community to get the activities implemented on the farm
- Shared responsibility towards operation and functioning of the project
- Skills and knowledge transfer from the strategic partner to the community members

8.3.3 The Co-ordinator

- The SRS-SA appointed a coordinator to coordinate the process of settlement in the Nkumbuleni community farm. The coordinator received training as a school teacher from Amanzimtoti Training College and also a BA Nursing Science from University of South Africa. She was employed as a nurse for 24 years in different hospitals. In 1993 she joined Sizwe Education Trust – IDT School Building Trust in North West as the Provincial Coordinator up until 1996. In 1997 she was appointed as the Provincial Director and the Regional General Manager in KwaZulu Natal by IDT Development Agency where she was doing the overall management of resources and programmes in KZN region. The coordinator is also the founder and member of IzigiZamakhosikazi, where she is doing consultation on community development. The coordinator's main role in the Nkumbuleni project is to coordinate the project. She is responsible for organising meetings and translates from English to Zulu, where there is a need. Her vision for the project is that it succeeds and she wants to assist the community with capacity building.

- Her role in this project included the attending of all the meeting that takes place between the community and the trustees, the trustees and the strategic partner and all general meetings. She is of opinion that good relationship between the community, the strategic partner and the trustees exist.

- Although the coordinator does not have any experience in writing an agriculture business plan, she participated when the business plan was drafted. She was generally satisfied with the process and she scored her satisfaction 8 on a 10 point sematic scale (1= Not satisfied, 10= very satisfied). When the business plan was communicated to the community, the coordinator helped with the feedback required. Her role was mainly to translate from English to Zulu for the community members. She believes that the interim business plan serves as a guide in monitoring the progress of the farm and as a requirement to access the necessary finance.

- Her general perception of the Provincial Department of Agriculture and Environmental Affairs is that they are not doing enough to support projects like the Nkumbuleni Project. The coordinator is concerned about the literacy level of the Nkumbuleni community. Most of the people in the community including some of the trustees' are not educated, and therefore they do not understand documents like the Interim Business Plan and other documents drafted in English.

- The co-ordinator is of opinion that by involving a strategic partner was the best choice the community made, because it provides access to additional capital and skills. She thinks that the major disadvantage with a strategic partnership model is that a strategic partner cannot consult with the community on every financial decision to be taken. The essential attributes of an effective coordinator were identified (Table 8.3) through the interview.

Table 8.3: Attributes of an effective co-ordinator

Must love to help people
Be passionate about your job
Be patient with people you are assisting
Do not be money driven
Think on your feet
Take a stand and support others

8.4 FARM BUSINESS STRUCTURE AND MANAGEMENT MODEL FOR THE STAKEHOLDERS AT NKUMBULENI FARM

The community was faced with many challenges after restitution. Accessing of government restitution grants and to start farming on a farm where assets were in a state of neglect were major challenges. The community decided not to wait for government grants, but to lease the farm and work together with a strategic partner.

The Nkumbuleni trustees formed the Board of Directors, as representatives of the Nkumbuleni community on the farm. The trustees were selected by the community to represent them on the farm and to look after their interest. The community did not have any capital and skills to operate the farm and therefore opted to involve a strategic partner. Without external funds and managerial expertise the project was not going to succeed. They entered into a 50% profit sharing relationship with the strategic partner. The operational management was handled by the strategic partner who managed the 308 hectares of citrus fruits on behalf of the community. Figure 8.4 present the business structure of the Tala Citrus Valley enterprise located on the Nkumbuleni community farm.

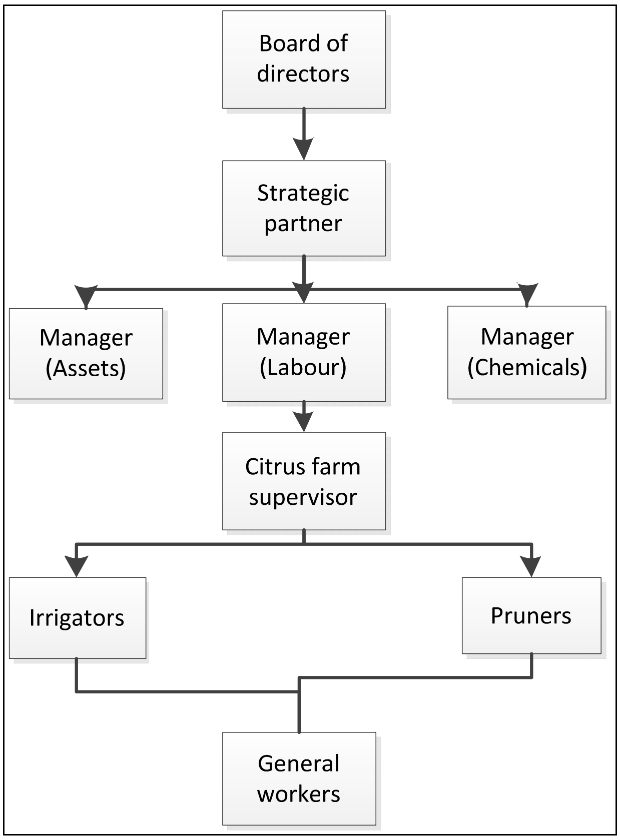

Figure 8.4: Business structure of Tala Citrus Valley (as on 10 March 2009)

The strategic partner employed three managers responsible for assets, labour and chemicals. There is a citrus farm supervisor, who looks after the affairs of the citrus farm and irrigators and pruners and general workers.

8.5 ROLE OF PRIVATE AND PUBLIC INSTITUTIONS INVOLVED

Some government and private institutions volunteered to offer services and support to the Nkumbuleni community farm after the land was redistributed to the community. Most of these institutions have withdrawn when they were approached later. The following organisations and departments participated in the settlement of the Nkumbuleni Community: The SRS-SA, with the assistance from Inkezo Land Company drew an Interim Business Plan for the farm. The SRS-SA also provided training and hosted workshops on the farm for trustees and the youth in the community. A major concern for the community and the coordinator is the current low percentage of inclusion of the youth members. The inclusion of this group is important, as the sustainability of a project like this is determined by the succession processes. The SRS-SA also appointed a coordinator who facilitates the project and helped with the training of the youth and the community. The Provincial Department of Agriculture and KwaZulu Natal Environmental Affairs assisted the community with funding (CASP) and post settlement support (extension support). The Department of Land Affairs is responsible for direct funding through financial grants (SPG and RDG) to the community. Private sugar industry companies (Hulett and Tongaat) assisted the community with the drafting of the lease contract for the farm Leeupoort. This property includes approximately 200ha abandoned sugar fields, which requires a high standard of management. The Citrus Growers Association and Citrus Research Institute assisted the citrus farm with regular technical information through their monthly newsletters and field visits.

8.6 MAJOR CHALLENGES EXPERIENCED WITH THE SETTLEMENT OF NKUMBULENI BENEFICIARIES

The strategic partnership model expects a strategic partner to transfer knowledge and skills to the community. One problem the strategic partner experienced with Nkumbuleni Community is their relative unwillingness to learn about farming. Therefore very few are directly involved in farm management on the citrus farm. The community members who are currently employed on the citrus farm are more interested in general work; and do not want to be put in challenging positions, which require highly skilled labour. The strategic partner was therefore obliged to hire people from outside to this type of work. This creates a challenge, since the community will never be ready to take control of the citrus farm when the contract with the strategic partner expires after ten year.

The second challenge the farm is facing is the issue of finance. The farm is not withstanding the contribution of the strategic partner, experiencing financial challenges. The Provincial Department of Agriculture and Environmental Affairs did not support the farm financially through CASP funds as been promised and expected by the community.

Due to the financial difficulties, the irrigation equipment on the farm could not be maintained and numerous operational problems occur. The third challenge is the issue of theft. The farm has lost two tractors and part of their fence due to theft.

Despite all these challenges the strategic partner and the community are positive about the future of the farm. The strategic partner admits that he has learned from this project, especially how to work with communities like Nkumbuleni. His vision is to extend the farming operation, but one aspect he learnt is to be patient with people, as most of the community are newcomers to this type of farm enterprise and management.

8.7 STATUS QUO OF NKUMBULENI FARM

This section provides an overview of the status report on the citrus production at Tala Valley Citrus that was compiled by the Citrus Research Institute and the University of Pretoria in the Department of Agricultural Economics, Extension and Rural Development on 29 October 2008.

- **The trees**

During the assessment, it was established that the layout of the orchards at Tala Valley Citrus was correct and the trees were correctly planted. The lemon trees required a heavy pruning while the navels required a light hand prune. New fruits started to develop for the 2010 season. The oranges were then harvested in June to early September and the lemons were still in the process of being harvested when the interview was conducted.

- **Pests and disease control**

Upon transferring the land to the community there were lots of fruits still on the trees that contributed to population of fruit flies and false codling moth was experienced in the orchards. Blackspot disease was also affecting the quality of fruits. The ant population was also high.

- **Irrigation system**

The drip system used on the Tala Valley Citrus was not ideal but it will cost a lot if it's to be converted it to micro. The fertigation system was also found to be rustic and was operated manually with no control of pH or EC. The system needs to be automated.

8.8 CONCLUSIONS

From the interviews with the trustees, the co-ordinator and the strategic partner the following were identified at the Tala Valley Citrus farm:

- **Different expectations from community members**

The needs and the expectations of the community regarding the use of the land are different. Some community members wanted to use the farm as an entertainment site, while the majority wanted to continue with the current citrus farming. Those community members who wanted to turn the farm into an entertainment site feel that their needs have not been addressed through the restitution of land. However, despite these differences the community is united and work together to make the farm a success.

- **Progress made**

The citrus fruits harvested during 2008 production year were sold to the local market, the export market and some were sold for the juice market. A gross total income of R4 093 979 was received from the sale of the citrus fruits.

Despite the relative good production yields and income generated the following challenges were identified and need to be addresses quickly:

- **Financial problems**

Respondents indicated that the farm is experiencing financial difficulties and therefore cannot afford to attend to the improvement of infrastructure like the irrigation system on the farm. In order to elevate the financial constraints, the community has applied for funding from the DLA. However on October 2008 no additional funding was received. This created a crucial challenge that requires to be addressed as a matter of urgency. Fortunately the partnership with the strategic partner helped with the funding.

- **Unwillingness to learn**

Another challenge the Nkumbuleni Community farm is facing is the unwillingness of community members (especially the youth) to learn about farming. There are various skilled positions available for community members on the farm, but because of a lack of willingness to take up these posts and to acquire skills necessary to function in these posts, the strategic partner had to fill these posts with people from outside the community. Only one member of the community works full time on the farm, while a member of community youth works on seasonal basis. Instead they prefer to be employed as general workers. This is a challenge to be addressed because the main aim for land reform programme is to empower the previously disadvantaged group. If the community is unwilling to learn and take responsibility, it will be impossible for them to eventually take over the farm and manage it on their own. From the strategic partner this could jeopardise the sustainability of this farm.

- **Communication gap**

It is evident that a communication gap between the strategic partner and the community exists. The trustees mentioned that the strategic partner does not inform them on all of the financial decisions he makes. Efforts to address these differences, to keep the communication channels open need to be continued in order to optimise collective benefits.

Chapter 9 provides data analysis for both farms in the form of financial statements and a comparison of the financial positions of the farms.

CHAPTER NINE

DATA ANALYSIS

9.1 INTRODUCTION

The two previous chapters (Chapter 7 and 8) provided the overview of the Mashishimale community farm and Nkumbuleni community farm, their business structures, progress since the redistribution of the farms and the challenges both farms are facing. In this chapter, pro-forma financial statements of both farms are analysed to determine their financial performance from the date of inception 2007 until 2009. The analysis of the financial performance was done to determine whether a clear link exists between financial performance and business structure. More specifically, analysis of financial performance will attempt to determine whether a link exists between the two underlying structures followed by the two farms namely "strategic partner" model *versus* "manager" model and how the two different structures influenced the financial performance of the two farms during the period this study was undertaken. Hence, the results from the financial statements will also be used to test the hypothesis stated in Chapter One which states that "The involvement of a strategic partner in a land reform project contributes to the potential financial success of the project".

