



**Economic Intelligence Report Quarter
4: Agro-Processing in the Northern
Cape**

RESEARCH AND DEVELOPMENT
Chief Directorate: Economic Planning

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II. INTRODUCTION

Introduction

The intention to support and develop agro-processing and its related industries has become a common feature of many industrial development strategies across all levels of government in the country. This has been the case especially when the policy objective has been to stimulate SMME development while simultaneously creating jobs at significant scale.¹

Policy Rationale

There are many reasons for targeting agro processing some of which include, firstly, the realisation on the part of policy makers that few, if any regions can successfully manage to develop and industrialise without engaging in some form of manufacturing. To the extent that agro-processing forms part of manufacturing, although a light form of it, it has the potential of greatly enhancing regional productivity and incomes by relocating or shifting factors of production away from primary agriculture into more productive industrial / manufacturing subsectors. Secondly, agro-processing, more than any other manufacturing activity has the added advantage of being heavily linked both forwards and backwards with many other industries in the industrial value chain. So any improvements in the sectors output levels or productivity will likely generate significant positive spillovers in other sectors of the economy. Thirdly, the sector's heavy reliance on the relatively abundant unskilled labour may prove to be critical in boosting government's jobs creation efforts.

Notwithstanding current policy interventions, there is a concern that the industry is unlikely to spread and develop in many parts of the country.

¹ Refer to various national and provincial industrial development strategies (NGP, IPAP II, APAP, Provincial Growth and Development Strategy, /NC Manufacturing Strategy, Rural Development Plans, and various municipal LED strategies)



Firstly, the industry as a whole is highly concentrated. In the Foods and Beverages subsector the 10 biggest firms account for more than 70 percent of industry output with limited participation for small to medium enterprises. Secondly, outside of the three industrial nodes (Gauteng, Western Cape and Kwa-Zulu Natal) the industry has in the past not fully (if at all) progressed despite the relative abundance of low skill labour and agricultural land in those parts of the country.

Identifying some of the binding constraints that potentially limit the spread of agro-processing to other regions and sectors of the economy has become critical if current and future industrial policy efforts are to yield any tangible results. The following factors are also found to be critical in developing and sustaining a competitive agro-processing industry:

- Market size or market access,
- Existence of strongly competitive complementary industries in transport, storage and distribution.
- Adequate and competitive logistics infrastructure

A solid primary agriculture base although important as an input it is not sufficient in determining agro-industry location. Through efficient transport and logistics infrastructure the industry can be freed to set up anywhere provided the needed agriculture inputs can be sourced from anywhere in the country at reasonable transport costs. This fact is clearly illustrated by the strong presence of agro-industry in the Gauteng area despite the region's low primary agriculture base compared to other provinces.

This report gives a brief overview of the agro processing industry in the Northern Cape, highlighting some of salient value chain mechanisms to be explored by the Province.



III. DEFINITION

Agro processing is defined as being a “subset of the manufacturing sector that processes raw materials and intermediate products derived from agriculture, fisheries and forestry. Thus, the agro-industrial sector is taken to include manufacturers of food, beverages and tobacco, textiles and clothing, wood products and furniture, paper, paper products and printing, and rubber and rubber products” (Carlos A. da Silva 2009, 11).

In terms of the Standard Industrial Classification Code (SIC) the industry is defined to include all the sub-sector groupings covering Food, Beverages and Tobacco (SIC 301 – 306), Textiles and Leather products (SIC 311 – 317), Wood, Paper, Publishing and Printing (SIC 321 – 326), and Plastics and Rubber (SIC 331-338).

IV. AGRO PROCESSING IN SOUTH AFRICA

Consistent with trends in aggregate output in manufacturing (measured in volumes), output in agro-processing has generally been increasing consistently over the past 15 years with the exception of Textiles and Furniture manufacturing subsectors. Within agro-processing the Food and Beverages subsector has been the most consistently growing subsector year after year.

In terms of its concentration and spatial distribution the industry is highly concentrated. Gauteng, Kwa-Zulu Natal and the Western Cape account for more than 75 percent of the industry’s output, and this remained substantially unchanged between 1995 and 2011.

Table 1. Share of Agro-processing output by Province.

