



agriculture, forestry & fisheries

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

BRIEFING NOTE ON THE AGRO-PROCESSING SECTOR IN SOUTH AFRICA

1. PURPOSE

- 1.1 To brief the Select Committee on Land and Mineral Resources (NCOP) **concerning Agro-processing and value adding to the South African economy;** and
- 1.2 To articulate government support instruments to support and develop active participation of start-up enterprises in agro-processing activities;

2. BACKGROUND

- 2.1 Over the years, the departmental support programmes to agriculture, forestry and fisheries sector have in the main focused on support to primary production with minimal interventions provided towards promoting downstream value adding and processing of primary products.
- 2.2 Lately, there is a renewed focused attention towards supporting the establishment of a vibrant agro-processing industry as part of industrializing the agriculture, forestry and fisheries value chains.
- 2.3 The National Development Plan (NDP), the State of the Nation Address (SONA), the Medium Term Strategic Framework (MTSF), the Industrial Policy Action Plan (IPAP), the Agriculture Policy Action Plan (APAP) and recently the Nine point plan identified the latent potential of downstream agro-processing activities as catalyst to spur economic growth and development through its back and forward linkages with other sectors of the economy. Additionally, agro-processing sector has over the years displayed the highest employment multipliers compared to the other sectors of the economy. However, the agro-processing sector still remains largely concentrated implying entry and active participation of small and medium enterprises still remain limited.
- 2.4 DAFF has over time noted the need to support the development and growth of small and medium agro-processing enterprises in rural areas as a strategic intervention to reduce the observed high level of post-harvest losses experienced by producers and

also allow producers to gain from high prices derived from selling value added products as opposed to primary products in certain instance.

- 2.5 The strategic interventions are expected to reduce the high rate of post-harvest loses (fruits, vegetables, grains, fish, etc) and also encourage agro-industrialisation in rural areas, increased incomes to producers and positively contribute to food security both in the medium and long term.
- 2.6 DAFF has identified a number of strategic support interventions that are critical towards the development and support of small and medium enterprises in agro-processing industry, particularly in rural areas.

3. DISCUSSION

3.1 The United Nation's International Standard Industrial Classification (SIC) categorises agro-processing as part of the broader manufacturing industry complex. In line with the Standard Industrial Classification, Agro-processing is composed of the following segments:

- 3.1.1 Manufacture of food, beverage and tobacco;
- 3.1.2 Textile, wearing apparel and leather industries;
- 3.1.3 Manufacture of wood, wood products, and furniture;
- 3.1.4 Manufacture of paper, paper products, printing and publishing;
- 3.1.5 Manufacture of rubber products.

3.2 Due to the broad and complex nature of agro-processing as classified above, DAFF decided to limit the focus of its strategic intervention to the food, beverage and tobacco segment of agro-processing industry. This was partly informed by the observation that the sector is experiencing very high post-harvest loses recorded amongst smallholder farmers and also the contribution to food security made through this segment of the agro-processing complex. Table 1 below depicts range of post-harvest loses experienced by producers under different categories of agricultural products:

Table 1: Extent of post-harvest losses

Agro-processing segment	Category	Range of percentage loss
Food and beverage	Roots and tubers	10 - 40%
	Milk	8 - 16%

Agro-processing segment	Category	Range of percentage loss
	Fruits and vegetables	15 - 44%
	Cereals, oil seeds and pulses	15 - 30%
	Fish and sea food	10 - 40%
	Meat	6 - 8%

Source: Africa Post Harvest Loss Index, 2014

3.2.1 In line with the information contained in the table above, the highest post-harvest losses are experienced in the fruits and vegetables component of the food and beverage segment at 44% for smallholder farmers followed by roots, tubers and sea food at 40%. Perishability of these products linked to limited access to cold storage and processing infrastructure is the main reason for the high levels of post-harvest losses experienced by smallholder producers. Support interventions aimed at promoting processing activities are likely to significantly reduce these trends.

3.3. The agro processing sector has over the years been amongst the best performer within the manufacturing sector. Table 2 below depicts the contribution of agro-processing sector to the economy and its contribution relative to the manufacturing sector.