Following the analysis of the actual financial performance of the two farms, a long term budget for each is displayed, in order to quantify the effect of the two different models on potential future financial performance. Actual and potential future financial performance were analysed and presented by means of setting up the cash flow statements, income statements, balance sheets, financial ratio analysis and the long term budgets for both farms. The results for both farms were compared and conclusions were made on which model had a major impact on the financial position of the farm. The financial model used to analyse the finances of Tala Valley Citrus and Mogotle Citrus was developed by Pine Pienaar of ABSA (2002). The data presented in this chapter was recorded on the two farms by means of their respective financial management and auditing system. The information used to analyse actual financial performance is for the period November 2007 until January

2009. The financial statements for a 15-month period were developed due to lack of activities in the first 3 months of operations for both farms.

9.2 FINANCIAL RESULTS FOR TALA VALLEY CITRUS, NOVEMBER 2007 TO JANUARY 2009

9.2.1 Sales Summary

According to the sales records of Tala Valley Citrus a total of R4 093 965.00 was generated from the sales of lemons and oranges during the production year. Table 9.1 below provides a detailed summary of the sales records of Tala Valley Citrus (2007 -2009).

Table: 9.1 Sales summaries for Tala Valley Citrus for the years Nov 2007 to Jan 2009

Enterprise composition and production income assumptions					
Enterprise	**Contribution**	**Extent**	**Yield**	**Price**	**TOTAL (R)**
Oranges(factory & waste)	0.6%	1	50 065.00	0.52	26 013.77
S-7kg	0.5%	1	2 652.00	7.04	18 670.08
M-7kg Box	1.5%	1	6 995.00	8.62	60 296.90
S-7kg box	2.9%	1	11 963.00	10.01	119 749.63
L,M & S-15kg box	0.8%	1	1 800.00	18.60	33 480.00
XL-7kg	0.7%	1	2 383.00	11.61	27 666.63
S, M & L bins kg	3.3%	1	120 555.00	1.13	136 637.04
Exports	5.4%	1	5 280.00	37.65	198 792.00
Lemon (factory & waste)	4.9%	1	356 800.00	0.62	219 717.44
L-7kg box	1.9%	1	1 681.00	46.69	78 485.89
M-7kg Box Bag	4.9%	1	5411.00	37.25	261 554.00
S-7kg box	15.6%	1	10 612.00	60.27	639 585.24
S, M&L Bin	1.6%	1	96 000.00	3.26	313 139.52
M-15kg box	12.9%	1	8 655.00	61.20	529 686.00
S& L-15kg Box	20.1%	1	10679.00	77.16	823 952.00
Exports	16.3%	1	7 501.00	88.86	666 538.86
Total	**100.0%**				**4 093 965.00**

The oranges were graded and packed into different boxes according to quality. It was sold at various prices in different markets. The Tala Valley Citrus served three markets with its products, the local fresh market, local processing market and the export market. The local fresh market consumed the most fruits making a contribution of 71.8% to the total income received. The figure comprised of 61.7% contribution to income from lemons and 10.1% contribution from oranges. The export market contributed 22.1% to the income with 17% from the lemons and 5.1% from the oranges. The local processing market contributed 6.3%

with 0.7% from the processing market for the oranges and 5.6% from the processing for the lemons.

9.2.2 Cash Flow Statement

The cash flow comprises of the cash inflow section, the cash outflow section and the bank balance section. The cash flow position of the Tala Valley Citrus is discussed below.

- **Cash inflow**

The cash inflow consists of all the cash inflow transactions that occurred at Tala Valley Citrus during November 2007 and January 2009. Given the sales records in Table 9.1, the income received from all the enterprises at Tala Valley Citrus amount to R4 093 965.00. This amount was received from the sales of lemons and oranges in the local market, export market and the processing market.

Other income was derived on the farm from different sources. The strategic partner, contributed cash amounting to R2 839 332.00 to the farm as capital/loan and Department of Land Affairs issued a SPG grant of R632 449.00 to the farm for post settlement support. The farm also obtained a loan amounting to R220 336.00 from the First National Bank. Income from debtors was received amounted to R413 887.00 and other sources amounting to R417 386.00. The total income received by the Tala Valley Citrus amount to R8 617 338.00. The summary of the cash flow statement from November 2007 to January 2009 is presented by a graphical representation on Figure 9.1. A detailed cash flow statement is provided in Appendix 1.

- **Cash outflow**

The cash outflow section consists of all the cash outflow transactions that took place on the farm during November 2007 to January 2009. The total cash used to operate the Tala Valley Citrus amounts to R7 347 193.00 while the capital expenditure (farm equipment were bought) amounts to R1 392 382.00, other expenditure amounts to R161 019.00**.** The total expenditure for Tala Valley Citrus amounts to R8 739 576.00. The cash outflow from November 2007 to January 2009 of Tala Valley Citrus is also presented in Figure 9.1.

- **Bank balance**

The bank balance reflects the bank balance after the expenses are deducted from the income received. The surplus or deficit is determined and interest is charged or paid depending on the profit or deficit. According to the cash flow graph (Fig 9.1), the bank balance has improved over a period of one year. In August 2008 the bank balance was (-R2 million) and it improved to -R617 760.00 in January 2009. Capital expenditure incurred during the period, resulted in more cash outflow. Capital expenditure is an investment which might result in increased sales in the future. The summary of the bank balance is also provided in Figure 9.1 and details are provided in the Appendix 1.

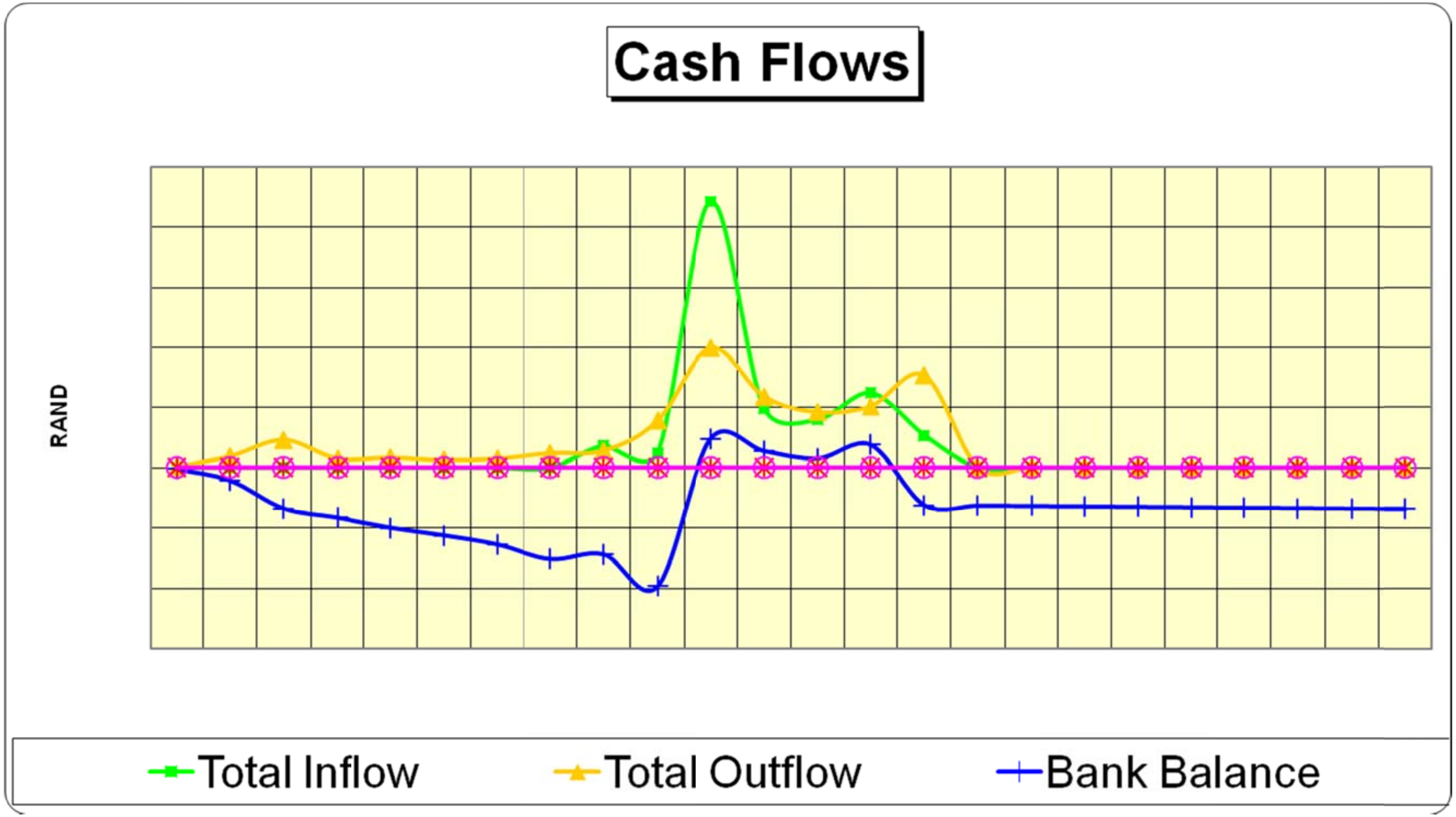

Figure 9.1 Cash flows for Tala Valley Citrus for Nov 2007 to January 2009

9.2.3 Income Statement

The income statement shows all the revenue received in a specific period of time and the expenses paid in that specific period, subtracting the expenditure from the income will indicate whether the company has made profits or losses. According to Tala Valley Citrus's records their net profit before tax and capital expenses amount to R2 011 241.00. The net disposable income, which is the profit after tax and the capital expenses amount to R70 414.00. This figure is positive indicating a profit. The farm's financial position is good. This figure will be taken to the balance sheet and taken as a retained income which the amount is left after all the farms expenses are paid. It will then be treated as the equity of the farm. The income statement of Tala Valley Citrus is presented in the Table 9.2.

Table 9.2: Income statement for Tala Valley Citrus for the year ending 2007/2009

Income statement of Tala Citrus for the year ending 2007/2009			
Income From produce sold	**2007**	**2009**	**Total**
-Lemons (Local)	1 300 282.00	1 505 87.00	2 806 153.00
-Lemons (Exports)	453 246.00	213 29.00	666 538.00
-Oranges (Local)	422 513.00	0.00	422 513.00
-Oranges (Exports)	198 792.00	0.00	198 792.00
Total income from produce sold	**2 374 833.00**	**1 719 163.00**	**4 093 996.00**
Other income	204.00	0.00	204.00
Total farm income	**2 375 037.00**	**1 719 163.00**	**4 094 200.00**
Less expenses: Expenses through Bank	**5 056 956.00**	**878 451.00**	**5 935 407.00**
Gross Margin for farm	**-2 682 123.00**	**840 713.00**	**-1 841 410.00**
Less depreciation	54 219.00	0.00	54 219.00
Net farm income	**-2 736 342.00**	**840 713.00**	**-1 895 629.00**
Less interest paid on: Bank overdraft	101 170.00	12 616.00	113 786.00
Lease paid	89 442.00	0.00	89 442.00
Farm profit/loss	**-2 926 954.00**	**828 097.00**	**-2 098 857.00**
Plus :Non-farm income	0.00	0.00	
-Interest received	32.00	773.00	805.00
-WCA Accruals	1 435.00	2 796.00	4 230.00
-Accruals	282 857.00	0.00	282 857.00
-Input Tax STD	0.00	130 090.00	130 090.00
-First National Bank	0.00	220 336.00	220 336.00
-Capital contribution	0.00	0.00	0.00
-Nkumbuleni community (grant)	632 449.00	0.00	632 449.00
-SJ Hilcove	2 833 426.00	5 906.00	2 839 332.00
Total non-farm income	**3 750 198.00**	**359 90.00**	**4 110 099.00**
Net profit before tax	**823 244.00**	**1 187 998.00**	**2 011 241.00**
-Less income tax	238 74.00	344 519.00	583 260.00
-Less capital expense	19 404.00	1 392 382.00	1 411 786.00
Plus depreciation	**54 219.00**	**0.00**	**54 219.00**
Net disposable income	**619 318.00**	**-548 904.00**	**70 414.00**

9.2.4 Balance Sheet

Balance sheet or the statement of financial position is a summary of a company‘s assets, liabilities and ownership equity. The total assets of the Tala Valley Citrus amount to R10 823 616.00 while the liabilities amount to R2 881 617.00. The equity of the farm is the difference between the assets and liabilities. The equity of the Tala Valley Citrus amount to R7 941 999.00. The balance sheet for Tala Valley Citrus is provided in Table 9.3.

