Introducing Agro-processing: The Status of the Agro-processing Industry in South Africa

Directorate: Agro-processing Support

agriculture,
forestry & fisheries

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA
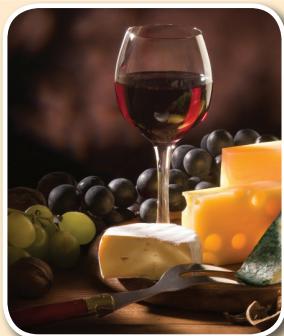
The purpose of this brief

This is the first brief to come by the newly-established Directorate: Agro-processing Support (D: APS). The purpose of this brief is to provide a summary of the main findings which is extracted from the review titled "Economic Profile of the Agro-processing Industry in South Africa: 1970-2010" which can be obtained from www.daff.co.za.

Why agro-processing?

The agro-processing industry is among the sectors identified by the Industrial Policy Action Plan (IPAP), the New Growth Path and the National Development Plan for its potential to spur growth and create jobs because of its strong backward linkage with the primary agricultural sector. The Department of Agriculture, Forestry and Fisheries (DAFF) has established theDirectorate: Agro-processing Support to complement the interventions undertaken by several governmental departments, notably, the Department of Trade and Industry, by focusing on supporting the establishment and growth of Small and Medium Enterprises (SMEs) for agro-processing.

What is agro-processing?

According to FAO (1997), "Agro-processing industry is a subset of manufacturing that processes raw materials and intermediate products derived from the agricultural sector. Agro-processing thus means transforming products that originate from agriculture, forestry and fisheries." The Standard Industrial Classification also categorises the following eleven divisions under the agro-processing industry: food, beverages, paper and paper products, wood and wood products, textiles, wearing apparel, furniture, tobacco, rubber products, footwear and leather and leather products.

Facts about agro-processing in South Africa

- The average contribution of agro-processing to the output and value added of the manufacturing sector was 29,3% and 29,1%, respectively, during 2006-2010. Its contribution to domestic fixed investment and export was 28,5% and 13,6%, respectively, during the same period.

Real output by industries in the manufacturing sector
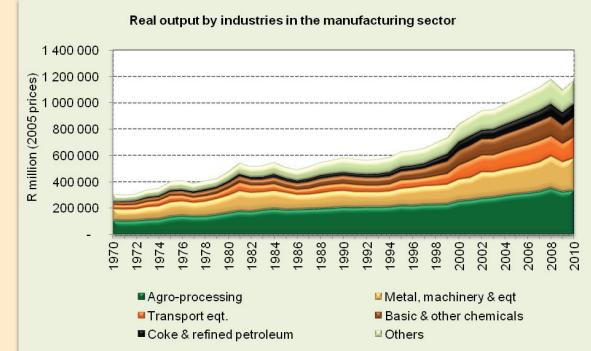
Source: Statistics SA

- Among the divisions in the agro-processing industry, the food division remained dominant in its share of the total output (42,4%), employment (31,3%), value added (36,6%), domestic fixed investment (32,1%) and exports (28,8%) of the agro-processing industry during 2006-2010. The paper and paper products division is the second significant contributor to the total output (14,3%), domestic fixed investment (29,5%) and exports (18,7%) of the agro-processing industry followed by the beverages division whose output (11,9%), domestic fixed investment (15,9%) and export (17,3%) share are the third largest.

Composition of total real output in the agro-processing industry (2005-2010)
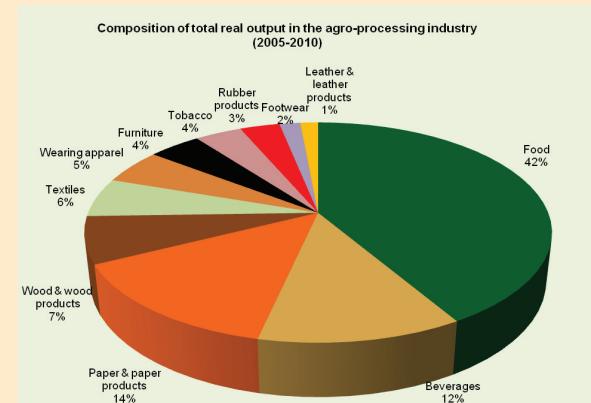
Source: Statistics SA

- Review of the total employment generated by divisions in the agro-processing industry shows that during 2006-2010, the food division employed (31,3%), followed by the wearing apparel (18,4%), wood (11,8%), textile (10,2%) and beverages (9,6%) divisions.