Year	WC	EC	NC	FS	KZN	NW	GP	MP	LIM
1995	21.6	7.3	0.5	3.7	23.7	2.4	33.1	5.9	1.8
2011	20.2	8.1	0.5	4.1	24.3	2.5	31.3	7.0	1.8
2013	17.8	7.8	0.5	4.5	22.7	2.8	34.7	7.4	1.9

Source: Derived from Quantec Research (2013)



The Northern Cape has the least share of the total industry output and is currently estimated at 0.5 percent. Furthermore, within Food and Beverages it is widely known that the sector is highly concentrated. From a total of about 4 000 food production firms in the country only the top 10 account for 70 percent of total industry turnover (Department of Trade and Industry 2012).²

So the seemingly strong growth of recent years, with the exception of Textiles, may have had limited trickle down impact for the rest of the sector / industry due to the limited presence of small to medium size enterprises.

V. AGRO PROCESSING IN THE NORTHERN CAPE

The Northern Cape Agro-processing sector comprises essentially of the Food and beverage sector, clothing and textile, wood and paper and agro-chemical industries. In line with the national trends, food and beverages sector has been the most dominant sector in the Northern Cape. A solid primary agriculture base is important as an input but it is not sufficient in determining agro-industry location. This fact is clearly illustrated by the strong presence of agro-industry in the Gauteng area despite the region's low primary agriculture base, and the converse being true for the Northern Cape.

Food and Beverage Sector

According to the Northern Cape Manufacturing strategy (2012, 30-36) the Northern Cape is regarded as a major producer of wine, dried fruit, meat products, dried and processed ground nuts, including different fruit and vegetable products. The food and beverage sector in the Northern Cape, primarily procures agricultural inputs locally. Products produced locally are mostly consumed outside the province.

The ZF Mgcawu district contributed the most to the Food and Beverage sector in the province, during 2010. In addition, food and beverages sector contributed 25% (the largest contribution) to the manufacturing sector and 1% to the Northern Cape economy.

²Some of the top industry players / brands include Unifoods /Best Foods, Nestle, National Brands, Tiger Brands, Premier Foods, Nabisco.



Most production in the food and beverage sub-sector occurred in the //Khara Hais (23.6%), Sol Plaatjie (19.1%) and Phokwane (11.2%) local municipalities. **ZF Mgcawu and Frances Baard were identified as districts where focus should be placed upon to increase the pull of the sector.**³ During 2010 the Northern Cape Province, mainly exported dried grapes, nuts, wine, alcoholic beverages and fruit and vegetables. In contrast, the Province had a tendency to import animal feeds, various plant oils and processed fruit and vegetables. The following development opportunities or gaps in the value chain have been identified in the strategy:

- The food and beverage sector procures metal, plastic, and paper products from other provinces as they are not available locally or not available at competitive prices.
- The local food and beverage sector's main consumers are situated outside the Northern Cape Province.
- The Northern Cape also has a tendency to import animal feeds, various plant oils and processed fruit and vegetables.

Textile and Clothing Sector

Textile production in the Northern Cape Province remains small. Once again the Frances Baard and ZF Mgcawu districts are the greatest contributors to the textile and clothing industry. According to 2010 figures, production mostly occurred in the Sol Plaatjie (44.9%), //Kara Hais (12.3%) and Nama Khoi (6.1%) local municipalities. According to the manufacturing strategy (2012) the textile and clothing sector contributed 2.6% to the manufacturing sector and 0.1% to the Northern Cape economy in 2010. The strategy also reported that production in this sector was expected to remain limited, with its main focus being on demand from mining sector.

The Northern Cape is primarily an importer of products in this sector, with mainly sacks and bags being mostly imported followed by footwear. Further investigation of the potential to produce the sacks and bags needed for packaging is proposed by the strategy.

³ Trade and Sector Development is proposing an Agro-processing cluster in //Khara Hais municipality.



Packaging material has also been identified as a gap in the food and beverages sector, with metals, plastic and paper being procured in other provinces. The main item exported in the clothing and textile industry is that of “knotted netting, made from natural material” (2012, 40-41).

Wood and Paper Sector

This sector has contributed 3.0% towards the manufacturing sector and 0.1% to the Northern Cape Economy during 2010, making it the seventh largest contributor to manufacturing at the time (Department of Economic Development and Tourism 2012).

Frances Baard (44.9%) and ZF Mgcawu (23.2%) district municipalities have contributed the most to this sector, with most production occurring in the Sol Plaatjie (35.3%), //Khara Hais (16.4%) and Emthanjeni (7.8%) local municipalities. The export potential is described as having an insignificant market. Statuettes and ornaments made from wood, including doors, frames 7370 and thresholds of wood are the major export products in this sector, mainly to Zimbabwe, Malawi, the United States and France. The province tends to import sanitary items made from paper.