Table 9.3: Balance sheet for Tala Valley Citrus for the year ending 2007/2009

Balance sheet Tala Citrus for the year ending 2007/2009		
Long-term assets		**2007-2009**
Land and fixed improvements		10 000 000.00
Movable assets:	Falcon side mower	30 766.00
	Hedge trimmers x 2	9 747.00
	Blower	5 529.00
	Saw	1 338.00
	Pole Pruner	7 501.00
	TEC 600 sprayer	8 550.00
	Ford 4610 tractor	88 966.00
	Pole saws	4 114.00
	Ladders	48 000.00
	JOJO Tank	6 580.00
	Pruner	149 500.00
	Pruner blade	1 850.00
	Pruner special cutter	14 750.00
Jacto sprayer		165 000.00
Total movable assets		**542 192.00**
Current assets:	Bank	-617 760.00
	Eskom deposit	18 740.00
	VAT refund due	262 930.00
	Debtors	547 100.00
Retained income		70 414.00
Total current assets		**281 424 .00**
Total assets		**10 823 616.00**
Long-term liability: SJ Hilcove		**2 839 332.00**
Medium-term liabilities: FNB		**220 336.00**
Current liabilities		**19 949.00**
Total liabilities		**2 881 617.00**
Equity		**7 914 071.00**

9.2.5 Financial Rations for Nkumbuleni Community Farm

9.2.5.1 Financial Ratio Analysis

Financial ratios analysis is the calculation and comparison of ratios which are derived from the information in the farm's financial statements. A full explanation of the financial ratios was provided in Chapter Four. Table 9.4 presents the financial ratios for Tala Valley Citrus.

Table 9.4: Financial ratio analysis for Tala Valley Citrus for 2007/09

Ratios	Norm	2008/2009	Comment
Liquidity ratio			
-Current ratio	2:1	14.1	Excellent
Debt serving ratio			
-Debt ratio	0.25	0.27	Good
Profitability ratios			
-Return on Equity	R3- R11	R0.99	Bad
-Return on Assets	Positive	0.67	Bad
Solvency ratios			
-Net capital ratio	2.5-3.00	3.72	Bad
-Gearing ratio	0.35-1.0	0.41	Good

9.2.5.2 Liquidity Ratio

The liquidity ratio measures the ability of the farm to pay short term obligations as they become due. The liquidity is measured by the current ratio. The current ratio is the ratio between the current assets and current liabilities. The current ratio for Tala Valley Citrus is 14.1 while the industry norm for current ratio is 2:1. The Tala Valley Citrus liquidity status is excellent. It indicates that for every R1.00 of current liabilities, Tala Valley Citrus has R14.10 in current assets. In other words the current assets are 14.1 times more than the liabilities of Tala Valley Citrus. This indicates that if the farm is liquidated, the current assets available will be able to cover the current liabilities. The calculation of the current ratio is illustrated below.

$$\text{Current ratios} = \frac{\text{Current Assets}}{\text{Current liabilities}} = \frac{281\ 424.00}{19\ 949.00} = 14.1$$

9.2.5.3 Profitability Ratios

The profitability ratio is made up of two ratios, the Return on Equity (ROE) and Return on Assets (ROA).

- **Return on assets**

The farm manager must ensure that the capital he employs in the business is used efficiently. Return on assets measures the overall efficiency with which the farm's assets are used to generate net income from operations. Thus the figure gives the investor an idea of how effectively the business is converting the money it has to invest into the net income. The higher the return figure, the better because the business is earning more money on less investment. The calculated ROA of Tala Valley Citrus is 0.67, which is relatively low. This indicates that the farm is not using its assets efficiently to generate income, and the possible reason is the abundance of land which is not used. This figure must always be high because a high ROA is a sign of solid financial and operational performance. The calculation of the ROA is illustrated below.

$$\text{Return on Assets (ROA)} = \frac{\text{Net Disposable Income}}{\text{Total Assets}} \times \frac{100}{1} = \frac{70\ 414}{0\ 629\ 929} \times \frac{100}{1} = 0.67$$

- **Return on equity**

Return on equity is a measure of a business's profitability that reveals how much profit is generated with the money invested. It also measures a business's potential growth. Businesses that have a high return on equity with little or no debt are able to grow without large capital expenditure, allowing the owners of the business to withdraw cash and reinvest it elsewhere. For the Tala Valley Citrus the ROE is R0.99. This figure indicates that for every R100 invested in the business by the community and the strategic partner, they will obtain R0.99. This falls below the industry norm which is between R3 and R11. The calculation of the ROE is illustrated below.

$$\text{Return on Equity (ROE)} = \frac{\text{Net Disposable Income}}{\text{Total Equity}} \times \frac{100}{1} = \frac{70\ 414.00}{7\ 090\ 455.00} \times \frac{100}{1} = 0.99$$

9.2.5.4 Debt Serving Ratio

The assets of the business are comprised of both debt and equity. Both these types of financing are used to fund the operations of the business. The Tala Valley Citrus used debt to fund the operation of their farm. The farm borrowed money to create better gearing and thereby improve profitability to equity. The debt ratio for Tala Valley Citrus is 0.27. This figure indicates that for every R1.00 of the income in Tala Valley Citrus, there is a claim of R0.27 for the redemption of debt. The norm for debt ratio is R0.25, which implies that the farm is slightly above the industry norm. The calculation of the debt ratio is illustrated below.

$$\text{Debt Ratio} = \frac{\text{Total liabilities}}{\text{Total Assets}} = \frac{2\ 909\ 54.00}{10\ 629\ 929.00} = 0.27$$

9.2.5.5 Solvency Ratios

Solvency ratios measure the ability of the business to pay its short term and long term obligations as they come due. The solvency is made of net capital ratio and gearing ratio.

- **Net capital ratio**

Net capital ratio measures the farm's aggregate indebtedness to the farm's net capital. The lower net capital ratio, the better the financial condition of the farm. The net capital ratio for Tala Valley citrus is 3.72. This ratio implies that for every R3.72 invested in Tala Valley Citrus, R1 in outside capital is used. In other words, Tala Valley Citrus is assets are worth 3.72 times more than the liabilities. The industry norm for net capital ratio is between 2 and 3.5, which implies it is slightly higher than the industry norm. The calculation of the net capital ratio is illustrated below.

$$\text{Net capital ratio} = \frac{\text{Total Assets}}{\text{Total Liabilities}} = \frac{10\ 629\ 929.00}{2\ 909\ 545.00} = 3.72$$

- **Gearing ratio**

The gearing ratio also called the debt equity ratio measures the relationship between the business‘s own money and liabilities. It also shows the degree of flexibility of the business. If the gearing ratio is relatively low, then the business has more chances get more finance from financial institutions. The gearing ratio for Tala Valley Citrus is 0.41 thus for every R1 in own capital at Tala Valley Citrus, R0.41 in outside capital has been invested in the business. The industry norm for gearing ratio is between 0.35 and 1, which illustrate that Tala Valley Citrus' gearing ratio is acceptable. The calculation of the gearing ratio is illustrated below.

$$\text{Gearing ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}} = \frac{2\ 909\ 545.00}{7\ 090\ 455.00} = 0.41$$

9.2.6 Long-Term Budget

As stated as an objective for this study the long-term budget to predict the long-term financial position for both farms will be developed in order to show the effect of the two different management structures on the financial performance of the farms. Chapter Five provided the overview of the citrus fruits industry and the future projections for South Africa and the world markets. South Africa is mainly an off - season supplier of citrus fruits, which is advantageous to South Africa as compared to the other countries in the northern hemisphere. The harvesting of the fruits mainly occurs during winter when the fruits are in demand.

Production of oranges is expected to grow in South Africa. The world consumption of fresh oranges is expected to decreases due to the convenience consumers find in the use of orange juice. The production and the prices of lemons are expected to decrease while the production of grapefruit is expected to increase slowly due to competition from other fruits (Spreen, 2003).

In order to make future projections in terms of a long-term budget for the farm, specific assumptions about the future have to be made based on the history of the prices, demand factors, supply factors and the current local and global economics situation on the citrus fruits industry. Using the data from the National Department of Agriculture

(Abstract of Agricultural Statistics, 2009), the projections from Bureau of Agriculture and Food Policy (BFAP), 2009) and the information from the South African Reserve Bank (2009) the following assumptions are made. The inflation rate projections were obtained from Bureau for Economic Research at University of Stellenbosch cited by South African Reserve Bank (2009).

Table 9.5: Assumptions and forecast about the citrus fruits industry in South Africa

Items	2006	2007	2008	2009	2010	2011	2012	2013	2014
Input cost (%)	6.0	12.3	37.3	3.0	1.2	5.3	6.6	6.6	5.6
Interest rates (%)	11.2	13.2	15.1	1.0	11.1	12	12.5	13	13
Inflation (%)	4.65	6.56	11.2	7.9	5.5	5.5	5.5	5.5	5.5

The following assumptions about the farm are also made:

- The production volume stays constant
- Land use is constant
- The same percentage of fruits will be sold to exports market, local market and processing market
- There will not be any additions to the capital
- All the profits will be invested back into the business
- No new enterprises will be introduced in the business
- No external funding

9.2.6.1 The projections

Data from the National Department of Agriculture's Abstract of Agricultural Statistics (2009) was used to predict the future price movement for the local and the export market. The percentage change of citrus fruits prices from 2000 to 2008 was multiplied by the fraction of total production volume and the percentage of fruit sold to different markets to calculate the revenue figure for 2009. For the 2010 to 2017 the projected inflation rate South African Reserve Bank (2009) was multiplied by the revenue obtained in the year following that. The projections of the interest rates and the percentage inputs cost were obtained from the South Africa Agricultural Baseline by BFAP (2009).

Taking the above assumptions and projections into account, Tala Valley Citrus will generate an income of approximately R4 153 973.00 and pay expenditures amounting to R3 778 416.00 and have approximately R2 400 000.00 in the bank in 2017. Figure 9.2 below presents the long-term budget.

