

National Policy Framework on the support and development of small and medium Agro-Processing Enterprises in the Republic of South Africa

2014/30



agriculture,
forestry & fisheries

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ACRONYMS

| | |
|---------|-----------------------------------------------------|
| APAP | Agricultural Policy Action Plan |
| BBBEE | Broad Based Black Economic Empowerment |
| CSIR | Council for Scientific and Industrial Research |
| DAFF | Department of Agriculture, Forestry and Fisheries |
| DRDLR | Department of Rural Development and Land Reform |
| DST | Department of Science and Technology |
| EDD | Economic Development Department |
| GDP | Gross Domestic Products |
| IDC | Industrial Development Cooperation |
| IPAP | Industrial Policy Action Plan |
| IGDP | Integrated Growth and Development Plan |
| ISIC | International Standard Industrial Classification |
| NDP | National Development Plan |
| NEF | National Empowerment Fund |
| NGP | New Growth Path |
| NYDA | National Youth Development Agency |
| PICC | Presidential Infrastructure Coordinating Commission |
| PPP | Public Private Partnership |
| SMEs | Small and medium enterprises |
| SEDA | Small Enterprise Development Agency |
| SIP | Strategic Integrated Project |
| the dti | Department of Trade and Industry |
| ToR | Terms of Reference |



FOREWORD BY THE EXECUTIVE AUTHORITY

Government will continue to lead efforts to mitigate the triple challenges of poverty, inequality and unemployment by adopting policies and strategies that prioritise the basic needs of people, particularly those residing in rural areas. The National Development Plan (NDP), Industrial Policy Action Plan (IPAP), Agricultural Policy Action Plan (APAP) and New Growth Path (NGP) identified the latent potential of downstream agro-processing activities as a catalyst to spur growth and development through its backward and forward linkages with other sectors of the economy. The agro-processing sector, has over the years, displayed the highest employment multipliers in the economy, albeit highly concentrated.

Government's commitment is to ensure that small and medium agro-processors, particularly those in rural areas, are developed and supported to be competitive and to actively participate in the mainstream agro-processing economy, additionally, to ensure that small and medium agro-processors progressively increase their contribution to the country's gross domestic product. Comprehensive support and development services to small and medium agro-processors are some of the critical prerequisites for a sustainable and competitive rural agro-processing industry. This policy framework identifies a number of support interventions that are critical towards the development of the agro-processing industry, particularly in rural areas. These policy interventions will be implemented in collaboration with various role players. Partnerships between government and various stakeholders remain fundamental to successful rural industrialisation, utilising small and medium agro-processing enterprises as a conduit. Through more of these collaborations, rural livelihoods will be improved.

This policy framework is documented at a crucial time, considering that there is no national policy framework on support and development of small and medium agro-processors, which results in uncoordinated development initiatives with minimal impact. Noting that a formal approach is not yet in place to guide government interventions in the support and development of rural small and medium agro-processors, a need arose to formulate a nationally considered approach in the form of a policy framework to direct and integrate intervention activities with provinces, municipalities and organised agriculture.

In summary, this policy is about ensuring support and development of small and medium agro-processing enterprises to be competitive resulting in entry and active participation in the mainstream economy.



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OVERVIEW BY THE DIRECTOR-GENERAL

The empirically tested importance and role of agro-processing in catalysing economic activity through backward linkages with the farm/primary input sectors and forward linkages with downstream industries should not be underestimated. Such economic activity includes, but is not limited to, stimulation of primary agricultural production, creating jobs and improving incomes along the agro-food value chain. The special role that small and medium enterprises (SMEs) play in a developing country setting is also well-documented, which justifies a need for a focused approach by government to strategically support agro-processing in general and SME agro-processing in particular.