Table 2: Contribution of agro-processing to the GDP

Sector	GDP	Employment	Investment
Agriculture, forestry and fisheries	2,4%	5,8%	1,9%
Manufacturing sector	16,9%	9,2%	19,1%
Agro-processing	4,8%	3,6%	3,1%

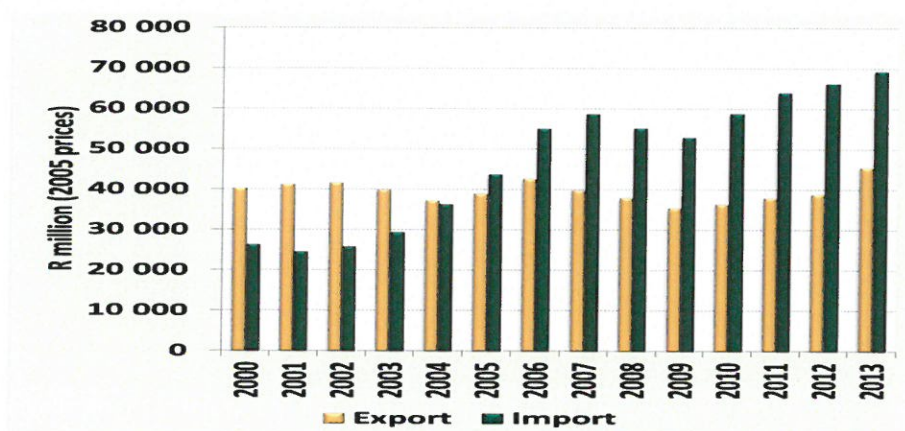
Source: StatsSA, 2015

3.3.1. Agro processing accounts for 4.8% (R132 billion) to the GDP, which is bigger than primary agriculture at 2.4% (R84 billion). Additionally, it accounts for 28.7% of the

manufacturing sector. In line with the information contained in the table above, this part of the agriculture value chain also provides a strong basis for attracting investment relative to the primary sector. Agro-processing has recently been reported as the best performer in the economy depicting huge returns per unit of investment than in any other sector of the economy.

- 3.4. One of the challenges the country faces with regards to the agro-processing sector is the negative trade balance that has been experienced over years. The implication is that the country imports more processed products than it exports. There is therefore a need for concerted efforts to invest more in the downstream agro-processing sector to mitigate against high volumes of imported processed, which is a drain on our fiscus in terms of the import bill incurred. Table 3 below depicts trade balance for agro-processed products.

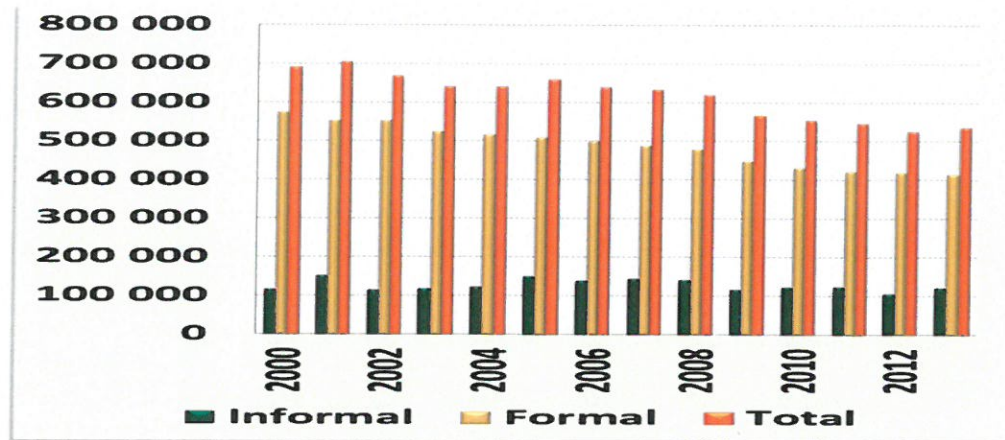
Table 3 below depicts the agro processing trade balance over time