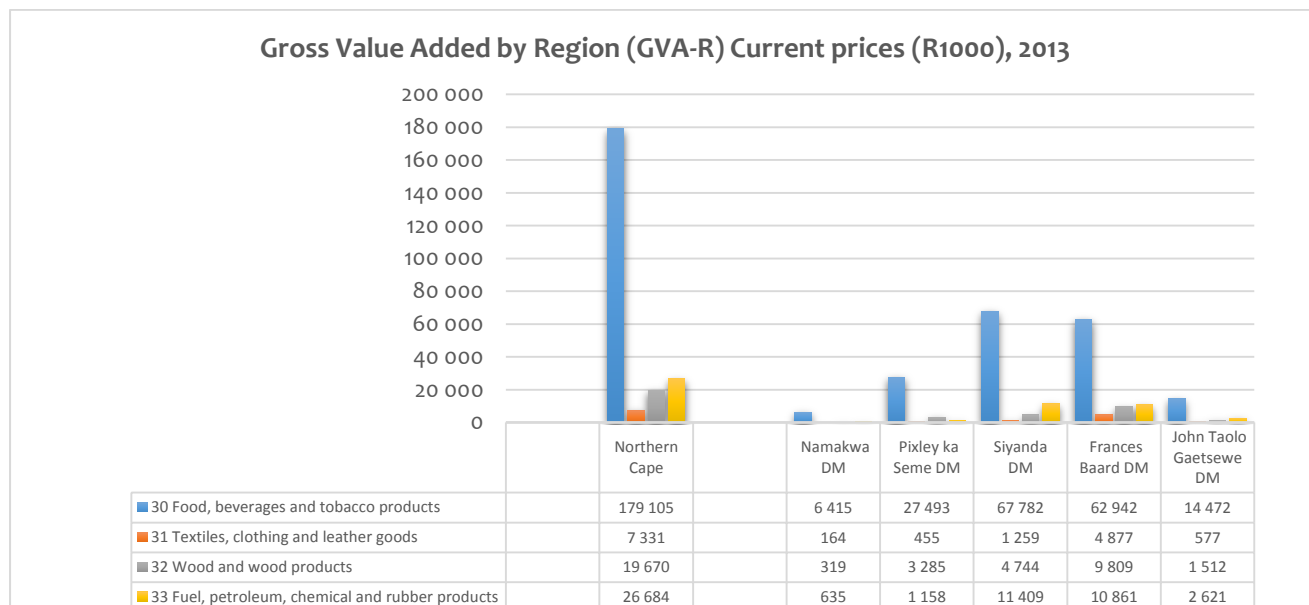
Chemical Sector (Rubber and Plastic Products)

The chemical sector includes the manufacturing of rubber and plastic products. In the Northern Cape, most of the product codes such as rubber, plastic, petroleum, do not feature, however products related to the agriculture and mining sectors (cement, fertilizers, chemicals and plant oils) are produced. In 2010, this sector contributed 17.3% to the manufacturing sector and 0.7% to the economy of the Northern Cape. ZF Mgcawu (47.5%) and Frances Baard (21.6%) once again made the most significant contributions from a regional perspective. Locally, most production occurred in Kgatelopele (25.8%), Sol Plaatjie (14.7%) and //Khara Hais (10.5%).

The main products imported in this sector are; polyethylene, (plastic in primary form), radioactives, adhesives, plastic based packaging materials and chemical materials such as detonators and explosives. In terms of exports, some of the main items exported are vehicle, tyres, paints, varnishes and detonator fuses. The figures below indicate the trends in the above sectors for the year 2013.



Figure 1. Gross Value Added by Region (GVA-R) per economic sector, 2013.