This policy seeks to articulate interventions that government will implement to support a thriving SME agro-processing industry in South Africa, based on the foundation of a smallholder producer sector that performs much better than it currently does. The implementation of this policy should take place in conjunction with that of the Smallholder Development Programme, the Integrated Marketing Policy for Agriculture, Forestry and Fisheries and the provincial strategies, if it is to realise its intended objectives. This policy is written at a crucial time when there is an expressed need for strategic direction as well as better targeted support for SME agro-processors. The policy focuses on SMEs because this group of entrepreneurs is currently either underserved or government support programmes are not designed to meet their needs. It also targets business-oriented clientele.

The Department of Agriculture, Forestry and Fisheries (DAFF) is well-placed to make a meaningful contribution towards development of a class of thriving SME agro-processing businesses that will contribute to the broader national developmental imperatives of significantly reducing poverty, unemployment and inequality. Its direct and coalface involvement with the agricultural, forestry and fisheries sector and its unambiguous grasp of challenges experienced by these producers, especially smallholder producers, puts DAFF in a prime position to be able to develop a policy that is sensitive and responsive to their challenges, while at the same time creating an enabling environment for SME agro-processors to add value to primary produce in a way that will increase competitiveness and ensure sustainability for the rural agro-processing industry.

This document begins with the introduction which explains the need for this policy, followed by constitutional mandates and policy justification explaining the problem statement. The vision, mission and policy objectives are then stated, followed by policy interventions. Finally, the monitoring and evaluation mechanism is articulated.

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1. INTRODUCTION

1.1 Background

With a vision to enhance entrance and active participation of small and medium agro-processing enterprises (SMEs) into the mainstream agro-processing industry, the Department of Agriculture, Forestry and Fisheries (DAFF) initiated a process to develop a national policy to support and develop small and medium scale agro-processing industry that will focus on interventions to realise a competitive, sustainable and inclusive agro-processing industry in South Africa.

The agro-processing industry is among the sectors identified by the National Development Plan (NDP, 2011); New Growth Path (NGP, 2010); Industrial Policy Action Plan (IPAP, 2013) and Agricultural Policy Action Plan (APAP, 2015) for its potential not only to spur growth and create jobs owing to its strong backward linkage with the primary sector and other input suppliers but also forward linkages related to income generated in agriculture, forestry and fisheries that may enhance domestic and local demand for manufactured goods. This is also validated by the fact that agro-processing, notably the food processing subsector is the largest sub-component of the manufacturing

1.2 The need for this policy

South Africa has become a net importer of processed agriculture, forestry and fisheries products since 2004. The import differentially presents an opportunity for the country to explore possibilities to develop the rural processing industry to be more significant both in terms of its economic contribution as well as equity and inclusivity of the previously marginalised enterprises. As the country explores opportunities to grow its agro-processing industry, it should consider expanding the contribution of rural-based SME agro-processors to the national gross domestic product (GDP). This policy therefore intends to create downstream agro-processing activities focusing in rural areas while encouraging and stimulating production of primary products.

Localisation of agro-processing opportunities is also likely to generate spin-off effects in terms of lower food distribution costs and therefore more affordable food in rural areas. The vast majority of rural households spent a significant portion of their disposable income on basic food stuffs; reduction of food costs is likely to extend the meagre disposable income to other necessities. The National Policy on Food and Nutrition Security for the Republic of South Africa further identifies agro-processing as a vehicle to improve food and nutrition security through reduction of post-harvest losses among smallholder producers by supporting and developing agro-processing activities particularly in rural areas.

The intervention by the Department of Trade and Industry (the dti) and its subsidiary, the Industrial Development Cooperation (IDC) including the Department of Science and Technology (DST) and its subsidiary, the Council for Science and Industrial Research (CSIR) mainly focuses on the downstream agro-processing activities of large-scale and established agro-processing industry. Therefore, the interventions are inadequate to meet the needs and challenges encountered by small and medium agro-processing enterprises particularly those located within the primary and secondary agro-processing segment at farm level and beyond the farm gate.

