Agro-processing Policy and Strategy

by

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PRESENTATION OUTLINE

- Value proposition
- Facts and figures about South Africa
- Economic Performance of the Agro-processing Sector
- Trade Patterns
- Agro-processing Investment Opportunities
- Conclusion
Value proposition

Why invest and do business on agro-processing initiatives?

- Contribute to **food security** through reduced post-harvest loses
- Stimulate production and demand
- Generate **employment**
- Improve the **competitiveness** of agro-processing industry and agribusinesses
- Ultimately reduce **concentration** within the industry (conduct/behaviour)

Backward and forward linkages
FACTS & FIGURES

ABOUT SOUTH AFRICA
The Global Competitiveness Report
2014–2015
South Africa

Key indicators, 2013

Population (millions).......................... 53.0
GDP (US$ billions).............................. 350.8
GDP per capita (US$)............................ 6,621
GDP (PPP) as share (%) of world total....... 0.69
### Global Competitiveness Index

<table>
<thead>
<tr>
<th>Rank (out of 144)</th>
<th>Score (1-7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCI 2014–2015</td>
<td>56</td>
</tr>
<tr>
<td>GCI 2013–2014</td>
<td>53</td>
</tr>
<tr>
<td>GCI 2012–2013</td>
<td>52</td>
</tr>
<tr>
<td>GCI 2011–2012</td>
<td>50</td>
</tr>
<tr>
<td>Basic requirements (40.0%)</td>
<td>89</td>
</tr>
<tr>
<td>Institutions</td>
<td>36</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>60</td>
</tr>
<tr>
<td>Macroeconomic environment</td>
<td>89</td>
</tr>
<tr>
<td>Health and primary education</td>
<td>132</td>
</tr>
<tr>
<td>Efficiency enhancers (50.0%)</td>
<td>43</td>
</tr>
<tr>
<td>Higher education and training</td>
<td>86</td>
</tr>
<tr>
<td>Goods market efficiency</td>
<td>32</td>
</tr>
<tr>
<td>Labor market efficiency</td>
<td>113</td>
</tr>
<tr>
<td>Financial market development</td>
<td>7</td>
</tr>
<tr>
<td>Technological readiness</td>
<td>66</td>
</tr>
<tr>
<td>Market size</td>
<td>25</td>
</tr>
<tr>
<td>Innovation and sophistication factors (10.0%)</td>
<td>37</td>
</tr>
<tr>
<td>Business sophistication</td>
<td>31</td>
</tr>
<tr>
<td>Innovation</td>
<td>43</td>
</tr>
</tbody>
</table>

### Stage of development

- **1**: Factor driven
- **2**: Efficiency driven
- **3**: Innovation driven

- **Institutions**: 7
- **Infrastructure**: 6
- **Business sophistication**: 5
- **Technological readiness**: 4
- **Financial market development**: 3
- **Labor market efficiency**: 2
- **Goods market efficiency**: 1
- **Macroeconomic environment**: 0
- **Health and primary education**: 0
- **Higher education and training**: 0

- **South Africa**
- **Sub-Saharan Africa**
Comparative and competitive advantages (OECD)

Various competitive advantages (OECD):
- Infrastructure (relative);
- Counter-cyclical to other manufacturing sub-sectors;
- Biodiversity: capacity to solicit a range of raw agriculture, forestry and fisheries products;
- Trade agreements (EPA, AGOA, SACU, SADC FTA………..etc.)
- Competitive input costs (relative); and
- Access to technology & innovation
NATIONAL PRIORITY POLICIES
Constitutional mandate

Constitution (1996):

- Section 27 of the bill of rights states that “every citizen has right to have access to sufficient food and water. The state should take reasonable legislative and other measures within its available resources to achieve progressive realisation of these rights”.

- Section 22 of the bill of states that “every citizen has the right to choose their trade, occupation or profession. The practice of trade, occupation or profession may be regulated by law”.


Link with key national plans

- **National Development Plan (NDP, 2011)**
  Agro-processing industry is among the sectors identified by the NDP (2011) noting its potential to **spur growth and create jobs owing to its strong backward and forward linkage** with other sectors of the economy.

- **Medium Term Strategic Framework (2014 - 2019)**
  - Outcome 4: Decent employment through inclusive economic growth;
  - Outcome 5: Skilled and capable workforce to support inclusive economic growth;
  - Outcome 7: **Vibrant, equitable and sustainable rural communities with food security for all.**

- **Revitalisation of agriculture and agro-processing value chain (RAAVC)**

- **Operation Phakisa for Agriculture and Rural Development**
AGRO-PROCESSING DIVISIONS

The wide-ranging nature of agro-processing sector implies a wide range and heterogeneity of activities. United Nations International Standard Industrial Classification (ISIC, 2013) categorises agro-processing as follows:

- **Food and beverages** – focal area;
- **Tobacco products**;
- **Paper and wood products**
- **Textiles, footwear and apparel**;
- **Leather products**; and
- **Rubber products**
## ECONOMIC PERFORMANCE OF AGRICULTURE AND AGRO-PROCESSING SECTOR (2015)

<table>
<thead>
<tr>
<th>Sector</th>
<th>GDP</th>
<th>Employment</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fisheries</td>
<td>2.4%</td>
<td>5.4%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Manufacturing sector</td>
<td>13.7%</td>
<td>8.7%</td>
<td>13.2%</td>
</tr>
<tr>
<td>Agro-processing</td>
<td>4.4%</td>
<td>3.5%</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