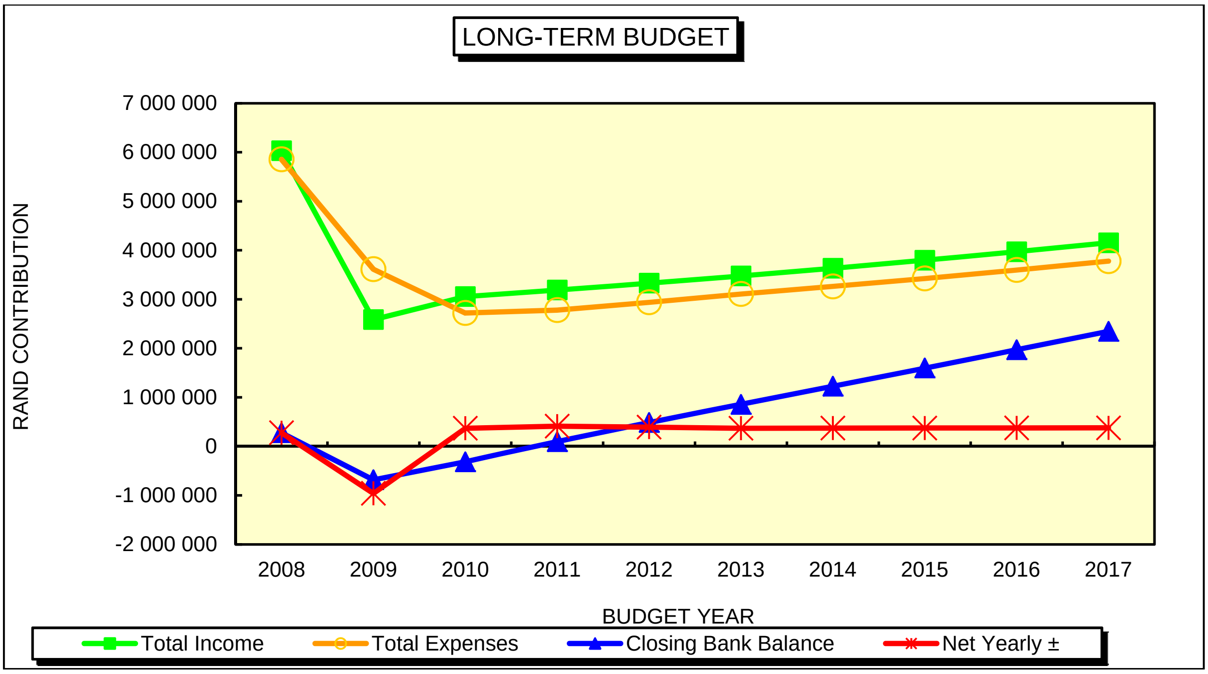

Figure 9.2: The projected long term budget for Tala Valley Citrus for 2009 to 2017

9.3 FINANCIAL RESULTS FOR MOGOTLE CITRUS FOR NOVEMBER 2008 TO JANUARY 2009

According to the sales records of Mogotle Citrus a total of R1 542 541.98 was generated from the sales of citrus fruits (2007-2009). The oranges were graded and packaged into according to quality and sold in different markets. The Mogotle Citrus served two markets, local processing market and the export market. The export market made a contribution of 51% to the total income received. The 51% is made up of 23% from grapefruits, 19.4% from oranges and 8.7% from lemons. The local juice market bought most of the fruits with low price of R0,62 cents per ton and contributed 49% to the income Table 9.6 below provides a detailed summary of the sales records of Mogotle citrus for 2008 to 2009.

Table 9.6: Sales summaries for Mogotle Citrus forthe years 2007 to 2009

Enterprise composition and production income assumptions					
Enterprise	**Contribution**	**Extent**	**Yield**	**Price**	**Total**
Grapefruit (Exports)	23.0%	1	6 030.00	58.78	354 443.00
Oranges(Exports)	19.4%	1	12 810.76	23.30	298 491.00
Lemons (Exports)	8.7%	1	3 549.01	37.65	133 620.00
Juice Market	49.0%	1	1217 720.00	0.62	754 986.00
Total	**100%**				**1 542 541.00**

9.3.1 Cash Flow Statement

The cash flow position of the Mogotle Citrus is analysed by looking at cash inflows and outflows and the bank balance.

- **Cash inflow**

A total amount of R4 466 679.48 was received by the farm from various sources. R1 542 541.98 was received from the sale of citrus fruits in the export market and the juice market. Other income was also received by the farm from different sources such as stop order reversal, interest received and rent income. Sunpride, a fruits exporting company contributed R1 500 000.00 cash in the form of loan to the farm during 2007. The Communal Property Association (CPA) contributedR1 379 385.56 from the grants they received from the Department of Land Affairs as capital contribution and R45 868.94 was obtained from the other sources such as stop order reversal, interest received and rent income. The summary of the cash flow statement from November 2007 to January 2009 is presented by a graphical representation on Figure 9.3. A detailed cash flow statement is provided in Appendix 2.

- **Cash outflow**

The total cash used to operate the Mogotle citrus during November 2007 and January 2009 amounts to R4 015 719.00. The amount comprised of production cost and the capital expenditure. The production cost amounts to R3 912 664.14 while the capital expenditure amounts to R103 055.11. The cash outflow from November 2007 to January 2009 of Mogotle Citrus is also presented in Figure 9.3.

- **Bank balance**

The bank balance reflects the bank balance after the expenses are deducted from the income received. The surplus or deficit is determined and interest is charged or paid depending on the profit or deficit. According to the cash flow statement of Mogotle citrus the bank balance improved from (-R200 000.00) in January 2008 to R640 000.00 in 2009. Less money was spent on capital expenditure during this period. Mogotle Citrus had a positive bank balance of R450 960.00in February/March 2009. The summary of the bank balance is also reflected in Figure 9.3 and more details are provided in Appendix 2.

9.3.2 Income Statement

The income statement shows all the revenue received in a specific period of time and the expenses paid in that specific period. The net disposable income, which is the profit after tax and the capital expenses amount to R343 483.00. This figure represents the retained income which is the amount left after all the farms expenses are paid and it will increase the assets of the farm. Table 9.7 illustrates the income statement of Mogotle Citrus.

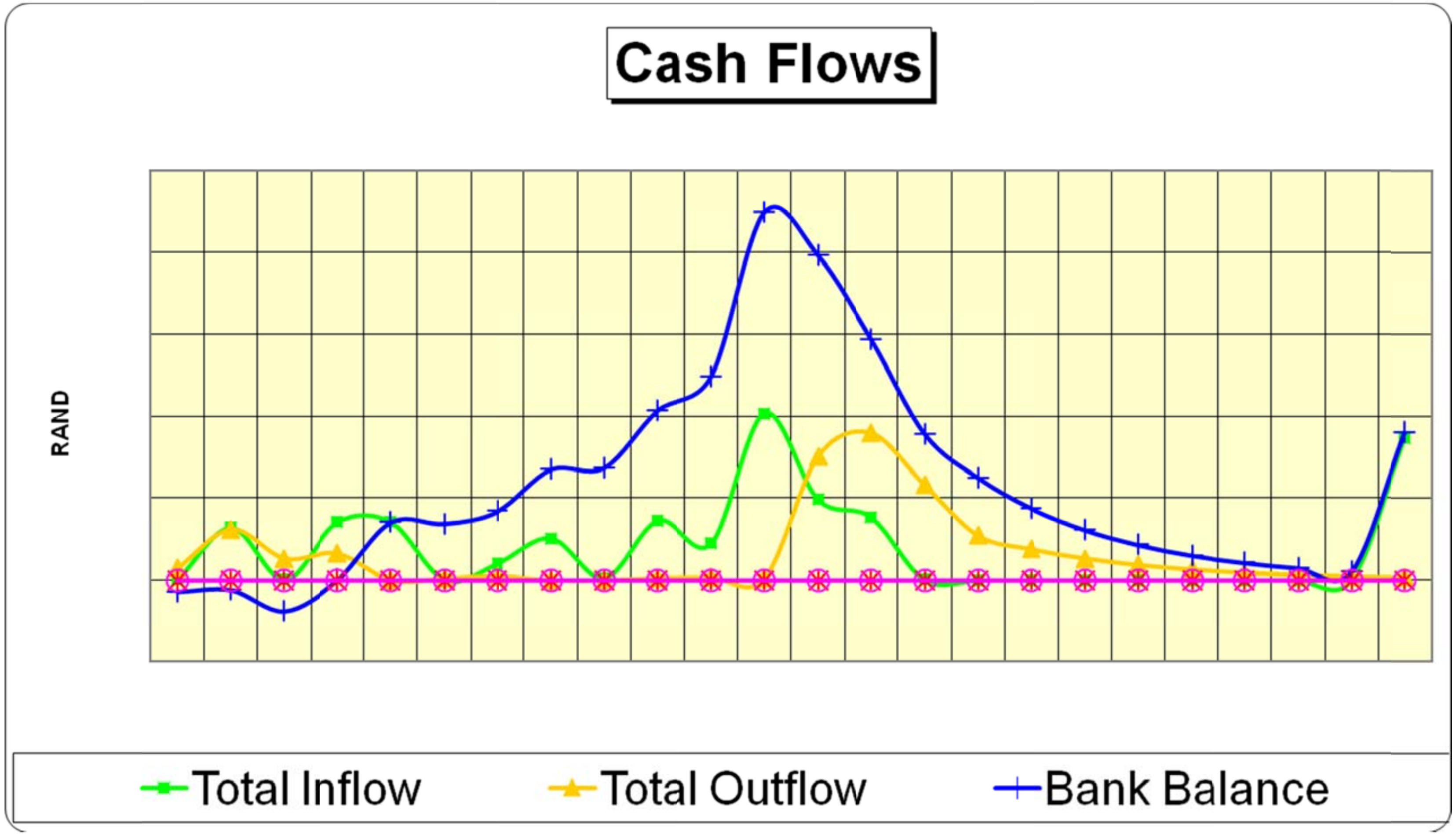

Figure 9.3: Cash flows for Mogotle citrus for the period Nov 2007 to January 2009

Table 9.7: Income statement for Mogotle Citrus for the year 2007/ 2009

Income Statement for Mogotle Citrus for the year ending 2007/2009			
Sales	**2007**	**2009**	**Total**
Citrus exports sales	483 709.00	302 731.00	786 439.00
Citrus juice sales	557 684.00	197 302.00	754 986.00
Total income from produce sold	**1 041 392.00**	**500 033.00**	**1 541 533.00**
Other income	28 369.00	17 500.00	45 869.00
Total income	**1 069 761.00**	**517 533.00**	**1 587 401.00**
Less farm expenses			
Expenses	3 017 095.00	926 999.00	3 944 094.00
Gross margin (GM) for the farm	**-1 947 334.00**	**-409 466.00**	**-2 356 692.00**
Less depreciation	147 789.00	0	147 789.00
Net Farm Income	**-2 095 122.00**	**-409 466.00**	**-2 504 481.00**
Less interest paid on	0	0	0
Farm profit or loss	**-2,095,122**	**-409 466.00**	**-2 504 481.00**
Plus: Non farm income			
-Salary	3 985.00	11 000.00	14 985.00
-Lease income	20 555.00	6 500.00	27 050.00
-Interest/divided received	309.00	0	309.00
-Stop order reversal	3 525.00		3 525.00
Total non farm income	**28 369.00**	**17 500.00**	**45 869.00**
Plus capital contribution	1 010 874.00	368 512.00	1 379 386.00
Plus loan yield	1 500 000.00	0	1 500 000.00
Net profit before tax	**444 120.00**	**-23 454.00**	**420 773.00**
Less income tax	128 795.00	-6 802.00	122 024.00
Less capital expenses	81 356.00	21 700.00	103 055.00
Plus depreciation	147 789.00		147 789.00
Net Disposable Funds	**381 758.00**	**-38 352**	**343 483.00**

9.3.3 Balance Sheet

The total assets of Mogotle Citrus amounts to R8 272 331.00. This is made up of the long term assets which are the land and buildings worth R6 000 000.00 and medium term assets worth R1 477 887.00 and current assets worth R794 444.00. The total liability of Mogotle Citrus amount to R1 500 000.00 which is a loan obtained from the fruit exporting company named Sunpride. Equity, the different between the assets and the liabilities amount to R6 765 452.00.The balance sheet for Mogotle Citrus is provided in Table 9.8.

Table 9.8: The Balance Sheet for Mogotle Citrus for 2007/2009

Assets	Rand Value
LONG- TERM ASSETS (Fixed)	**6 000 000.00**
Movable Assets	
Vehicles	**886 138.00**
Isuzu 3.0D/C 2005	205 000.00
Honda 200R	7 000.00
Nissan UG780 Truck	55 000.00
Tractors	594 138.00
Forklift	25 000.00
Implements	**440 149.00**
Trailer	196 149.00
Water Cart	2 000.00
Jnnies and Arend tower Spray	130 000.00
1000L Spray	1 000.00
Blower	65 000.00
Damskrop	8 000.00
DiscPlow	5 000.00
Graders	11 000.00
Pulper and slasher	12 000.00
Blade Tree Saw	10 000.00
Equipment	**114 100.00**
Coldrooms equipment	60 000.00
Chain Saw	3 600.00
Petrol Water pump	2 000.00
Pallets Jacks	2 500.00
Fertilizer pump	6 000.00
Irrigation pipes and equipment and pipes	40 000.00
Office Equipment	**37 500.00**
Computers, printer and fax machine	20 500.00
Desk , chairs and cabinets	17 000.00
Total Movable Assets	1 477 887.00
CURRENT ASSETS	
Bank	450 960.00
Retained Income	343 483.00
Total current assets	**7 944 44.00**
Total Assets	**8 272 331.00**
LONG -TERM LIABILITIES	
Sunpride	1 500 000.00
Total liabilities	**1 500 000.00**
EQUITY	**6 765 452.00**

9.3.4 Financial Ratio Analysis

Financial ratios analysis is the calculation and a comparison of ratios which are derived from the information in a farm‘s financial statements. Table 9.9 presents an overview of financial ratios for Mogotle Citrus.