This policy is a contribution towards the broader efforts of the rest of the economic cluster sectors and employment cluster departments (the dti, EDD, Treasury, DAFF and Rural Development) and State Owned Enterprises (e.g IDC, SEDA, Land Bank, NYDA and NEF) in terms of how the agriculture, forestry and fisheries sector value chains could be supported to contribute to job creation and the eventual achievement of related government priorities.

1.3 Definitions

Agro-processing refers to those activities that change the form of agriculture, forestry and fisheries products into various forms to facilitate easier handling, increase shelf-life and market access. The wide-ranging nature of the agro-processing sector implies a very wide range and heterogeneity of activities, which make classification quite complex. However, the United Nations' International Standard Industrial Classification (ISIC, 2013) has alleviated some of the uncertainty around how to classify agro-processing products by coming up with a



standard classification of the agro-industry as consisting of:

- Food and beverages
- Tobacco products
- Paper and wood products
- Textiles, footwear and apparel
- Leather products
- Rubber products

It is also important to define what is meant by the term “small and medium agro-processing enterprises” (SMEs). The National Small Business Amendment Act 29 of 2004 defines SMEs according to certain characteristics such as the total full-time equivalent of paid employees, total turnover and total gross asset value (excluding fixed property). Table 1 summarises the classification of SMEs in agriculture, forestry and fisheries sector.

Table 1: Classification of SMEs

| Sector | Size or class | Total full-time equivalent of paid employees <i>Less than:</i> | Total annual turnover <i>Less than:</i> | Total gross asset value (fixed property excluded) <i>Less than:</i> |
|-------------------------------------|---------------|----------------------------------------------------------------|-----------------------------------------|---------------------------------------------------------------------|
| Agriculture, Forestry and Fisheries | Small | 50 | R3m | R3m |
| | Medium | 100 | R5m | R5m |

Source: Classification of SMEs according to the DTI National Small Business Amendment Act 2004 (Act No. 29 of 2004)

2. MANDATES

2.1 Constitutional mandate

Section 27 of the Bill of Rights guarantees every citizen “the right to have access to sufficient food and water. The state should take reasonable legislative and other measures within its available resources to achieve the progressive realisation of each of these rights.” (Constitution, 1996).

Section 22 of the Bill of Rights further states that every citizen has “the right to choose their trade, occupation or profession. The practice of a trade, occupation or profession may be regulated by law” (Constitution, 1996).

This policy intends to provide a broad framework towards the fulfillment of these constitutional imperative albeit regulated by law. This policy should serve as a guide to national, provincial, local government and government agencies in pursuit of advancing entrance and active participation of SME agro-processors in mainstream agro-processing economy to reduce post-harvest losses and increase food availability, nutritional quality and food safety.

2.2 Policy mandate

The 2014 State of the Nation Address reaffirmed the National Development Plan (NDP): Vision 2030 as the developmental blue print and recognized the proposal for tackling the triple challenges of poverty, inequality and unemployment.

The NDP identifies the potential of agro-processing to stimulate growth and development through backward and forward linkages with other sectors of the economy. The APAP, IPAP and NGP identify agro-processing as having the potential to create jobs on a large scale. This is validated by empirical research indicating agro-processing has the highest employment multipliers in the economy. In addition to the NDP, NGP and IPAP, other mandates informing the policy on support and development of small and medium scale agro-processing enterprises include:

- Medium Term Strategic Framework (2014-2019)



- Integrated Growth and Development Plan (2012)
- Agricultural Policy Action Plan (2015).

