AGRICULTURE AND AGRO-PROCESSING

SECTOR STRATEGY

Table of Contents

1. Background

The Department of Finance and Economic Affairs is co-ordinating the production of a new Northern Cape Provincial Economic Growth and Development Strategy.

The production of a Agriculture and Agro-Processing Sector Development Strategy (AAPSDS), one in a series of economic sector development strategies, is seen as being crucial in so far as it would provide for a more accurate prioritization of effort and resource allocation by the public sector generally and provincial government in particular in its endeavours to deliver on its mandate to promote the economic development of the Northern Cape province.

2. Introduction

Agro-industrial development is recognised as critically important to the expansion and diversification of the agricultural sector and economic development strategies of the Northern Cape Province. The Northern Cape's traditional strength is in the production of a wide range of primary commodities. Adding value to the commodities could make a significant contribution to the transformation of agriculture in the province and, by extension, rural and national development.

Adding value by vertically or horizontally integrating primary production and food processing systems can minimise post harvest losses and expand the markets for primary agricultural products.

Agro-processing can increase the viability, profitability and sustainability of production systems through their impact on increasing incomes of primary producers, create employment and foreign exchange earnings, and address the market risks associated with primary agricultural production. The value adding strategies should be designed to capture this value add within the province.

3. Scope of work

The main purpose would be to compile a vision and strategic framework for the agriculture and agro-processing sector that will contribute to the growth and development of the Northern Cape provincial economy.

The resulting strategic framework must guide public and private sector role-players in the Northern Cape economy in ways which will enable them to address the challenges of growth and development and agrarian reform successfully.

1. Identify constraints in order to determine, prioritize and create an environment that is conducive to agricultural and agro-processing development
2. Develop a framework for cooperation between all role players at provincial and national level that will prioritise the allocation of public and private resources
3. Identify the opportunities for private investments and public interventions to respond to agro-processing opportunities
4. Set the scene for future debates on issues, such as trade, that may affect the potential for agricultural and agro-processing development

4. SECTION 1

4.1. *Overview of Agricultural Economy*

Forecasting the nature of any agricultural market environment is an extremely formidable challenge. The South African agricultural environment and to a large extent the world agricultural environment has been driven by unprecedented deregulation and globalization over the last 10 years.

The production of agricultural products is no longer local or regional. It is becoming more global and products are produced and sourced world wide.

4.2. *Forces that shape the SA agricultural industry*

The South African agricultural industry saw profound changes over the last 10 years. The industry went from a being highly regulated to a complete free market in a very short space of time.

The following policy reforms were introduced since 1994:

- Constitution of South Africa establishes agriculture as a concurrent national & provincial government function

- White Paper, 1995

- Discussion Document, 1998

The National Department of Agriculture and the Department of Land Affairs initiated the following programmes to drive transformation in the agricultural sector:

- ✓ Broadening of Access To Agriculture Thrust (BATAT)
- ✓ Land reform (Act 126, Restitution, Tenure)
- ✓ Land Redistribution for Agricultural Development (LRAD) 2001
- ✓ Integrated Sustainable Rural Development Strategy (ISRDS) 2001
- ✓ Food Security and Nutrition Programme
- ✓ Comprehensive Agricultural Support Programme (CASP)
- ✓ Agri-BEE

The following “external” forces are also shaping agriculture in South Africa:

- **Trade liberalisation** – the globalization and transformation from a regulated industry to a free market.

- **Agri-Industrialisation** – there are considerable difference in the skills and technology intensity and productivity in the production of primary crops.

- **Environmental forces** – environmental pressure groups, consumers and retailers are very aware and informed about the possible abuse of resources such as water and soil.

- **Consumer forces** - Income growth and demand – as household income rise, a smaller share of household budgets tend to be spent on food. Consumers consistently raise standards of products.

- **Biotechnology** – offering new solutions to agricultural production and enhance the possibilities to replace natural with synthetic products.