Table 9.9: Financial ratio analysis for Mogotle Citrus for 2007/09

Ratio	Norm	2007 /2009	Comment
Liquidity ratios			
-Current ratio	2:1	0	Excellent
Debt serving ratios			
-Debt ratio	0.25	0.18	Good
Profitability ratios			
-Return on Equity	R3-R11	5	Good
-Return on Assets	Positive	4	Bad
Solvency ratios			
-Net capital ratio	2.5-3.00	5.51	Bad
-Gearing ratio	0.35-1.0	0.22	Good

9.3.4.1 Liquidity Ratios

The liquidity ratio measures the ability of the farm to pay short term obligations as they become due and liquidity is measured by the current ratio. The Mogotle Citrus does not have current liabilities as they buy on cash not credit. This means that farm’s liquidity status is excellent. If the farm is liquidated there won’t be any current assets claimed, they can use the current assets to pay for the loan they have with Sunpride. The calculation of the current ratio is as follows:

$$\text{Current ratios} = \frac{\text{Current Assets}}{\text{Current liabilities}} = \frac{787\ 565.00}{0} = 0\%$$

9.3.4.2 Profitability Ratios

The profitability ratio is made up of two ratios, the Return on Assets (ROA) and Return on Equity (ROE). These two ratios determine if the business is benefiting the investors by giving them returns on their invested money and if the money invested is used efficiently.

- **Return on assets**

The return on assets figure gives investor an idea of how effectively the business is converting the money it has to invest into net income. The higher the return figure, the better because the business is earning more money on less investment. The return on assets for Mogotle Citrus is 4 which is low. This ratio indicates that Mogotle Citrus has earned a profit of R4.00 for every R100 for own capital employed in the farm. The ROA is a sign of good financial and operational performance of the business therefore it has to be always high. The calculation for the ROA is as follows:

$$\text{Return on Assets (ROA)} = \frac{\text{Net Disposable Income}}{\text{Total Assets}} \times \frac{100}{1} = \frac{343\,483.00}{8\,272\,331.00} \times \frac{100}{1} = 4$$

- **Return on equity**

Return on equity measures how much profit a business generates with the money shareholders have invested. According to the financial analysis performed on the Mogotle Citrus the ROE is 5. This means that for every R100 that the CPA invested in the farm they have earned R5. This figure is acceptable as it falls between the industry norm. The industry norm ranges from R3 and R11. The calculation for the ROE is as follows:

$$\text{Return on Equity (ROE)} = \frac{\text{Net Disposable}}{\text{Total Equity}} \times \frac{100}{1} = \frac{343\,483.00}{6\,765\,452.00} \times \frac{100}{1} = 5$$

9.3.4.3 Debt serving ratio

Different business uses different sources of funding equity and debt. The Mashishimale Community CPA received funds from government as a support mechanism. The CPA invested the money in the farm. The money was utilized to pay for the day- to-day operations of the farm and for acquisition of some medium assets. Sunpride, a fruit exporting company contributed money in the form of a loan in the farm. Mogotle Citrus used debt to fund the operation of their farm. According to the financial analysis of Mogotle Citrus the debt ratio is 0.18. This figure indicates that the farm acquired 18% of the money they used in the farm from outside. In order words for every R1 of income that the CPA the farm generates, there is a claim of R0.18 for the redemption of debt.

The norm for debt ratio is R0.25, which implies that the percentage of debt used is less. The calculation for the debt ratio is as follows:

$$\text{Debt Ratio} = \frac{\text{Total liabilities}}{\text{Total Assets}} = \frac{1\ 500\ 000.00}{8\ 272\ 331.00} = 0.18$$

9.3.4.4 Solvency Ratios

Solvency ratios measure the ability of the business to pay its short term and long term obligations as they come due. The solvency is made of net capital ratio and gearing ratio.

- **Net capital ratio**

Net capital ratio measures the business's aggregate indebtedness to the firm's net capital. The net capital ratio for Mogotle Citrus is 5.5. This ratio implies that for every R5.5 invested in Mogotle Citrus, R1 in outside capital is used. The benchmark for net capital ratio is between 2 and 3.5. The figure is higher than the industry norm, the lower the net capital ratio, the better the financial condition of the firm. The calculation for the net capital ratio is as follows:

$$\text{Net capital ratio} = \frac{\text{Total Assets}}{\text{Total Liabilities}} = \frac{8\ 265\ 452.00}{1\ 500\ 000.00} = 5.51$$

- **Gearing ratio**

The gearing ratio measures the relationship between the business's own money and money obtained from outside. It indicates the degree of flexibility of the business. If the gearing ratio is relatively low, then the business has more chances to get finance from financial institutions. The gearing ratio for Mogotle Citrus is 0.22. This indicates that for every R1 capital contributed by the CPA, R0.22 is from the outside capital. The industry norm for gearing ratio is between 0.35 and 1. The figure is therefore below the industry norm, which is very good because it enable the farm to access finance from financial institutions if money is required. The calculation for the gearing ratio is as follows

$$\text{Gearing ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}} = \frac{1\ 500\ 000.00}{6\ 765\ 452.00} = 0.22$$

9.3.5 Long-Term Budget

The same methodology and assumptions used to predict the cash flow for Tala Valley Citrus (9.2) was followed in predicting the cash flow for Mogotle Citrus. Taking all the above assumptions and projections into account, Mogotle Citrus will generate an income of approximately R3 220 816.00 in 2017and pay expenditure amounting to R2 773 558.00 and have approximately R1 200 000.00 in the bank in 2017.

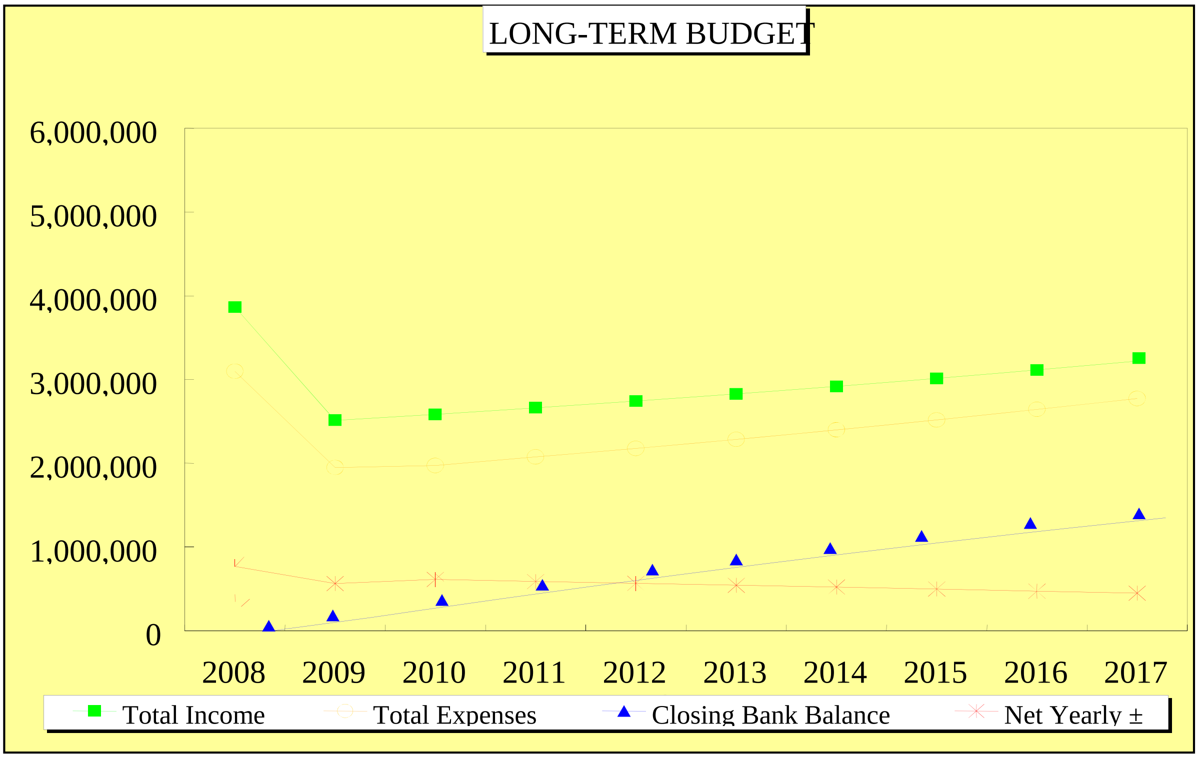

Figure 9.4: Projected long term budget for Mogotle Citrus from 2009 to 2017

The following section provides a comparison on two citrus fruit producing farm. Mogotle Citrus covers 67.53 hectares while Tala covers 82 hectares.

9.4 COMPARISON OF THE FINANCIAL POSITIONS AND RECOMMENDATIONS

This section provides a comparison of the financial results analysed for the Mogotle Citrus and Tala Valley Citrus.

9.4.1 Sales

Table 9.10 provides the sales summary of the comparison for Tala Valley Citrus and Mogotle Citrus.

Table 9.10: Summary of the comparisons for Tala Valley Citrus and Mogotle Citrus

Location	Tala Valley Citrus KwaZulu Natal Province	Mogotle Citrus Limpopo Province
Number of ha	82ha	67.53 ha
Sales/box	R37/ 7kg	R23/ 7kg
Total sales	R4 093 965.00	R1 541 428.00
Sales per ha	R49 926	R22 825.76
Total income	R8 617 332.00	R4 466 679.00
Strategic partner contribution	R3 000 000.00	R0.00

In general Tala Valley Citrus performed better in terms of income generation from the sales of citrus fruits than Mogotle Citrus. The sales records also indicate that Tala Valley Citrus generated more yields than Mogotle Citrus. This variance came as results of the difference in the number of hectares planted. Tala Valley Citrus planted citrus fruits on 82 hectares of land while Mogotle Citrus planted on 67.53 hectares.

When comparing individual markets where the fruits were sold, it is evident that Mogotle Citrus generated more tons of oranges sold on the export market than Tala Valley Citrus. Mogotle Citrus generated 12 810tons while Tala Valley Citrus generated 5 280; however the sales price for Tala Valley Citrus was higher than Mogotle Citrus's. Tala Valley Citrus sold its fruits for R37.00 per 7kg while Mogotle Citrus sold them for R23.00 per 7kg. The juice market yields combined for oranges and lemons for Mogotle Citrus exceed that of Tala Valley Citrus's. For Tala Valley Citrus, 406 865 tons were sold while Mogotle Citrus sold 1 217 720 tons. The prices also differed, Mogotle Citrus sold for R0. 62 per ton while Tala Valley Citrus sold for R0.57 per ton. The overall sales records reflect an income of

R4 093 965 for Tala Valley Citrus while only R1 541 424. 98 were recorded in Mogotle Citrus.

The sales records per hectare for Tala Valley Citrus exceed that of Mogotle Citrus. The sales value per hectare for Tala Valley Citrus is R49 926.40 while for Mogotle Citrus is R22 825.76. In this regards it is evident that Tala Valley Citrus performed better in the income generation from the sales of citrus fruits.

9.4.2 Cash Flow Statement

The total cash inflow of Tala Valley Citrus and Mogotle Citrus amount to R8 617 338.00 and R4 466 679.48 respectively. The Tala Valley Citrus did better in terms of cash accumulation as compared to Mogotle Citrus. However it should be kept in mind that the strategic partner contributed 33% of the total cash inflow in the farm. Tala Valley Citrus accumulated R4 093 965.00 in cash from the sale of citrus fruits. The strategic partner also played a vital role on the financing of the business by contributing nearly R3 million, while the Department of Land Affairs contributed R630 000.00 in grants. At Mogotle Citrus a total R1 541 424.98 was obtained from the sale of fruits and the fruit exporting company Sunpride loaned the farm cash amounting to R1 500 000.00 while the CPA contributed R1 379 385.56 (obtained from DLA as grants) towards the operations costs of the farm.