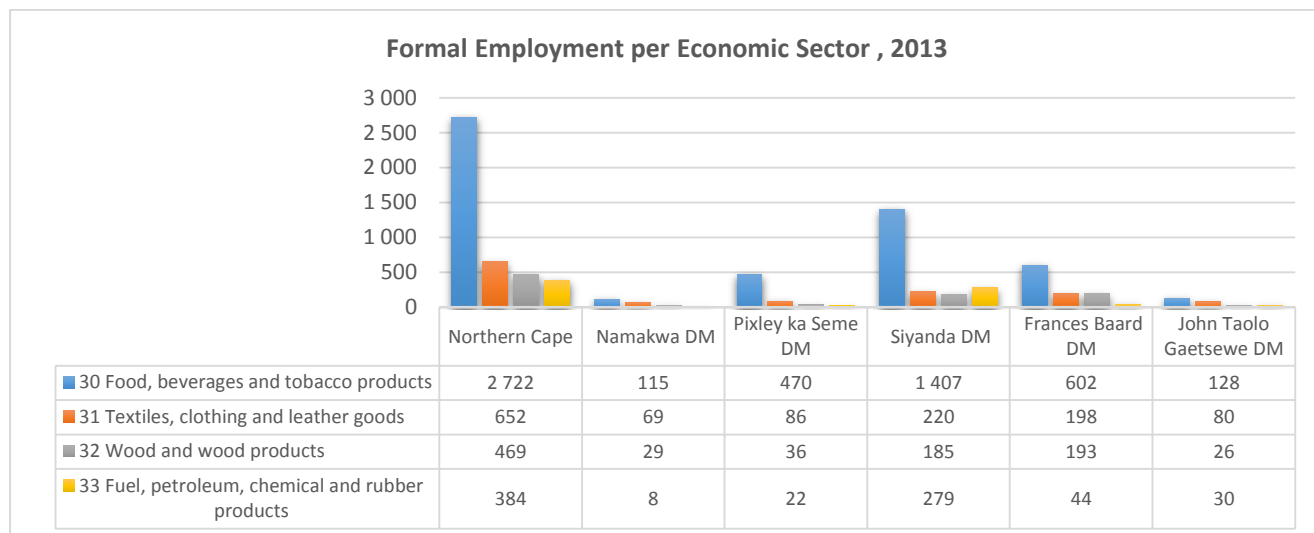


Source: Global Insight 2013, (own calculations)

The above figure illustrates the GVA-R in terms of the four identified key contributing sub-sectors to the Northern Cape Agro-processing exploits during 2013. As reported in 2010, the Food and Beverage sector remains the biggest sector in the Agro-industry. The ZF Mgcawu, Frances Baard and Pixley Ka Seme Districts are the biggest contributors in the Food and Beverage sector. Frances Baard is the still the biggest contributor in the Textile, clothing and leather goods sector.



Figure 2. Formal employment per economic sector, 2013



Source: Global Insight 2013, (own calculations)

A significant share of manufacturing employment in the country is located within agro-processing. In 2011 out of the total of just more than 1.27 million formal jobs in manufacturing close to 45 per cent of these were in agro-processing.

During 2013, the food and beverage sector was the biggest employer in terms of the four sub-sectors, followed by the Textiles, clothing and leather goods sector. The ZF Mgcau district was the biggest contributor to employment in the Fuel, petroleum, chemical and rubber product sector.



VI. OPPORTUNITIES FOR GROWTH

In general the Food and beverage sector is the core of agro-processing in the Northern Cape. An opportunity exists in further processing the intermediate products as industries in Northern Cape are largely involved in primary beneficiation of food products, which are then transported to other provinces for final processing.

Packaging material, utilised in the Food and Beverage, is another potential, which should be explored further. Furthermore opportunities in the agro-chemical industry sector, include the production of; plant oils such as canola, essential oils, as well as the potential to cultivate and process medicinal plants. South Africa's climate has been identified as suitable for growing essential oils such as lemon grass, lavender, peppermint, rose geranium etc. In 2007, an essential oil distillation plant was launched in Onseepkans by the Department of Science and Technology. A similar project was also established in Pella. The Council for Scientific and Industrial Research (CSIR) is the implementing agency, while the Department of Science and Technology provided funding for these projects (Council for Scientific and Industrial Research CSIR 2007).

CSIR is also supporting medicinal cultivation projects in the Northern Cape, namely; The “Kougoed” (*Sceletium tortuosum*) Medicinal Plants Project in Nourivier (Council for Scientific and Industrial Research 2012) . Another project supported by CSIR is the Witdraai project situated on the Witdraai farm, which focuses primarily on the sustainable cultivation, harvesting and semi-processing of devil's claw (*Harpagophytum procumbens*) and Kalahari melon (*Citrullus lanatus*) or Tamma (Council for Scientific and Industrial Research CSIR 2014).

The Manufacturing strategy proposes the expansion and diversification of the industries producing pneumatic tyres, particularly for the mining and agriculture sector. It also emphasises the potential benefits to the agricultural sector if the province could produce its own metal.

Moreover, all industries in the Agro processing sector should be encouraged and supported to expand and diversify. Cases where products needed by local industries are imported, point toward “a leakage of local buying power” and the need to explore “opportunities for import



substitution”. In many instances the above sectors’ main consumers are located outside the Province.