- **Information technology** – information is freely available and is no longer a competitive advantage.

- **Consolidation** – firms are consistently looking for economies of scale at all levels of production, processing / manufacturing and distribution.

- **Producers** – need to drive and raise efficiency to remain competitive

- **Supply chains –** the need to create value and to be efficient is driving the coordination of linkages.

- **Markets** – markets are more volatile

5. Strategic Plan for South African Agriculture

The National Department of Agriculture (NDA) recently launched the Strategic Plan for South African Agriculture. This will form the framework for the transformation and development of the sector.

5.1. *The Vision* ***- A united and prosperous agricultural sector***

The strategy is divided into three core areas:

- Enhance equitable access and participation
- Improve global competitiveness and profitability
- Ensure sustainable resource management

It is also making provision for the following supporting cross-cutting strategies:

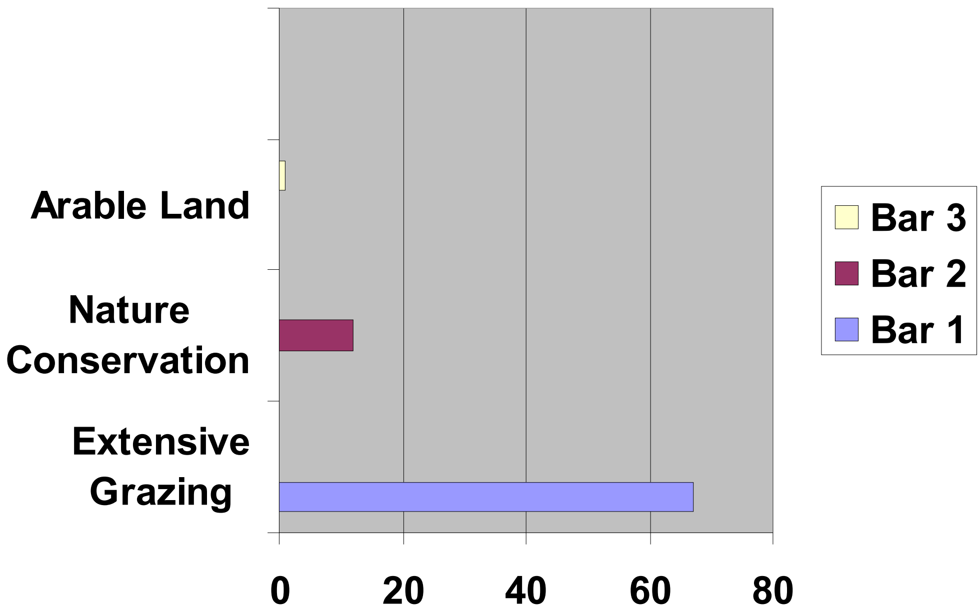
- Good governance
- Integrated and sustainable rural development
- Knowledge and innovation
- International co-operation

■ Safety and security

6. Northern Cape Agricultural Economy

Next to mining, agriculture is the second most important productive economic sector in the Province. Agriculture is the ssecond largest employer of labour and therefore an undeniable role in the economy of the province.

Table 1: Physical characteristics of the Northern Cape agriculture base



Extensive grazing (mainly small stock) is 67% of the functional land use pattern in the province, 12% is utilised for nature conservation and just more than 1% is classified as potential arable land.

It is estimated that Animal products is 37 % of farm income followed by Field crops (34 %) and Horticultural crops (29 %).