This policy is furthermore directly linked to the following outcomes identified by government in the Medium Term Strategic Framework (MTSF, 2014-2019):

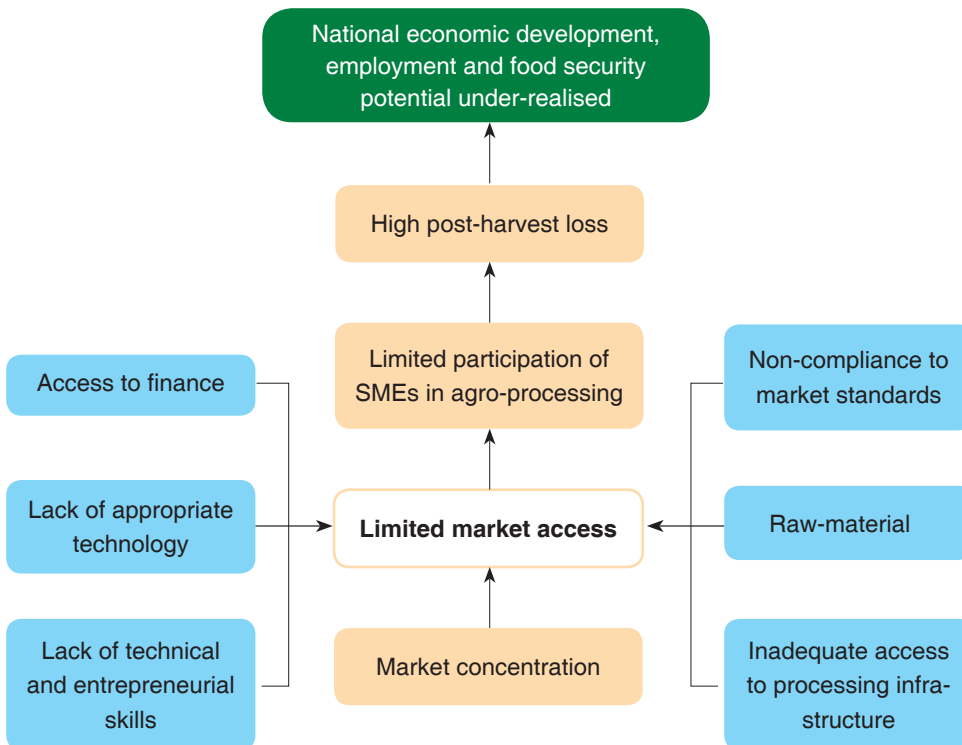
- Outcome 4: Decent employment through inclusive economic growth;
- Outcome 6: an efficient, competitive and responsive economic infrastructure network;
- Outcome 7: Vibrant, equitable and sustainable rural communities contributing to food security for all;
- Outcome 10: Protect and enhance environmental assets and natural resources.

The central challenge remains how the latent agro-processing potential can be realized. This policy is a step towards realizing and attainment of this potential

3. CHALLENGES

South Africa faces numerous economic and social challenges, key of which are high unemployment rates, high poverty rate and high inequality. The specific challenge this policy aims to address is a limited active participation of rural-based SMEs in the agro-processing mainstream value chain. Fig. 1 provides a non-exhaustive list of key challenges limiting the participation of SMEs in the mainstream agro-processing industry. The major constraints to entrance and active participation in agro-processing value chain by SMEs are lack of appropriate technology, inadequate infrastructure, access to finance, and low level of technical and entrepreneurial skills. In addition to these constraints, the challenges of compliance with stringent market standards precludes SMEs from accessing mainstream markets which are crucial to create an inclusive agro-processing industry in South Africa, implying market concentration is entrenched.

Fig. 1: Constraints limiting participation of SME in agro-processing activities



Another important phenomenon experienced by smallholder producers particularly in the rural areas, which is a direct result of limited agro-processing activities, is high post-harvest losses (see Table 2). Empirical evidence indicates that agro-processing activities have the potential to minimise post-harvest losses including



significantly contributing to increased food availability, nutritional quality, food safety and retained earnings for producers (National Policy on Food and Nutrition Security, 2013).