Important local trade linkages exist between the agro industries in the Northern Cape. (Department of Economic Development and Tourism 2012). Another project currently supported by the Jobs Fund is that of the Eksteenskuil Raison Incubator in the Eksteenskuil area. The aim of this project is to develop 55 farmers by supporting technical aspects, market access, management, administration, financial advice, farmer developmental training, and logistics as well as institutional support to become profitable production units (2012).

The National Agro-Processing strategy (March 2012, 8-16) identifies an important concern in the Agro- processing industry, that of the “limited participation of small and medium scale agro-processing enterprises in agro-food value chains”. The Strategy further outlines some of the key reasons for this limited participation in the agro-food value chain.

The above problem, can be attributed to;

- Market concentration, demonstrated by “the domination of supermarkets in the downstream end.”
- Emergence of Private grades and standards. Smaller processors may perhaps not have the resources to adhere to these grades or standards.
- Small food processors mentioned “entry barriers” related to unfavourable terms in trade with retailers.
- Technological barriers.
- Raw material supply.
- Post-harvest losses, smallholders are not often able to store or market their produce after harvest.
- Inadequate Infrastructure
- Limited incentives, problems with accessing grants and length of time taken to process funds.

The Strategy further identifies gaps in terms of the incentive programs, which do not adequately address the needs of Small Medium Enterprises (SME) in the Agro-Processing sector.



It outlines strategic interventions which need to be implemented in order to support the “entry into and growth of competitive, rural-based small and medium scale agro-processors in the local and global, agriculture, forestry and fishery value chains” (ibid). The proposed strategic interventions include:

- Facilitating access to existing public incentives, as well as the developing incentives that are more suited to Small Medium Enterprise agro-processors.
- Facilitate the investment into infrastructure.
- Facilitate value chain linkages in relation to securing a market.
- Support technical and managerial training for SME agro-processors.
- Facilitate access to appropriate technologies.
- Facilitate access legal, accounting and related services.

In addition, (Acquaye 2012, 32-39) also outlines the key stakeholders that “drive and control growth” in the Agro-processing industry, these are food processors, agro-dealers, supermarkets, support service institutions, and financing companies, of Key importance is the role of Support service institutions and supermarkets who’s presence in the food retail market continues to grow in South Africa and particularly Africa as a whole. Value chain inclusive business models in one way to assist SMMEs within the Agro-processing industry (ibid, 58). The Woolworths Enterprise Development programme (ED) is one such example of the role supermarkets can play in developing SMMEs within the agro-processing sector. This programme has been designed to support SMMEs in entering the “greater supply chain”, provide training support and funding (Department of Economic Development and Tourism, Northern Cape 2014). The Department of Trade and Industry (DTI) has also launched “The emerging organic farmer/retailer Programme” with Pick `n Pay, Shoprite and Spar providing shelf space and support to emerging organic farmers cooperatives (Department of Trade and Industry 2013).

In view of the development potential that exists within the agro-processing industry, it is important that interventions and support planned for Small Micro Medium Enterprises (SMME’s) in the Northern Cape, also focus on the Agro-processing industry.



The current SMME Strategy of the Department of Economic Development and Tourism, identifies agro-processing, agro-processing infrastructure and agro-tourism among the opportunity themes, which need to be explored in order to “initiate and promote integrated and sustainable local Economic Development and attract investment” (Department of Economic Development and Tourism 2013).