- Intensive Irrigated Arable Production
  - Orange and the Vaal rivers form the backbone of the approximately 140 000 ha of intensive irrigation
  - Approximately 14 million cartons (63 000 tons) of table grapes produced for export
  - 171 000 tons of wine grapes (18,6% of the RSA total)
  - 40 000 tons of raisins (4% of global raisin production)
  - 320 000 tons of high quality lucerne
  - Significant quantities of ground nuts; wheat; cotton & maize
  - Smaller production of higher value crops such as nuts, citrus, dates, olives

- Livestock Production

  - Low carrying capacities for livestock production
  - Produce high quality meat
  - Production optimised i.e. animal population
  - 7,7 million sheep (27% of national flock)
  - 522 000 goats (7.4% of national herd)
  - 492 000 cattle (3.5% of national herd)
  - 5 700 tons of greasy wool produced in the south east part of the Province
  - Game farming a growing and high potential industry

- Land Reform

- Land Redistribution for Agricultural Development – 54835 ha & 579 beneficiaries

- Extension of Commonage – 405 673ha

- Land Restitution - 222 805ha & 5292 beneficiaries

- Settlement and Land Acquisition Grants 105 590ha & 3137 beneficiaries

- Total 788 909ha 9027 beneficiaries (est. approx 3% of total agricultural land – excluding Act 9 land)

- The principal challenge faced by those responsible for promoting the development of the agricultural sector is:

    - how to grow the agricultural sector and increase its contribution to GGP, employment and income while at the same time accommodating the demands for increased access to agricultural resources by the previously excluded sectors of our society.

In promoting achievement of twin objectives of growth and transformation in agriculture, the province also face other challenges:

- Diversification of production

- Optimisation of gross margins per unit of water and land
- Preservation of the productive value of grazing land
- Identification and development of export markets
- Development of backward, forward and side-stream linkages to agri-business
- Managing impact of high input costs and stagnating producer prices
- Improve risk management capacities
- Increasing access to land through land reform with sufficient support to ensure productive capacity of land is maintained
- Integrating emerging farmers into appropriate institutional support structures
- Skills development
- Transfer of technology
- Recruiting and retaining the necessary expertise to drive agricultural development in the province

6.1. *What is Agro – Processing*

Agro-processing describes the transformation of agricultural produce into a different physical or chemical state. The term agro encompasses a wide range of food and non-food agricultural products. It is also quite often referred to as value adding.

Agro processing applies to any of the numerous activities that take place in the chain of events between harvest or slaughter of the raw material and production of the final product. It covers a range of processes with varying degrees of complexity and technical input to suit the individual situation. The processing ranges from the relatively simple processes of picking paprika, drying and grinding to the more complex extraction of colorants of paprika. Processing adds value to agricultural commodities.

In economic terms, the "value" in value-added arises from the production process. It is the sum of payments made by industries to workers, plus profits, dividends and capital gains, and indirect business taxes paid to state and local governments. Value-added, then, is the money that remains in a region's economy that can be used for household spending, saving, or capital investment. It represents the income and wealth available to the rest of the region's economy (Eathington, et. al).

7. SECTION 2

7.1. *Framework for Co-operation*

The global environment poses both a threat and opportunity for South Africa. The focus should be on taking advantage of the benefits and opportunities afforded by trade and investment. However, the risk associated with globalisation is quite often not managed.

The combination of macro–economic (South African) and micro-economic (Provincial) policy linkage and reality is often not sufficient to stimulate development.

7.2. *National agricultural policy, legislation and strategy*

A considerable amount of work has been done generating baseline data on the characteristics of the Northern Cape agriculture sector. The National Department of Agriculture (NDA) as well as the Provincial Department of Agriculture (NCPDA) has done extensive work in the development of commodity strategies (cotton, livestock, grain and food security) for the agriculture sector. The Northern Cape Department of Economic Affairs (NCDEA) has commissioned various reports on the agriculture and the key challenges facing the sector.

This report focus on the integration of all the research commissioned previously, the support necessary from other institutions that will create an environment necessary to nurture, enhance and grow the agro-processing capacity of the province in a sustainable manner.

7.3. *Provincial Agricultural Strategies*

The Northern Cape Provincial Department of Agriculture has participated in the development of agricultural commodity strategies. The Department has been tasked with the implementation of the following strategies:

1. Grain Industry Strategy

2. Integrated Food Security Strategy

3. Cotton Sector Strategy

4. Livestock Strategy

Main findings:

- The essence of all the commodity strategies (or commodity specific development) is to ensure sustainable primary production and to alleviate the constraints that impede its growth.

