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by

Economic analysis of value addition on tea: A case study of the  
Mukumbani/Tshivhase tea estate, Vhembe District, Limpopo province

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This study seeks to determine the costs and benefits associated with the value-addition process at Tshivhasse/ Mukumbani tea estate, Vhembe District, Limpopo province of South Africa. Tshivhasse/ Mukumbani tea estate was under precarious economic conditions and in its endeavour to revamp its operations, the estate adopted the value-addition process. The major aim of this study is to determine whether the value-addition activity is a sound investment decision by reviewing the costs incurred and the benefits accrued when the activity was adopted. Cost benefit analysis is a strategy or formula for evaluating the potential for any type of operation or project within the confines of the company or organisation. The main purpose of a cost benefit analysis is to ascertain if conducting a project, activity or operation is feasible, given the current circumstances of the organisation. With regard to tea, manufacturers may add value by blending, branding or packaging the tea before selling it to consumers. To assess the viability of the initiative, the Net Present Value (NPV) and the benefit cost ratio (BCR) were used. The time series primary data used for the analysis were obtained during 2005-2012 period. The results show that the value addition initiative was not viable for the period under review. Using a 10% discount rate, the NPV and BCR were found to be -69281681.19 and 0.380647627 respectively. This entails that the initiative is not viable and therefore there is need for the tea-estate to revise its strategies. The identified challenges include high input costs, high minimum wages and stiff competition. One of the strategies could be investing on capital than on human capital since labour contributes 60% of its total costs.

**Key words:** Benefit cost ratio, net present value, profitability index, strategies, tea, value addition