Table 2: Post harvest losses of various agriculture, forestry and fisheries products

| Agro-processing segment | Category | Range of percentage loss |
|-------------------------|-------------------------------|--------------------------|
| Food and beverage | Roots and tubers | 10-40% |
| | Milk | 8-16% |
| | Fruits and vegetables | 15-44% |
| | Cereals, oil seeds and pulses | 15-30% |
| | Fish and sea food | 10-40% |
| | Meat | 5-8% |

Source: FAO/World Bank (2010)

4. VISION, MISSION AND OBJECTIVES OF THE POLICY

4.1 Vision of the policy

Having identified the key factors that limit the active participation of SME agro-processors in the mainstream agro-processing value chain and recognizing that government’s main role in the economy is to create an enabling environment for business to thrive, government endeavors to work in partnership with the private sector to bring in complementary skills, resources and capabilities to support and develop SME agro-processors. Therefore, the vision of this policy is to create **“a profitable, competitive and thriving small and medium agro-processing industry that will significantly contribute to the reduction of poverty, unemployment and inequality”**.

This vision of the agro-processing policy is directly linked to the vision of the entire agriculture, forestry and fisheries sector which is stated as “A leading, dynamic, united, prosperous and people centered sector that is achieved through three (3) core strategic thrusts viz: improving equity and participation, improving profitability and competitiveness and sustainability.

4.2 Mission of the policy

The policy intends to support and develop small and medium enterprises through following:

- Providing entrepreneurial support to small and medium agro-processors;
- Supporting enterprise development through facilitating access to markets, finance, incubation and mentorship;
- Facilitating agro-processing industry research and technology transfer;
- Facilitating infrastructure investment specifically within rural areas.

4.3 Policy objectives

The main objective of this policy is to support and develop rural based SME agro-processors resulting in the following:

- Rural industrialisation through establishing agro-processing industries closer to production areas;
- Local economic growth through increased trade of processed agriculture, forestry and fisheries products in rural areas;
- Job creation encouraged by the establishment of SME agro-processors in rural areas;
- Improved livelihoods of both SME agro-processors and smallholder producers;
- Enhanced food security and increased food availability resulting from reduced post-harvest losses;
- Overcoming seasonality and perishability of agricultural, forestry and fisheries products.



5. POLICY PRINCIPLES

The following underlying policy principles will guide the attainment of the vision:

- **Holistic:** Government policy intervention will be holistic; taking into consideration linkages that agro-processing has with the rest of the agriculture, forestry and fisheries value chain. This will enable provision of a “value chain” of services and support to clients.
- **Tiered:** Government interventions will be sensitive and therefore tailored to the different levels of development at which different enterprises are located. Taking into consideration DAFF’s proximity to producers, a deliberate bias will be towards supporting primary and secondary processing (upstream) at farm level and beyond the farm gate.
- **Partnerships:** DAFF and its government partners’ intervention will be limited to the role of creating an enabling environment. To ensure a full and complete menu of support, government will operate in partnerships with other non-governmental partners in Public-Private Partnerships (PPPs). In the short to medium-term, however, it will be expected that government will play a much more central role in the establishment and growth of the SME agro-processing because of its inherent state of underdevelopment.
- **Viability and sustainability:** Government intervention, in partnerships with other stakeholders, will be directed at economically viable SME businesses. However, in line with the principle of taking a tiered approach, the focus on viability will not negate the need to support activities aimed at ensuring food security at farm and household levels.
- **Impact:** Government has set certain targets mainly with regard to job creation, economic growth and reduction of inequality. Government support in agro-processing projects will ensure that such support results in a greater impact in terms of those targets.
- **Equity:** A deliberate target for agro-processing support interventions will be the designated groups according to the Broad-Based Black Economic Empowerment (BBBEE) provisions.
- **Provincial agro-processing strategy:** Using this policy as guidance for government intervention, provinces will develop or align localized agro-processing strategy.
- **Comparative advantage:** A comparative advantage of each province will guide the choice of strategic subsectors for the implementation of the provincial agro-processing strategy.

6. POLICY INTERVENTIONS

In order to achieve the vision and mission of an inclusive agro-processing industry with the active participation of SME agro-processors, the following four set of policy interventions are outlined:

- Entrepreneurial support;
- Enterprise development, focusing on access to finance, market and incubation;
- Industry research and transfer of technology;
- Infrastructure investment.