- They address all elements e.g. water, research, human resource development, relevant to primary production as well as the land reform and other transformation aspects with regards to the specific commodity.

- It is crucial to have a high degree of public-private sector co-operation to ensure successful growth.

Potential Integration:

- The strategy of the provincial Departmental of Agriculture is not specific in how the commodity strategies will be integrated with the provincial departmental strategy and the broader development objectives of the Northern Cape Province.

- The potential to add value to any food or fiber is not articulated and quantified in any of the strategies.

- The agri supply chain affiliations necessary to facilitate the entrance of new producers has not been addressed adequately.
- Customer oriented cross-border agri supply chains have an enormous reciprocal effect on each of the successive companies involved in the chain.

7.4. *Agricultural Supply Chains*

The following lessons can be learned from successfully implemented agri supply chain projects:

- Long term relationships between partners in the chain, lead to improved margins and improved market knowledge for the primary producers
- Reduction of product losses during storage and transportation, result from optimal coordination of the successive activities in the chain
- Quality and /or freshness of products can be improved greatly

- Improved safety of food products can be assured
- Sales can be increased significantly, due to exchanging market information
- Coordinated supply chains tend to generate "high value added" products that generate considerable revenue as they match with the demands of high-end markets and high income segments.

7.5. *Recommendation:*

- The potential to add value to any food or fiber produced in the province must be core to the provincial strategy.

- Producers must pro-actively try to become part of supply chains of retail.

7.6. *Institutional framework for sector development*

The support necessary to add value to any crop will not only be a function of successful crop production, but also the co-ordination and sharing of resources between a large number of institutional role players. The provincial departments of Agriculture and Economic Affairs should be the main role players in the province.

The successful implementation of any agro-processing strategy will require a unique set of skills and therefore I propose that the department appoint a management agency to implement the strategy. The provincial departments should facilitate development rather than providing services, except for statutory functions.

Specific responsibilities of the management agency would include:

- preparation and annual review of operational plans
- reporting to the MEC's of Agriculture and Economic Affairs, stakeholders and the public
- management of financial systems and funding arrangements with stakeholders
- contracting and managing service providers to carry out strategy activities
- communicating with affected parties, stakeholders and regulatory bodies

8. SECTION 3

8.1. *Private investments and Public interventions*

Constructive Public involvement is required in the funding, development of reasonable goals and objectives and in monitoring subsequent activities.

Public investments in roads, ports, telecommunications, and water supply have an important bearing on private agribusiness investments and competitiveness. Agro-processing can be enhanced through selective public or collaborative initiatives related to market intelligence, information services, product packaging standardization, and phyto-sanitary control.

Discussions with stakeholders

The focus will be on the development of a strategy within the current Agricultural policy environment (Agri-BEE, CASP, and LRAD) as well other National Government policies most importantly from the Department of Trade and Industry (the DTI).

In order to determine the constraints and to identify opportunities, the following role players were approached:

SENWES: Currently the major commercial entity in the Vaalharts Irrigation scheme. The problem of appropriate crops and technology to be competitive were raised. Cheap imports seem to be a major factor in the sustainability of current crops.

Woolworths: Possible procurement of crops from province.

Tiger Brands: They were approached with the idea to consider the Northern Cape Province as a possible destination to source product as well as a possible JV partner in new agro-processing developments.

GWK: GWK is, most probably, the biggest agricultural co-operative based in the Northern Cape and dealing in a diverse rage of products. They indicated their commitment to the province and highlighted a number of agro-processing possibilities.

DTI: The department initiated a number of projects in the province: wine, floriculture, meat processing, vine leaf processing. The development of a number of small cellars, for PDI farmers, to produce wine is currently a major focus for DTI in the province.