To generate income, cash has to be utilised. Tala Valley Citrus utilised cash amounting to R8 739 576.00 to operate the farm. R7.3 million was used to fund the day- to -day activities of the farm while R1.3 million was invested in acquiring assets. At Mogotle Citrus a total of R3.9 million was used on farm operations and R100 000.00 was utilised for capital expenditure. In terms of expenditure per hectare comparison, Tala Valley Citrus used R89 024.40 per hectare while Mogotle Citrus used R57 752.11 per hectare. The bank balance after subtracting the expenses from the income for Tala Valley Citrus -R617760.00) while the balance at Mogotle Citrus is R 450 960.00.

Tala Valley Citrus received a bigger income in comparison as compared to Mogotle Citrus in terms of sales of fruits and money from other sources. The cost of production per hectare at Tala Valley Citrus is also higher than at Mogotle Citrus farm. Tala Valley Citrus made an investment through the acquiring of assets which will benefit the farm in future by increasing the sales volume and returns, while Mogotle Citrus spent less on capital expenditure. The bank balance at Tala Valley Citrus at the end of the year reflects a negative balance of (R617 760.00), which indicates that the farms expenditure exceeds the income. At Mogotle Citrus despite having less income their bank balance is R450 960.00. Mogotle Citrus spent less on capital expenditure.

From the cash flow statement Mogotle Citrus seems to be performing better than the Tala Valley Citrus. The Tala Valley Citrus received twice the money that Mogotle Citrus received, buta cash flow problem exists due to large amounts spent on expenditure. The Tala Valley Citrus spent almost R1.3 million to finance the investments in the form of assets using working capital. Funding assets with the working capital is not a good business decision; the farm should have borrowed money from the bank to fund the assets because it is cheaper to use borrowed money than own money as the debt financing is tax deductible. At Mogotle Citrus the cash flow is excellent; however less has been spent on capital expenditure. This might affect the revenue generation in the long term. Capital expenditure is an investment which helps in improving sales and it also increases the assets of the farm.

9.4.3 Income Statement

The first section of the income statement is made up of the income generated from the sales of citrus fruits. The Mogotle Citrus generated income amounting to R1 541 533.00 while the Tala Valley Citrus generated R4 093 996.00. The expenditure occurred by the farms on operations and capital was deducted from the income. The gross margin for Tala Valley Citrus is -R1 841 410.00, while the Mogotle Citrus has a gross margin of -R2 356 692.00. The per hectare production cost for Tala Valley Citrus is –R22 465.22 while Mogotle production cost per hectare is – R34 898.54. In the income statement Tala Valley Citrus’ performance is better than Mogotle Citrus’. At Mogotle Citrus more money is spent on production costs and other operating costs than at Tala Valley Citrus.

Non–farm income and the capital contributions and loans played a vital role in both farms. The money was used to bailout the farms from bankruptcy. The net profit before tax for Mogotle Citrus amount to R420 773.00 and for Tala Valley Citrus is R583 260.00.

After deducting tax expenses from the net profit before tax, the net disposable income/ loss remain. The income statements of both farms reflect a net disposable income. Profit was made in both farms. Mogotle Citrus reflects a net disposable income of R343 483.00 while Tala Valley Citrus made a profit of R70 414.00. The gross margin and net profit before tax for Tala Valley Citrus are better than that of Mogotle Citrus, but the net disposable income of Mogotle Citrus is higher than that of Tala Valley Citrus. This is due to the high capital expenditure that was incurred by Tala Valley Citrus. Mogotle Citrus is withholding investing in capital expenditure due to the community's needs for investing rather in community projects than on the farm. Although in the short run Mogotle Citrus is performing better than Tala Valley Citrus, in the long run the sustainability of Mogotle Citrus is at risk. The amounts will be taken to the balance sheet to illustrate the money invested by the community in the farm.

9.4.4 Balance Sheet

Both farms are well equipped with assets as the farms' assets exceed their liabilities. This implies that the farms are not dependant on outside funds for survival. The total assets of Mogotle Citrus and Tala Valley Citrus amount to R8.27 million and R10.5 million respectively. The most contributing asset for both farms is the land received through restitution. The land constitutes almost 70% of the total assets on the farms.

The contributing factor to the liabilities on both farms is the loans. This contributed to the relatively high figures on both farms. Tala Valley Citrus has a total equity of R7.94 million while the Mogotle Citrus has R6.76 million.

9.4.5 Financial Ratio Analysis

The comparison of the financial ratios of these two citrus fruits farms are discussed below.

9.4.5.1 Liquidity Ratio

Tala Valley Citrus has a current ratio of 14, which is excellent. The current assets are fourteen times the current liabilities. At Mogotle Citrus there are no current liabilities since the manager pays the expenses as they occur.

9.4.5.2 Profitability Ratios

The ROA for Mogotle Citrus and Tala Valley Citrus are 4 and 0.67 respectively. Tala Valley Citrus's ROA is lower than that of Mogotle Citrus's. The farm's assets are not used efficiently to generate the income in the farms. Only 70% of the land is utilised on both farms. Evaluation of the assets should be done on both farms and old and unused assets should be sold.

In comparison of the ROE for Tala Valley Citrus is R0.99 while that of Mogotle Citrus is R5. For every R100 the strategic partner and the Trustees put in the Tala Valley Citrus farm business they can obtain R0.99. At Mogotle Citrus for every R100 invested in the business the CPA will get R5. The industry norm for ROE is between R3 to R11. Mogotle Citrus's ROE fall between the industry norm while Tala Valley Citrus is below the norm. This implies that Mogotle Citrus performed better in this regard that Tala Valley Citrus. It would not be a good idea for the investors to take their return from the farm because the farm is experiencing cash flow problems. The community must reinvest this return back into the business.

9.4.5.3 Debt Serving Ratio

Both farms are not dependant on debt for survival but the gross margins are both negative. This implies that the contribution by both the strategic partner and the government bailed out both farms from bankruptcy. The debt ratio for Mogotle Citrus is 0.18 while for Tala Valley Citrus it is 27. It is advisable that the farms obtain loans from financial institutions to fund their investments to stay sustainable. Due to the fact that the debt repayment and interest payments are expenses and thus can be deducted from the farm finances resulting in less income tax for the farm. Another benefit for debt when it is paid on time can enhance the farm business' credit rating, making it easier to obtain financing in the future.

9.4.5.4 Solvency Ratios

Solvency ratios measure the ability of the farm to pay long and the short term liabilities as they come due. The net capital ratio measures the indebtedness to the net capital. The net capital ratio for Tala Valley Citrus and the Mogotle Citrus are 3.72 and 5.5 respectively. The figures are above the industry norm and therefore acceptable

The gearing ratio measures the relationship between the own capital and the farm's liabilities. The lower the gearing ratio, the more the need exists of a farm to apply for finances from financial institutions. The Mogotle Citrus gearing ratio is 0.22 while the Tala Valley Citrus is 0.41. The lower the gearing ratios, the better chance farm has to obtain credit from financial institutions.

9.4.6 Long-Term Budget

The long-term budgets were estimated with the assumption that the land use is constant and no capital expenditure will be made and no new enterprises will be added. The capital expenditure that Tala Valley Citrus made seems to be adding value to the farm business. The long term budgets for both farms revealed that Tala Valley Citrus will generate more income through sales of citrus fruits than Mogotle Citrus in future. Tala Valley Citrus will generate an income ofapproximatelyR4 153 973.00 and pay expenditure amounting R3778 416.00 and have approximatelyR2 000 000.00 in the bank in 2017 while Mogotle Citrus will have an income of R3 220 816.00 and pay expenditure of R2 773 558.00 and have R1 200 000.00 in the bank. Due to the capital investment made by Tala Valley Citrus, their bank balance for 2017 is estimated at R800 000 more that Mogotle Citrus '.

9.5 CONCLUSION

In summary, these financial analyses reveal that Tala Valley Citrus sold more fruits and generated more income than Mogotle Citrus. The cash inflow of Tala Valley Citrus exceeds that of Mogotle Citrus. The cash outflow for Tala Valley Citrus is relatively higher than Mogotle Citrus' mainly because Tala Valley Citrus made significant capital investments while Mogotle Citrus spent only 10% in comparison to what Tala Valley Citrus spend to acquire assets. The capital investment at Tala Valley will help sustain the farm in the long run by increasing the sales volume, increasing the value of the farm and also the farm can use the assets as security when applying for credit. The income statement revealed that Tala Valley Citrus's gross margin is higher than Mogotle Citrus', indicating that Mogotle Citrus is spending more than Tala Valley Citrus on the production cost per hectare even though the land used is far less than Tala Valley Citrus'. The net income before tax also indicates that Tala Valley Citrus is performing better than Mogotle Citrus. Again the investment made on the capital income decreases the net profit for the year for Tala Valley Citrus to R70 414.00 while Mogotle Citrus has R343 483.00 as retained income.

The balance sheet reflects more assets for Tala Valley Citrus than Mogotle Citrus. Assets are items of economic value which can be converted any time. This indicates that Tala Valley Citrus will have more available cash than Mogotle Citrus if they decide to sell. Assets also serve as security for the bank in case of borrowing, making it easy for the farm to access fund. The long term budget also revealed that Tala Valley Citrus will generate more sales from the fruits in the coming ten years. By 2017, Tala Valley Citrus will have a bank balance of R2 million, while Mogotle has R1.2 million. The return on assets ratio revealed that Tala Valley Citrus is using assets more effectively to generate sales than Mogotle Citrus. The ROE for Mogotle Citrus is higher than Tala Valley Citrus. From the financial analysis it is evident that Tala Valley Citrus is performing better in the short run and will also do so in the long run. The farm recorded a profit of R70 414.00 for 2007/2009 and it also made capital investment which will increase the profits in the future, increasing the value of the farm. In the short run, Mogotle Citrus recorded a profit of R343 483.00 but less was spent on capital expenditure. Thus means the current assets will be exhausted with no addition; which will decrease the value of the farm in the long run, making it difficult to access funding. The next Chapter provides the summary and the recommendations of the study.

CHAPTER TEN

CONCLUSION AND RECOMMENDATIONS

After the 1994 elections, the land reform programme was top priority for the ANC. The aim of land reform was to transfer the land the black people lost due to apartheid regime. The progress of the land reform programme in South Africa is seen to be very slow. The government of South Africa envisaged transferring 30% of the agricultural land to black people in five years. In 2006, twelve years after the elections, only 4.1% of land is transferred. The government has extended the deadline to transfer 30% of the agricultural land to 2014. With the 4.1% land transferred there seems to be difficulty in ensuring that these projects are sustainable entities. It was indicated that the productivity of the land decreases after the transfer of the land mainly due to lack of experience and knowledge to operate and the lack of post settlement support from the government. Seeing that the progress of land reform in South Africa is slow, the governance of land reform projects at project level should be addressed.

Management models are believed to have an impact on the financial position of land reform projects. The general aim of this study is to describe, analyse and compare two management models selected for the production of citrus in two culturally diverse communities and identify potential support institutions or post settlement.

The objectives are to:

- Identify institutional support and funding opportunities available for Land Reform projects in South Africa
- Identify the business structure and financial governance structure on both farms
- Provide overview of various business management models used by the two communities on the respective farms
- Provide an overview of financial management structure used for farm management on the farms
- Compare the impact of the two business structures on the effectiveness of the land settlement

10.1 HYPOTHESIS

The hypothesis to be tested states that “the involvement of a strategic partner in a land reform project contributes to the potential financial success of the project”

The study revealed that more intervention and participation of the key specialists is vital at project or farm level. Land reform beneficiaries need a lot of support from these specialists to ensure the sustainability of the project. Specific training to the CPA and Trust members and the community is also essential. In most cases, land reform beneficiaries are people from rural areas with limited education and skills. In this regard specific training such as enterprise management and business planning should be given to the beneficiaries to ensure sustainable implementation. In Tala Valley Citrus where a strategic partner is involved, some members of the community are being trained in these aspects. In this project the strategic partner acts as a mentor in raising the capacity of the community. Key specialists from the private and public organisations are involved like Inkezo Land Company, Citrus Growers Association, Citrus Research Institute, Provincial Department of Agriculture and Environmental Affairs and KwaZulu Natal Department of Land Affairs. In Mogotle Citrus, less training took place and only three institutions are involved, namely Limpopo Department of Agriculture, Department of Land Affairs and Limpopo Tourism.