Source: StatsSA, 2015
### RELATIVE PERFORMANCE OF THE AGRO-PROCESSING INDUSTRY

<table>
<thead>
<tr>
<th>Manufacturing (2015)</th>
<th>% share it total</th>
<th>Employment ('000)</th>
<th>Contribution of industry ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, beverages and tobacco</td>
<td>19.4</td>
<td>266</td>
<td></td>
</tr>
<tr>
<td>Textiles, clothing and leather goods</td>
<td>10.5</td>
<td>144</td>
<td>565 (41.4%)</td>
</tr>
<tr>
<td>Wood and paper; publishing and printing</td>
<td>11.3</td>
<td>155</td>
<td></td>
</tr>
<tr>
<td>Petroleum products, chemicals, and plastic</td>
<td>11.5</td>
<td>158</td>
<td></td>
</tr>
<tr>
<td>Other non-metal mineral products</td>
<td>5.8</td>
<td>79</td>
<td></td>
</tr>
<tr>
<td>Metals, machinery and equipment</td>
<td>22.7</td>
<td>312</td>
<td></td>
</tr>
</tbody>
</table>

Source: Stats SA, 2015
Trade balance: Primary agricultural products

- Primary Ag Exports (ZAR Mil)
- Primary Ag Imports (ZAR Mil)
- Primary Ag Trade Balance (ZAR Mil)
Trade balance of processed products
Problem statement

National economic development, employment and food security potential under-realised

Access to finance

High post-harvest loss

Non-compliance of market standards

Limited participation of SMEs in agro-processing

Inadequate infrastructure

Lack of appropriate technology

Limited market access

Raw material supply challenges

Lack of technical and entrepreneurial skills

Market concentration

Limited market access

High post-harvest loss

Market concentration

Limited market access

Non-compliance of market standards

Inadequate infrastructure

Raw material supply challenges
Agro processing policy imperatives

- **Rural industrialisation** through establishment of agro-processing industries closer to primary products *(structural adjustment)*;

- **Competitiveness** of agro-processing agribusinesses through targeted support *(industrial development policy and small & medium agribusiness support)*

- **Food security** through reduction in post harvest loses; and

- **Job creation** via penetration and active participation of small and medium agro-processing agribusinesses in mainstream value chain.

- **Export driven development approach** targeting processing products determined by comparative and competitive advantage
“Wastage rates could be substantially reduced if owner-operated processing centers were located at local market hubs”
- Erekah Okafar

“An excellent way to promote poverty relief and self-sustainability”
“Extending the shelf life of food stuffs, thereby allowing for longer marketing timelines and increasing the value of previously unwanted food items”
Strategic intervention pillars

- **Pillar 1**
  Entrepreneurial support.

- **Pillar 2**
  Enterprise development through provision of access to finance, access to markets and incubation.

- **Pillar 3**
  Industry research and technology transfer.

- **Pillar 4**
  Agro-processing infrastructure investment.
How?

- Rethink and redesign development models (primary production orientated)

- Align and integrate policy, strategy, program and project planning in the implementation of agro-processing development initiatives to maximize impact (Forum).

- Facilitate capacitation and incubation of agro-processing agribusinesses on entrepreneurship and mentorship via hands-on methods to enhance skills, knowledge, competencies and capabilities.

- Complement State Business Support with Supplier and Enterprise Development Initiatives (market access, cost recovery funding model and operations training).

- Partnerships with accredited food safety certification institutions for capacitation on mandatory food manufacturing norms and standards.
How?

- Consolidate grant funding with requirements from State Owned financial institutions (combination of equity, loan and grant funding).

- Lobby for increase in agro-processing research funding.

- Research user friendly agro-processing technology for transfer, adoption and utilization by SME agro-processors.

- Agro-processing infrastructure investment focusing on rural areas (bulk and on-farm).

- Reduction of transaction cost to encourage competitiveness of agro-processing agribusinesses.
Regulatory requirements

- Corporate regulations (Companies Act, King III, etc.)
- Retention of Records
- Labour legislation & Regulations
- Broad-based Black Economic Empowerment
- Intellectual Property
- Consumer Protection Act
- Competition Legislation & Commission
- Environmental law (including response to Climate Change)
- Information, communication & technology legislation
- Land legislation
- Banking and taxation laws and legislation
Hierarchy of implementation

Christy et.al, 2009
Tomato

Processed produce can be sold to a wider market due to shelf stability, extended transportation time frames and volume reductions minimisations...

Advantages over other Processing Systems:
- Controlled environment
- Clean and safe
- Energy efficient / Excellent thermal integrity
- Relatively low cost
- Minimum maintenance
- Quick start / stop control
- Small area
- Free standing structure
- Easy to transport
- Consistent quality
Peaches

Safety and Ergonomics
The small scale plant design is inherently safe for the skilled or unskilled worker, and requires the minimum of maintenance. Ergonomically, it offers a clean and hygienic workplace. All contact parts with the product are of food-grade material.

Environmental Impact
The product is harmless to the natural environment. There is no waste generated in the manufacture of the product.
“Transferring perishables into shelf-stable products, processing offers a way to diversify the market opportunities available to producers and improve people’s opportunities to consume those valuable nutrients that would have otherwise gone to waste”
Conclusion

- Considerable **opportunity** in South Africa;
- **Gateway** into Africa;
- Various State **support incentives** available;
- Many multi national company **operating profitably** in South Africa;
- **Protection of investment** enshrined in the constitution;
- **Supply side factors**: clear & aware about resource requirements
- **Demand side factors**: should be driven by consumption trends/export markets.
More info about the forum

Directorate’s website:
Thank you

http://www.daff.gov.za/