All the producers mentioned the problem of distance to market and related transport cost as a major impediment. The lack of appropriate technical skills is a major factor in the relocation of production facilities to other provinces.

The current commodity strategies as well as research done by other institutions should be used in the development of an appropriate strategy and the selection of projects.

8.2. *Finance, Marketing and other Support Mechanisms*

The support from Land Bank, IDC, and Khula, will be of imperative importance.

A serious constraint to the development of a viable agro-processing sector is the lack of access to capital and the low level of entrepreneurship and management training of the large majority of persons engaged in agro-processing enterprises.

Generally most of these operators have had little or no formal training in the technical aspects of the operations and less in small business organisation, marketing and management. Furthermore in contrast to the large agro-industrial enterprises, the small processors have had little consistent support from the government and have not shared in any coherent programmes or projects specifically designed to support their development.

Domestic products have also to compete with a wide range of imported products in the domestic market. Agro-processors must be aware that their products need to be competitive in all aspects with imported products.

9. SECTION 4

9.1. Agro-Processing Sector Development Strategy

Introduction

The agro processing sector development strategy will only be successful if there is a holistic and integrated approach from the following complex perspectives:

- **Macro economic**

  An important feature of world trade over the past three decades has been the growing participation of developing countries. The development and growth of any value adding business will be measure against international trade issues such as demand for product, trade agreements, cost of production as well as other trade barriers such as tariffs and non tariff measures.

- **Micro economic**

  Agro-processing or value adding within the province will also be measured against demand for product and cost of production.

- **Provincial competitiveness**

  The competitiveness of agro-processing from a provincial perspective will depend on ease of doing business, demand for product and the cost of production.

9.2. *Macro Economic Perspective*

The United Nations Conference on Trade and Development (Unctad) identified two forms of product dynamism. Firstly, the demand or market side dynamism and secondly the supply side dynamism. (Unctad, 2002 a). The market (demand) side indicates products that will ensure high, stable and sustained growth rates in world trade. The supply-side reflects products with the highest potential for increases in productivity and thus for increase in income accrued from the production of such products.

The World Investment Report (Unctad, 2002a) the manufacturing industries responsible for 25% of the global trade were:

- Electronics
- Automotives and related components and
- Apparel

The most market dynamic agricultural commodities were:

1. Silk
2. Non-alcoholic beverages
3. Cereal preparations
4. Preserved food

5. Sugar preparations
18. Fruit preparations
19. Meat preparations

International preferential trade agreements will play a major role in the competitiveness of developing countries. The agreements, e.g. EU – SA Agreement, are largely driven by TRQ's (Tariff Rate Quotas). The private sector role must be to proactively develop and exploit the "in-quota" opportunities. The public sector role is to ensure that national government negotiations include sectors or products that can be produced in the province.

9.3. *Micro Economic Perspective*

The micro economic policy level must ensure that provincial departments, in this case the Departments of Economic Affairs and Agriculture, work closely with local government on policies that will stimulate the growth of agro-processing business opportunities in the province.

The provincial Departments will have to champion the province as a potential candidate for support.

9.4. *Provincial competitiveness*

The competitiveness from a provincial perspective will include:

- The regulatory framework for setting up a new business or expanding an existing business.
- The successful implementation of the agricultural commodity strategy.

The commodity strategy must have a dedicated market focus (Fig. 2).

- The cost of doing business in the Northern Cape is quite often referred to as high. The distance to market, size of the provincial market and disposable income is a major factor in choosing a location for any business. The lack of skilled labour, as required in a manufacturing process is also an impediment in establishing a business in the province.
- Despite the more recent process of policy reform in many South Africa, the operating environment for private agribusinesses is still not conducive for major investments. Firms face considerable in-direct (water, roads and other infrastructure) risks and relatively high costs for intermediate goods and services which weaken their scope for international competitiveness.
- Related and supporting industries -
  Vertical support – the presence of internationally competitive supplier industries that will ensure cost effective and speedy delivery.
  Horizontal support – the presence of, internationally competitive, related industries to coordinate and share activities with and to stimulate competition.