The financial analysis showed that in the short run Mogotle Citrus’ net dispensable income, bank balance, ROE is higher than Tala Citrus (due to the investment made by Tala Valley Citrus by acquiring assets). However the balance sheet, sales volume, gross margin of Tala Valley Citrus are looking healthier than that of Mogotle Citrus’. From these findings it is evident that if Tala Valley Citrus had not invest some of its cash on capital expenditure, which was a wise investment, the net disposable income, the bank balance and the ROE would have been higher. In the long run Tala Valley Citrus will also perform better due to the resources that are available because of the capital investments made. The involvement of a strategic partner in a land reform projects like Tala Valley Citrus, financially outperform the project where a manager (Mogotle Citrus) was appointed to run the concern on behalf of the beneficiaries. The possible reason for this is that because the strategic partner has some ownership on the part of the business and therefore more effort is put in to ensure the success of the business unlike the manager who is just an employee. Based on the analysis, the hypothesis is accepted. The involvement of a strategic partner in a land reform project contributes to the potential financial success of the project.

10.2 RECOMMENDATIONS

Based on the observations and the conclusions made on the study the following general recommendations apply for the Mogotle Citrus and Tala Valley Citrus enterprises to ensure sustainability and success:

- **Involvement of key stakeholders:** At project or farm level more focused interventions by key specialists are important for the execution of a project. Commodity Associations such as Citrus Growers Association and Citrus South Africa, Research Institutions such as Citrus Research Institute and Government Department such as Provincial Department of Agriculture, Environment and Land Affairs should be involved in the land reform projects at project level to assist where there is a gap to ensure sustainability of the Land Reform Programme in South Africa.

- **Role of capacity building of Trust, CPA members and the community**: The capacity building of the CPA, Trust members and the community is essential after the specific needs were identified. Relevant training should be given to the CPA/Trust members and the community to ensure that they are fully informed of their responsibilities with regards to maintaining production on the farm and how to overcome the constraints. The role of the CPA/Trust is to ensure that an appropriate business model is chosen for the farm. The strategic partner or the manager mode is selected when a community lacks the necessary farming knowledge and skills.

- **Involvement of community members during the pre-settlement phase**: Land use planning especially during the pre- settlement phase should be discussed with the relevant community and should include as far as possible the needs of the claiming community. This will avoid situations where some community members sabotage the project because they do not agree with activities that are taking place of the land or project.

- **Understanding of the business entity**: It is important that the restitution beneficiaries understand the business entity and it's potential. Due to the time that pass between the successful landing of the claim and when the land is transferred to the owners, it is important to arrange with the previous owner to maintain the farm until such time. This will avoid situation whereby there is a complete production recession immediately after the successful landing of a claim.

- **Training needs and capacity building:** The specific training of beneficiaries in enterprise management (citrus) and business planning is essential for sustainable project implementation. Community members should be able to run the farming business and to do that necessary training should be provided to them. Training should be given on business planning, financial management, entrepreneurship, strategic planning etc.

- **The support of beneficiaries of land reform is lacking.** The beneficiaries often do not have access to funds and training to run the business. The policy framework for these restitution grants exists, but the implementation framework for it is inadequate and should be aligned to the Interim Business Plan and the long term strategic plan. This responsibility lies with the Provincial Department of Agriculture and Department of Rural Development and Land Reform. The Department of Agriculture and Land Affairs must tighten the support for Land Reform beneficiaries. Leaving the beneficiaries who are inexperienced to run a farm on their own will only lead to project failure and hence decline in the overall agricultural production in the country.

- **The government should provide support to the strategic partner**. The strategic partner should receive some support, mainly financial from the government to enable him/her to assist the community with the implementation of the project. The strategic partner should not be left alone to finance the whole project. Although the Nkumbuleni community and their strategic partner agreed on 50:50 profit sharing, the ideal situation should be where the community has the major shares, with the option of buying out the strategic partner after the contract period.

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APPENDICES

Appendix 1: Cash Flow Statement of Tala Valley Citrus

[redacted]

[redacted]

CAPITAL EXPENDITURE	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Total
Machinery & Plant purchases	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0	0	0	0
Vehicle purchases	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0	0	0	0
Equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	324,903.78	19,404.00	16,600	16,284	165,000	542,192
Land purchases	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0	0	0	0
Development	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0	0	0	0
SJ Hilcove	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0	0	850,191	850,191
Co-operative members levy fund	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0	0	0	0
Land lease fees and Rent paid	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0	0	0	0
TOTAL CAPITAL EXPENDITURE	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**324,903.78**	**19,404.00**	16,600	16,284	1,015,191	1,392,382
OTHER EXPENDITURE																
Input Tax-Capital Goods										921.20	23,646.56	24,567.76	2,324		23,100	25,424
Intput Tax-STD										150,914.92	56,518.09	207,433.01	71,024	64,571		135,595
TOTAL EXPENDITURE	**17,741**	**189,856**	**459,247**	**144,032**	**157,759**	**114,209**	**138,401**	**228,159**	**267,379**	**759,515**	**1,991,715**	**1,184,657**	**919,756**	**1,024,637**	**1,535,534**	**8,739,576**
Excess/(Deficit) ±	-17,741	-189,856	-459,247	-144,032	-157,759	-114,209	-138,401	-228,159	95,388	-509,699	2,442,720	-200,830	-121,379	223,923	-995,979	-122,447
Bank Balance: Initial	0	-17,841	-208,965	-673,146	-825,562	-993,496	-1,119,523	-1,271,297	-1,515,041	-1,436,161	-1,964,884	477,837	277,007	155,628	379,551	
Interest (Dt) (Overdrawn) 13.5%	-100	-1269	-4934	-8383	-10175	-11819	-13373	-15585	-16508	-19024	- 11284	0	0	0	-1,332	- 113, 786
BANK BALANCE : END	**-17,841**	**-208,965**	**-673,146**	**-825,562**	**-993,496**	**-1,119,523**	**-1,271,297**	**-1,515,041**	**-1,436,161**	**-1,964,884**	**477,837**	**277,007**	**155,628**	**379,551**	**-617,760**	**-617,760**

Appendix 2: Cash Flow Statement of Mogotle Citrus

[redacted]

[redacted]

CAPITAL EXPENDITURE	**07-Nov**	**07-Dec**	**08-Jan**	**08-Feb**	**08-Mar**	**08-Apr**	**08-May**	**08-Jun**	**08-Jul**	**08-Aug**	**08-Sep**	**08-Oct**	**08-Nov**	**08-Dec**	**09-Jan**	**Total**
Machinery& Plant purchases	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0
Vehicle purchases	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0
Equipment	81356	0	0	0	0	0	0	0	0	0	0		0	0	21700	103056
Land purchases	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0
Development	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0
Co-operative members levy fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0
Land leases fees and rent paid	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0
TOTAL CAPITAL EXPENDITURE	**81356**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**21700**	103056
OTHER EXPENDITURE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Input tax capital goods	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Input tax STD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENDITURE	**164854.3**	**311247.6**	**122700**	**163218**	**166812**	**1E+05**	**218815**	**250952**	**207419**	**461995**	**292276**	**568819**	**432741**	**276470**	**231543**	**4E+06**
Excess (Deficit)	338649.8	153063.2	-121096	188958	185238	-1E+05	-115615	5921.84	-194893	-98860	-68278.6	376919	58340.9	105993	-219043	450939
Bank Balance : Initial	0	338649.8	491713	370617	559575	7E+05	600454	484839	490761	295869	197008	128730	505649	563990	669982	
Interest(Dt) (Overdrawn) 13.5%	0	0	0	0	0	0	0		0	0	0	0	0	0	0	0
Bank Balance : END	**338649.8**	**491713**	**370617**	**559575**	**744813**	**6E+05**	**484839**	**490761**	**295869**	**197008**	**128730**	**505649**	**563990**	**669982**	**450960**	**450960**

Appendix 3

Structured Interview questionnaire with Mashishimale Community

1 CPA

1.1 What are the CPA‘s main roles in the farming operations?

1.2 Identify the structure of the CPA

1.3 What were the CPA‘s expectation of the farming operations?

1.4 What are the CPA’s visions, aims and objectives of the farming operations?

1.5 Does the CPA have any previous experience in land restitution management of a farm? If yes please give details , if not give us the criteria for CPA’s selection

1.6 A manager was appointed to take care of the farming operation and to manage the farm on the daily basis. Explain the reasons for the choice of the model

- **1**.6.1 What were the critical attributes that were taken into consideration when you interviewed the candidates for the position?
- 1.6.2 Are you satisfied with the appointment of the manager?
- 1.6.3 How do you remunerate the manager, fixed salary or salary plus bonus or % profit sharing?
- 1.6.4 How effective is the manager on a scale of 1-10?

1.7 Did all the CPA members have a chance to visit the farm?

1.8 If yes how often do they visit the farm?

1.9 What are the CPA’s expectations on the financial management that was agreed between the CPA and the manager? If yes explain

- 1.9.1 Do you have a structure of financial management that was agreed between the CPA and the manager? If yes explain
- 1.9.2 How often does CPA meet with the manager?
- 1.9.3 What are the meetings about?
- 1.9.4 Do you keep the minutes of these meetings?
- 1.9.5 How often does the CPA require full financial records of the farm?
- 1.9.6 Does the CPA participate in financial decisions?
- 1.9.7 To what degree does the CPA want to be involved in the daily running of the farm?
- 1.9.8 Explain the mandate the manager has regarding financial management
- 1.9.9 Are there identified CPA members who take responsibility in the financial management and monitoring of the farm?

1.9.10 Are the financial statements audited by an accredited auditor?

1.10 What are the CPA‘s perceptions regarding the availability of financial creditors?

1.11 Is the CPA prepared to stand security for the farming operations? If not why?

1.12 Explain the communication stricture between the CPA and the rest of the community

1.12.1 How regularly does the CPA meet with the community?

1.12.2 Does the community have the opportunity to participate in the financial decisions?

1.12.3 What are the financial expectations from the community regarding the farm/ land that they have received?

1.12.4 Explain the communication structures between the CPA and provincial departments (DoA and DLA) on possible financial support.

1.12.5 Is the local municipality participating in the farm? If yes specify its role if not why?

1.12.6 There were private institutions that come forward in terms of support when the project starts, did they deliver what they promised?

1.13 An Interim Business Plan (IBP) was drafted

1.13.1 Did the CPA take part in the IBP when is drafted? Explain how

1.13.2 Rate your satisfaction on CPA‘s participation in the drafting of the IBP on the scale of 1-10

1.13.3 Did the CPA explain the IBP to the community? If yes explain how you have done it

1.13.4 Did the community accept the IBP when it was explained to them? Scale 1-10

1.13.5 What are the main constraints that were raised by the community for the implementation of the IBP?

1.13.6 What are the main advantages of an IBP as perceived by the CPA?

1.13.7 Have you implemented the IBP on the farm?

1.13.8 How successful were you with the implementation of the IBP. Scale 1-10

1.14 What is going to happen to the profits once the farm starts making profits?

1.15 How will it be divided? Is there specific agreement?

1.16 What are the expectations of CPA regarding financial knowledge support? (Experts/ institutions/role players/creditors”)

1.17 What were the challenges that you came across since this project started/

1.18 What are the main lessons learned from this project during the last year

1.18.1 Shortcomings with this specific model

1.18.2 Supporting knowledge (professionals, services)

1.18.3 Capacity available

2 MANAGER

Profile of the manager

2.1 Do you have training and experience for the job?

2.1.2 What are your reasons for taking this job?

2.1.3 What were your expectations of the job?

2.1.4 What were your expectations regarding remuneration?

2.2 What are you aims and vision of the farm?

2.3 Was there an overall plan negotiated with the CPA before you start?

2.4 What are your main roles in the farm?

2.5 When the IBP was drafted, did you take part?

2.5.1 Do you have previous experience of drafting a business plan for farming?

2.5.2 What were your roles in drafting the IBP?

2.5.3 Rate your satisfaction on the scale of 1-10 for your participation on drafting of the business plan

2.5.4 Did you take part in the communicating of the business plan to the community? Explain your roles

2.5.5 Explain the main advantages of having a business plan you perceive from the management point of view

2.5.6 Have you implemented the business plan on the farm?

2.5.7 Rate the easiness of the implementation of the IBP on the scale of 1-10

2.5.8 What are the main constraints experienced with the implementation of the IBP?

2.6 Do you have experience in financial management?

2.7 Provide a detailed organisational structure of the farm

2.8 Do you use an accounting system to capture actual income and expenditure?

2.9 Do you regularly compare actual income and expenditure to what was budgeted?

2.10 Did you try and correct the deviation between the actual and budgeted? If yes

2.11 What source of income have you realized since the start of the project?

2.12 If source of income was from the government or institution which government department or institution?

2.13 How did you use the money? Explain

2.14 Did the expenditure of the income make any difference to citrus yields, quality, and price or did it lower costs of production?