Source: Quantec

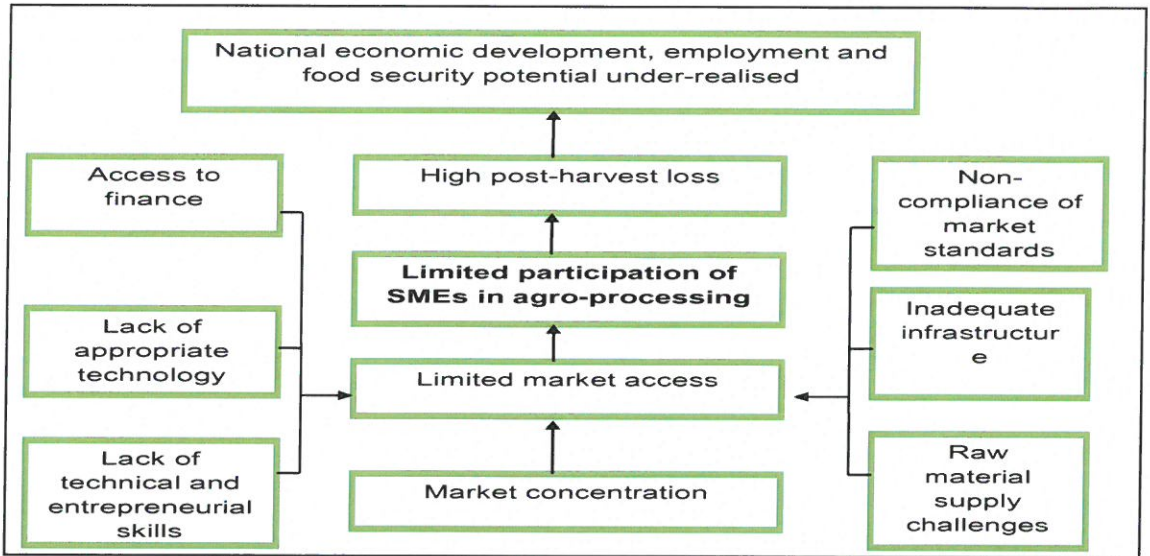
- 3.4.1. Imports and exports of processed products were valued at R70 and R47 billion respectively as at 2013. There has been a negative trade balance in respect to processed foods as we import more than we export.
- 3.4.2. Higher demand for processed products is triggered by the significant growth of the middle-class and health awareness of consumers is in the main driving consumption.
- 3.5. Employment trends in the agro processing sector have been declining over the last decade. Efficiency in operations to ensure high competitiveness forces processors to substitute labour by machinery (sentence not clear).

Table 4 depicts the employment trends within the agro processing sector over the last decade.



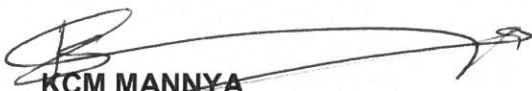
- 3.5.1. The employments trends include both the formal and informal numbers (Formal employment is in registered company occupation and informal is employment in non registered businesses). The numbers have been declining over time. The formal employment figures by far outstrips the informal numbers at 510 000 and 400 000 respectively as at 2013.
- 3.6. The agro-processing sector is also highly concentrated implying active participation in the main stream economy by few big corporates. Barriers to entry for participation in mainstream agro-processing economy by start up/new enterprises include lack of access to finance, lack of access to markets, low entrepreneurial capacity, inability to meet food safety management systems and acute shortage of raw material required to optimally operate the processing facilities. Table 5 below depicts the problems statement framed as cause-effect-outcome relationship.

Table 5: Problem statement



Source: DAFF Agro-processing Strategy, 2015

- 3.7. DAFF strategy on support and development of agro-processing enterprises depicts four (4) strategic pillars to mitigate the barriers of entry and participation in the mainstream agro-processing industry. These pillars are entrepreneurial support, enterprise development, infrastructure development and research and development.
- 3.8. Implementation of the strategy is currently in progress.
- 3.8.1. Entrepreneurial Support: MoU was signed with Innovation HUB and SEDA. Twelve (12) entrepreneurs are currently attending the CoachLAB programme for upskilling on entrepreneurial competencies.
- 3.8.2. Enterprise development: MoU was signed with Tiger Brands and Massmart to assist start-up enterprises through Supplier Development Programme.
- 3.8.3. Research and Development: DAFF in partnership with CSIR and ARC are in the process to conclude research on Moringa for commercialisation.
- 3.8.4. Infrastructure investment: bulk infrastructure is addressed under SIP 11 managed by the NAMC whilst AgriBEE funds have to-date funded a project on value adding and agro-processing in Vhembe District Limpopo. The project is named Valley Farms Fruit Processing Facility.


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