The agro-processing strategy should therefore be a combination of macro – and micro economic policy, integrated with the provincial competitiveness (Fig. 1).

- The development of a provincial agro-processing sector strategy requires at least:
  - a holistic and integrated approach that incorporates macro and micro-economic considerations as well as a range of provincial competitiveness issues;
  - an evaluation of the technical feasibility of adding value to food or fiber produced in the province;

- an appraisal of domestic and foreign markets to determine requirements for competitiveness;
- an assessment of the agri-supply chains of the retail sector to determine scope for NCP producers to penetrate local markets for processed food and fiber; and
- close collaboration between the provincial Departments of Agriculture and Economic Affairs and the national Department of Trade and Industry to provide a support for agro-processing development

10. Conclusions and Recommendations

10.1. *Public interventions*

Constructive Public involvement is required in the funding, development of reasonable goals and objectives and in monitoring subsequent activities.

10.2. *Infrastructure*

Public investments in roads and railways, ports, telecommunications, power and water supply have an important bearing on private agribusiness investments and competitiveness. Agro-processing can be enhanced through selective public or collaborative initiatives related to market intelligence, information services, product packaging standardization, and phyto-sanitary control.

10.3. *Institutional Development*

1. The province should consider the establishment of an Advisory Service Centre (ASC).

   The scope of the service centre should be to assist entrepreneurs with market information, requirements and advice, support entrepreneurs with the removal of procedural and administrative bottlenecks, facilitate investment, coordinating technological support and finance, organize training programmes and seminars. The centre must establish market research facilities and link producers with markets (or buyers).

2. The establishment of an Agro-processing advisory board.

10.4. *Finance, Marketing and other Support Mechanisms*

The support from Land Bank, Industrial Development Co-operation (IDC), and Khula, will be of imperative importance. Foreign investment can play a major role in the growth of the agro-processing sector with competitive technology or access to new export markets.

10.5. *Management, co-ordination and implementation*

The province should consider contracting a service provider to implement the agro-processing strategy.

10.6. *The aim of the Agro-processing Strategy*

The aim of the strategy is to shift from producing primary commodities to increase production of value added items of high value for domestic and international markets.

10.7. *The specific objectives of the Agro-processing strategy*

- To establish an agro-processing base in the province
- To create an environment to expand agro-processing activities in the province
- To ensure active participation of private sector in agro-processing
- To stimulate the multifunctional aspects of agro-processing
- To promote quality and innovation in agro-processing
- To strengthen the economic competitiveness of agro-processing activities and management
- To contribute to the development of job opportunities in the province

10.8. *Identification of Project Investment Opportunities*

The role players, through a process of collaborative discussions must identify 3 or 5 projects that will get all the necessary support over a well defined period.

The following criteria are suggested as a basis for the selection of projects:

1. Select from the core agricultural commodities in the province (meat processing of e.g. livestock and game industry). The livestock and game industry are well established in the province and the opportunities to add value should be investigated.

2. Investigate the possibilities of co-operation with neighbouring provinces. The Eastern Cape Province has been earmarked for the development of the hemp industry in SA. The possible co-operation with regards to the production and processing of hemp should be explored.

3. Scan all international trade agreements for possible competitive advantages with regards to tariff free quotas. Country Market Segmentation and competitive analysis - the EU, AGOA and other trade agreements must be analysed to explore potential markets and value adding opportunities for products grown in the Northern Cape. Consumer demand will be the engine driving production.

4. Explore all possible opportunities to become part of supply chains of bigger SA retailers. Food companies as well as national retailers are always looking for opportunities to source products from different regions due to seasonal differences. These opportunities, in essence represent markets, and should be discussed with the relevant buyers.

5. Review crop against macro and micro environment as well as provincial competitiveness as indicated.

Fig. 1 Policy: Agro-Processing Strategy Development