2.15 Explain the SWOT analysis of the current financial system.

2.16 How do you implement the financial management system based on the operational plan?

2.17 How do you implement the financial management system based on the marketing plan?

2.18 Rate yourself on the effectiveness of the financial management on the scale of 1-10

2.19 Describe the communication structure between you and the trustees

2.19.1 What is your perception on the current system of the communication structure?

2.19.2 What are the constraints with the current communication system and how are you going to address it?

2.19.3 Is the trustee's cooperative for managerial decisions taken? Scale 1-10

2.20 What are the constraints that can jeopardise the successful implementation of the farm plan?

2.21 Do you have authority to make financial decisions without consulting the CPA

2.22 What are the challenges that you have come across so far?

2.23 What do you think are the requirements of an effective manager?

2.24 Where do you want to see this farm in the coming three years?

2.25 What did you learn from this project?

2.26 What is your recommendation with specific reference to financial management?

2.27 What do you think are the shortcomings of this model?

2.28 What have you learned from the supporting knowledge of the professionals?

2.29 Capacity available

2.30 Do you get mentorship on the things you are not familiar with?

3 FACILITATOR

3.1 Profile of the facilitator

3.1.1 Do you have any training and experience for this job?

3.1.2 What are your reasons for taking this job?

3.1.3 What were your expectations of the job?

3.2 What is your role in this project?

3.3 What is your perception about the main role players in this project?

3.4 What is your perception of the communication structure between the CPA, the manager and the community?

3.4.1 What is your role on the communication structure?
3.4.2 Do you think the communication structure is effective? Scale 1-10
3.4.3 Do you see any cooperation between the CPA and the rest of the community regarding the farm?

3.5 Rate your effectiveness as the facilitator on a scale of 1-10
3.6 The IBP was drafted

3.6.1 Do you have any experience in drafting a business plan?
3.6.2 Did you participate in the drafting of the business plan?
3.6.3 Rate your satisfaction on your participation in the drafting of the business plan on a scale of 1-10
3.6.4 What were your roles in the communication of the IBP to the CPA and the community?
3.6.5 How informed do you think the community is regarding the farming operations and financial implications on the scale of 1-10?
3.6.6 What are the main advantages of having an IBP from a facilitator's point of view?
3.6.7 How successful do you think was implementation of the IBP on the farm?
3.6.8 What were the shortcomings with the process of IBP planning?
3.6.9 What are the shortcomings with the IBP?

3.7 What are your perceptions about the financial support offered by the government to a project of this nature?
3.8 What do you think are the critical requirements for an effective facilitator on a project of this nature?
3.9 What are the lessons that you have learned?

3.9.1 What are your recommendations with specific reference to financial management?
3.9.2 What are you're the shortcomings and disadvantages of this model?
3.9.3 What have you learned about the supporting knowledge of professional on this p

Appendix 4

Structured Interview questionnaire with Nkumbuleni Community

1. TRUSTEES

1.1 What are the trustee‘s main roles in the farming operations?
1.2 1.2 Identify the structure of the trust
1.3

1.2.1 What were the trustee‘s expectation of the farming operations?

1.2.2 What are the trustee's visions, aims and objectives of the farming operations

1.2.3 Do the trustees have any previous experience in land restitution management of a farm? If yes please give details, if not give us the criteria for trustee's selection

1.2.4 How was the farm when it was redistributed in terms of trees, orchards, labours, pests and diseases and irrigation system

1.2.5 You have a strategic partner who take scare of farming operations and manage the farm on a daily basis. Explain the reasons for choice of the model

1.2.5.1 Did the strategic partner volunteer or you approached him?

1.2.5.2 What were the critical attributes that were taken into consideration when you agreed to this contractual arrangement?

1.2.5.3 Are you satisfied with the involvement of a strategic partner? Scale 1-10

1.2.5.4 How many shares is the strategic partner holding?

1.2.5.5 How many shares are the trustees holding?

1.2.5.6 Do you pay the strategic partner monthly salary?

1.2.5.7 How effective is the strategic partner on a scale of 1-10?

1.2.6 The strategic partner is supposed to transfer his knowledge to the community. Is the strategic partner doing that?

1.2.7 Did all the trustee members have a chance to visit the farm?

1.2.8 If yes how often do they visit the farm?

1.2.9 What are the trustee's expectations on the financial management that was agreed between the trustee and the strategic partner? If yes explain

1.2.9.1 Do you have a structure of financial management that was agreed between the trustee and the strategic partner? If yes explain

1.2.9.2 How often does trustee meet with the strategic partner?

1.2.9.3 What are the meetings about?

1.2.9.4 Do you keep the minutes of these meetings?

1.2.9.5 How often does the trustee require full financial records of the farm?

1.2.9.6 Does the trustee participate in financial decisions?

1.2.9.7 To what degree does the trustee want to be involved in the daily running of the farm?

1.2.9.8 Explain the mandate the strategic partner has regarding financial management

1.2.9.9 Are there identified trustee members who take responsibility in the financial management and monitoring of the farm?

1.2.9.10 Are the financial statements audited by an accredited auditor?

1.3 What are the trustee's perceptions regarding the availability of financial creditors?

1.3.1 Is the trustee prepared to stand security for the farming operations? If not why?

1.3.2 Explain the communication stricture between the trustee and the rest of the community

1.3.2.1 How regularly does the trustee meet with the community?

1.3.2.2 Does the community have the opportunity to participate in the financial decisions?

1.3.2.3 What are the financial expectations from the community regarding the farm/ land that they have received?

1.3.2.4 Explain the communication structures between the trustee and provincial departments (DoA and DLA) on possible financial support

1.3.2.5 Is the local municipality participating in the farm? If yes specify its role if not why?

1.3.2.6 There were private institutions that come forward in terms of support when the project starts, did they deliver what they promised?

1.3.3 An Interim Business Plan(IBP) was drafted

1.3.3.1 Did the trustees take part in the IBP when is drafted? Explain how

1.3.3.2 Rate your satisfaction on trustee 's participation in the drafting of the IBP on the scale of 1-10

1.3.3.3 Did the trustees explain the IBP to the community? If yes explain how you have done it

1.3.3.4 Did the community accept the IBP when it was explained to them? Scale 1-10

1.3.3.5 What are the main constraints that were raised by the community for the implementation ofIBP?

1.3.3.6 What are the main advantages of an IBP as perceived by the trustee?

1.3.3.7 Have you implemented the IBP on the farm?

1.3.3.8 How successful were you with the implementation of the IBP. Scale 1-10

1.3.4 What is going to happen to the profits once the farm starts making profits?

1.3.5 How will it be divided? Is there specific agreement?

1.3.6 What are the expectations of trustee regarding financial knowledge support? (Experts/ institutions / role players / creditors")

1.3.7 What were the challenges that you came across since this project started/

1.3.8 What are the main lessons learned from this project during the last year

1.3.8.1 Shortcomings with this specific model

1.3.8.2 Supporting knowledge(professionals , services)

1.3.8.3 Capacity available

2 Strategic Partner

2.1 Profile of the strategic partner

2.1.1 Do you have training and experience for the job?

2.1.2 What are your reasons entering in this contract?

2.1.3 How long is the contract?

2.1.4 What were your expectations of the contract and job?

2.1.5 How many shares are you holding?

2.1.6 What were you expectations regarding remuneration?

2.2 What are your aims and visions of the farm?

2.3 Was there an overall plan negotiated with the trustee before you start?

2.4 What are your main roles in the farm?

2.5 The strategic partner is expected to invest money in the farm. How much did you invest up-to-date?

2.6 The strategic partner is expected to transfer skills and knowledge to the community. Are you doing that?

2.7 When the IBP was drafted, did you take part?

2.7.1 Do you have previous experience of drafting a business plan for farming?

2.7.2 What were your roles in drafting the IBP?

2.7.3 Rate your satisfaction on the scale of 1-10 for your participation on drafting of the business plan

2.7.4 Did you take part in the communicating of the business plan to the community? Explain your roles

2.7.5 Explain the main advantages of having a business plan you perceive from the management point of view

2.7.6 Have you implemented the business plan on the farm?

2.6.7 Rate the easiness of the implementation of the IBP on the scale of 1-10

2.7.8 What are the main constraints experienced with the implementation of the IBP?

2.8 Do you have experience in financial management?

2.9 Provide a detailed organisational structure of the farm

2.10 Do you use an accounting system to capture actual income and expenditure?

2.11 Do you regularly compare actual income and expenditure to what was budgeted?

2.12 Did you try and correct the deviation between the actual and budgeted? If yes

2.13 What source of income have you realized since the start of the project?

2.14 If source of income was from the government or institution which government department or institution?

2.15 How did you use the money? Explain

2.16 Did the expenditure of the income make any difference to citrus yields, quality, and price or did it lower costs of production?

2.17 Explain the SWOT analysis of the current financial system

2.18 How do you implement the financial management system based on the operational plan?

2.19 How do you implement the financial management system based on the marketing plan?

2.20 Rate yourself on the effectiveness of the financial management on the scale of 1-10

2.21 Describe the communication structure between you and the trustees

2.21.1 What is your perception on the current system of the communication structure?

2.21.2 What are the constraints with the current communication system and how are you going to address it?

2.21.3 Is the trustee's cooperative for managerial decisions taken? Scale 1-10

2.22 What are the constraints that can jeopardise the successful implementation of the farm plan?

2.23 Rate your effectiveness as the strategic partner on the scale of 1-10.

2.24 What are the challenges that you have come across so far?

2.25 What do you think are the requirements of an effective manager?

2.26 Where do you want to see this farm in the coming three years?

2.27 What did you learn from this project?

2.28 What is your recommendation with specific reference to financial management?

2.29 What do you think are the shortcomings of this model?

2.30 What have you learned from the supporting knowledge of the professionals?

2.31 Capacity available

2.32 Do you get mentorship on the things you are not familiar with?

3 COORDINATOR

3.1 Profile of the facilitator

3.1.1 Do you have any training and experience for this job?

3.1.2 What are your reasons for taking this job?

3.1.3 What were your expectations of the job?

3.2 What is your role in this project?

3.3 What is your perception about the main role players in this project?

3.4 What is your perception of the communication structure between the trustee, the strategic partner and the community?

3.4.1 What is your role on the communication structure?

3.4.2 Do you think the communication structure is effective? Scale 1-10

3.4.3 Do you see any cooperation between the trustee and the rest of the community regarding the farm?

3.5 Rate your effectiveness as the facilitator on a scale of 1-10

3.6 The IBP was drafted

3.6.1 Do you have any experience in drafting a business plan?

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3.6.3 Rate your satisfaction on your participation in the drafting of the business plan on a scale of 1-10

3.6.4 What were your roles in the communication of the IBP to the trustee and the community?

3.6.5 How informed do you think the community is regarding the farming operations and financial implications on the scale of 1-10?

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