#### AGRICULTURE AND AGRO-PROCESSING SECTOR STRATEGY

1. Introduction

Agro-industrial development is of critical importantance to the expansion and diversification of the agricultural sector and economic development strategies of the Municipal area. 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 municipal area and, by extension, to 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, creation of employment and foreign exchange earnings, and addressing the market risks associated with primary agricultural production. The value adding strategies should be designed to capture this value addion within the municipal area.

1. Scope of work

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

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

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

1. Forces that shape the agricultural industry

The South African agricultural industry experienced profound changes over the last 10 years. The industry progressed from being highly regulated, to a completely free market in a very short space of time.

The National Department of Agriculture and the Department of Land Affairs initiated the following programmes to lend impetus to 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:

· 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 of and informed about the possible abuse of resources such as water and soil.

Consumer forces - Income growth and demand – as household income rises, 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 enhancing the possibilities of replacing 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

1. Strategic Plan for Agriculture

This will form the framework for the transformation and development of the sector.

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 integrated strategies:

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

1. Agricultural Economy

Agriculture is the most important productive economic sector in the Municipal area and the largest employer of labour and therefore plays a major role in the economy of the municipal area.

* Livestock Production
* Low carrying capacities for livestock production
* Produce high quality meat
* Production optimised i.e. animal population
* Game farming a growing and high potential industry
* Land Reform
* Land Redistribution for Agricultural Development –
* Extension of Commonage
* Land Restitution
* Settlement and Land Acquisition Grants

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 municipal area also faces other challenges:
  1. Diversification of production
  2. Optimisation of gross margins per unit of water and land
  3. Preservation of the productive value of grazing land
  4. Identification and development of export markets
  5. Development of backward, forward and side-stream linkages to agri-business
  6. Managing impact of high input costs and stagnating producer prices
  7. Improving risk management capacities
  8. Increasing access to land through land reform, with sufficient support to ensure productive capacity of land is maintained
  9. Integrating emerging farmers into appropriate institutional support structures
  10. Skills development
  11. Transfer of technology
  12. Recruiting and retaining the necessary expertise to enhance agricultural development in the municipal area

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. 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 which 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

1. 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.

· All elements are addressed e.g. water, research, human resource development, primary production as well as 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 Department of Agriculture does not specify how the commodity strategies will be integrated with the provincial departmental strategy and the broader developmental objectives of the Northern Cape area.

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

· The agri supply chain affiliations, necessary to facilitate the entrance of new producers, have not been adequately addressed.

· Customer oriented cross-border agri supply chains have an enormous reciprocal effect on each of the successive companies involved in the chain.

1. 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.

1. Recommendation

The potential to add value to any food or fibre produced in the municipal area must be the core strategy.

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

1. 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 successful implementation of any agro-processing strategy will require a unique set of skills and therefore the department should 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

1. Private investments and Public interventions

Constructive Public involvement is required in 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 agri-business investments and competitiveness. Agro-processing can be enhanced through selective public or collaborative initiatives related to market intelligence, information services, and product packaging standardization, and phyto-sanitary control.

The problem of distance to market and related transport cost is a major impediment. The lack of appropriate technical skills is a major factor in the relocation of production facilities to other municipal areas. 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.

1. 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.

1. Agro-Processing Sector Development

Introduction

The agro processing sector development strategy will be successful only 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 measured 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 municipal area will also be measured against demand for product and cost of production.

The role of the private sector must be to proactively develop and exploit the “in-quota” opportunities.

The role of the public sector is to ensure that national government negotiations include sectors or products that can be produced in the municipal area.

1. Municipal competitiveness

The competitiveness from a municipal perspective will include:

The regulatory framework for setting up a new or expanding an existing business. The successful implementation of the agricultural commodity strategy which must have a dedicated market focus. 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 are major factors in choosing a location for any business. The lack of skilled labour, required in a manufacturing process, is also an impediment in establishing a business in the municipal area.

Despite the more recent process of policy reform in South Africa, the operating environment for private agribusinesses is still not conducive to 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 development of a local 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 fibre produced in the municipal area;
* 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 fibre;
* 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

1. Conclusions and Recommendations

Public interventions

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

7 Infrastructure

Agro-processing can be enhanced through selective public or collaborative initiatives related to market intelligence, information services, standardization of product packaging and phyto-sanitary control.

Institutional Development

1. The municipality 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; coordinate 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.

Finance, Marketing and other Support Mechanisms

The support from Land Bank, Industrial Development Co-operation (IDC), and Khula, will be of the utmost 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.

Management, co-ordination and implementation

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

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.

1. The specific objectives of the Agro-processing strategy
   * To establish an agro-processing base in the municipal area
   * To create an environment to expand agro-processing activities in the municipal area
   * 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 municipal area.

Identification of Project Investment Opportunities

The role players, through a process of collaborative discussions, must identify 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 municipal area (meat processing of e.g. livestock and game industry). The livestock and game industries are well established in the municipal area and the opportunities to add value should be investigated.

2. Investigate the possibilities of co-operation with neighbouring municipalities.

3. Explore all possible opportunities to become part of supply chains of the 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. Review crop against macro and micro environment as well as provincial competitiveness as indicated.