VII. CONCLUSION

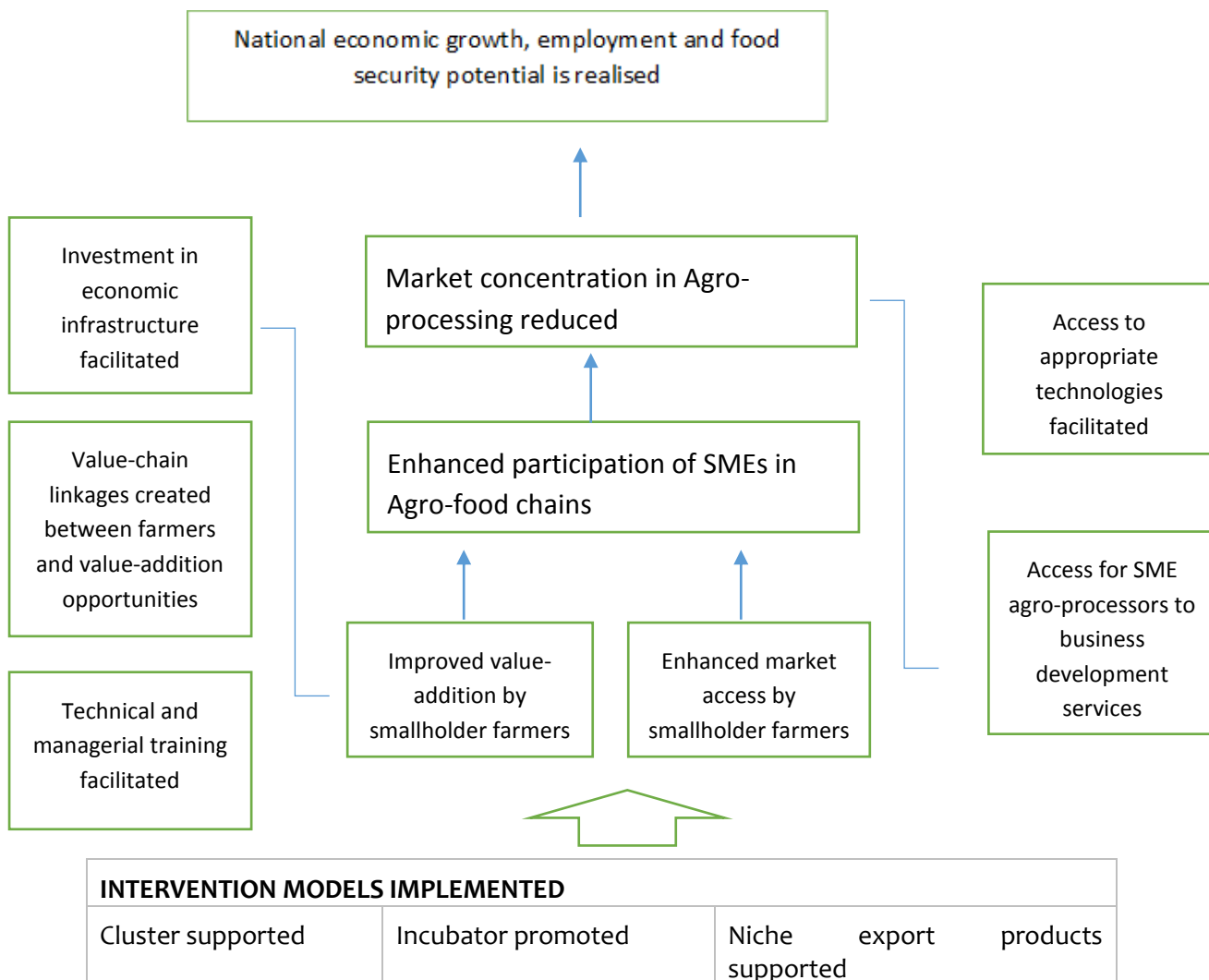
The New Growth Path Framework highlights that the agricultural value chain offers crucial opportunities in employment creation. This value chain is not only important for manufacturing in the province, but will contribute to realising government’s rural development and smallholder farmer development objectives.

The Agro-processing sector in the Northern Cape, is essentially comprised of the Food and beverage sector, clothing and textile, wood and paper and agro-chemical industries, and is characterised by mostly intermediate outputs that are transported to other provinces for further processing. Overall there is a need to explore “opportunities for import substitution”.

In most cases the agro-processing sectors’ main consumers are located outside the Province. Important local trade linkages exist between the agro industries in the Northern Cape, which need to be investigated further. Finally, to develop the agro-processing sector further, specific interventions and incentives implemented according to the Northern Cape Manufacturing and SMME Strategy, should also focus on the support and expansion of Small Medium Enterprise agro-processors.



Below is an illustration of how the Department of Agriculture envisions the implementation of the Agro-processing strategy, and thus provincial key lessons could be deducted from the graphic depiction and the strategy itself.



VIII. RECOMMENDATIONS

- Identify key constraints that are potentially limiting the spread of agro-processing to other regions and sectors of the economy.
- SMME Development to take note of products required by specific sectors within the Northern Cape to ensure that our SMME support initiatives assist companies to supply demand where possible.
- SMME development therefore needs to increase support to SMMEs and Cooperatives in the Agro-processing sector.
- Compile detailed profile of Agro-processing sector in Northern Cape Province (the current profiling of manufacturers by Research and Development can assist with this).
- Further explore viability of inclusive business models and incubation programmes, including the DTI Emerging organic farmer retailer programme in view of growing identified SMMEs in agro-processing sector within province.



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