Composition of total total employment in the agro-processing industry (2005-2010)

- Food 31%
- Beverages 8%
- Paper & paper products 5%
- Wood & wood products 7%
- Textiles 11%
- Wearing apparel 21%
- Furniture 7%
- Tobacco 3%
- Rubber products 3%
- Footwear 0,4%
- Leather & leather products 2%

Source: Statistics SA
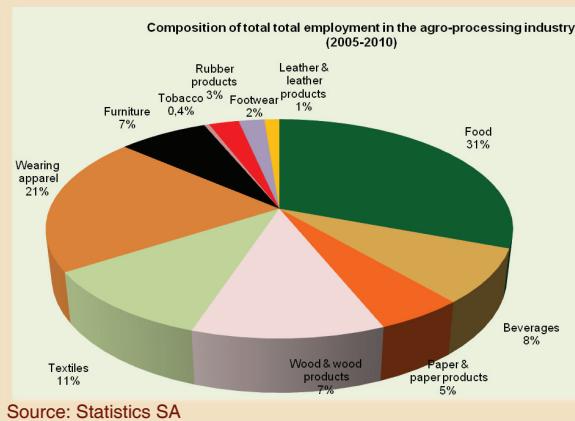
Trade balance

- Examination of the trade balance of the agro-processing industry shows that South Africa has become a net importer for processed food (since 2004), textiles (since 1993), furniture (since 2008), footwear (since 1992) and rubber (during the period reviewed, 1970-2010). A net export position is observed for the beverages and tobacco (since 1992) divisions and the trade position has been almost neutral for the paper (since 2009) and wood divisions (since 2007).

Skill composition

- The skill level of employees in all divisions of the agro-processing industry is largely dominated by semi-skilled and unskilled labour. In most of the divisions, except rubber (10,5%) and tobacco (16%), skilled employees constitute less than 10% of the employees. Mid-level skill was higher in the food (40%), wood (30%), paper (31%) and tobacco (34,7%) divisions during 2006-2010.

- Informal employment, on the other hand, is becoming pervasive in the beverages (40,9%), textile (32%) and wearing apparel (39%) divisions. Therefore, the share of semi-skilled and unskilled labour in these divisions has declined sharply. In general, however, there is a declining trend in the share of unskilled employees in most divisions, though marginally.

Capital and employment intensity

- The trend in capital and employment intensity of the agro-processing industry shows that the capital inten-sity (which is measured as capital to labour ratio) has been increasing for food, paper, beverages (though de-clined between 2002 and 2007), wood (since 2004), fur-niture (since 2007), footwear (since 1998) and leather (since 2000). However, it showed a declining trend for the tobacco and wearing apparel divisions. It remained relatively steady for the textile division. Employment intensity (which is measured as employment to output ratio), however, has been declining in all divisions in-cluding those that showed a declining (steady) trend in capital intensity. Therefore the decline in employment, especially in the wearing apparel and textile divisions, was not mainly as a result of the structure of the divi-sions (higher capital intensity), but mainly as the result of cheap imports.

The share of locally processed commodities

- On average, 64%-74% of the primary commodities are processed locally. However, Canola and Sunflower seed are among the top commodities that are largely processed locally (above 90%). When imports are ex-cluded, however, local production is not enough to meet the demand from the processing sector for wheat and in some cases, yellow maize and sunflower.

Some challenges facing the agro-processing industry

Market concentration

- The market concentration ratio for the agro-process-ing industry indicates that it is highly concentrated. In most divisions, except wearing apparel and footwear, the largest five enterprises contributed more than 50% (Stats SA, 2008). However, the concentration varies widely among subsectors: 80% for beverages (alcoholic and non-alcoholic), 63% for paper, 77% for manufactur-ing of carpets, rigs and mats, 70-72% for animal feeds, dairy and grain mill, 55% for wood and 51-56% for tex-tiles.

- Though large enterprises in the agro-processing indus-try contributed a significant share of income and em-ployment, the relative share of SMEs to the total em-ployment is higher, compared to their share of the total income in the industry. Therefore, SMEs have greater po-tential of generating jobs in the agro-processing industry.

SME enterprises

- Though few of the challenges facing the SMEs are unique for each division, it can be asserted that lack of access to finance, inadequate skills and inaccessible government support are the foremost challenges fac-ing most SMEs across the divisions. Since the potential for generating more employment is higher for SMEs, a policy intervention to alleviate some of these challeng-es is critical to realise their full potential and lessen the market concentration.

What is DAFF doing to deal with the challenges?

- An agro-processing strategy has been approved to sup-port SMEs.

- Next steps:

  ° To establish buy-in and an agreement with major public sector stakeholders such as the dti and IDC on implementation roles and responsibilities

  ° To work with provinces on provincial implementation plans

  ° To develop a Monitoring and Evaluation framework jointly with provinces

  ° To provide regular and updated information and re-search regarding the industry.

Other publications of D: APS

- Economic profile of the agro-processing industry in South Africa: 1970-2010

- Quarterly economic review of the agro-processing in-dustry in South Africa

- Annual economic review of the agro-processing indus-try in South Africa