6.1 Entrepreneurial support

Catalysing entrepreneurial behaviour of SME agro-processors is regarded as critical to create an inclusive agro-processing industry in South Africa. Entrepreneurship involves starting a new innovative venture, putting together a combination of resources, relentlessly pursuing business opportunities, taking calculated risks and creating value at a profit.

It has been proven that successful completion of a business incubation programme increases the likelihood that a start-up company will stay in business for the long term and sustainably. Business incubators are programmes designed to support the successful development of nascent entrepreneurial companies through an array of business support services ranging from financial to non-financial support. They also provide a nurturing environment to nascent businesses during their critical stages of development by facilitating development of a sound product concept; provide training on the appropriate use of technology, business skills, enabling access to finance and markets. For many businesses at start-up stage, these may not be readily available or accessible.



- *Therefore, government in collaboration with entrepreneurial training institutions agencies will provide entrepreneurship support programmes to SME agro-processors.*

6.2 Enterprise development

Enterprise development involves initiatives intended to assist and accelerate development and financial sustainability of SME agro-processors. Measures of enterprise development range from financial support to non-financial support. While the financial support mainly involves facilitating access to finance, the non-financial support involves facilitating market access, incubation and mentorship. The role of the government will therefore be to facilitate:

- *Access to finance and incentives accessible to SME agro-processors;*
- *Incubation programmes for SME agro-processors;*
- *Linking SMEs to mainstream agro-processing formal markets and providing support for SME agro-processors to become competitive*

6.3 Industry research and transfer of technology

Most studies have shown that SMEs lack appropriate processing technologies that are easy to operate and manage. As a result, SME processors use rudimentary technologies in their business activities, which hamper their performance, efficiency and competitiveness. Therefore, access to the latest and appropriate processing technologies such as juicing, pulping, drying and abattoirs that are easy to operate and manage become crucial for SME development. Research on the area of technological development suitable for SMEs, identifying the best practices models to support SME agro-processing, exploring the issues and challenges facing SMEs and promoting evidence-based interventions to enhance their participation are also critical for the growth and better positioning of the SMEs in the competitive global environment. The role of the government will therefore be:

- *To facilitate and support the transfer of appropriate processing technologies and related support services such as the technical skills needed to operate and maintain the technology to SME agro-processors.*
- *To support basic and applied research that informs interventions and promotes the growth of small and medium agro-processing enterprises in collaboration with research institution.*

6.4 Infrastructure investment

Infrastructure investments are mainly skewed towards corporate agro-processing players and metropolitans and since the establishment of SME agro-processing requires huge capital investment, stimulating and promoting investment through the public private partnerships (PPPs) towards the development of rural based SME agro-processing industries are critical to establish viable and competitive enterprises.

- *Government will, accordingly, coordinate a plan to facilitate infrastructure investment to support the entrance and active participation of SME processors in the mainstream agro-processing industry.*

7. POLICY LEADERSHIP

The agro-processing policy leadership approach will be consultative meaning it will entrench public, private and civil society partnerships. Government departments will use multidisciplinary and holistic approach to design strategies and interventions to support and develop SME agro-processors. DAFF shall take a lead to ensure regular and effective coordination, consultation and transparency in implementing policies and strategy that deal with SME agro-processing.

The National Agro-processing Forum shall be established to monitor policy coordination and strategy implementation. The Forum will comprise of key government stakeholders implementing agro-processing sector



initiatives. Other stakeholders such as farmer unions, producer organizations, retailers and wholesalers, and representative from interested groups will be invited as the need arises. The committee will formulate the terms of reference (ToR).

The Industrial Policy Action Plan (IPAP, 2016), Agricultural Policy Action Plan and the subordinate Strategy on the Support and Development of Small and Medium Agro-processing Enterprises shall be used as an implementation framework for this policy.

8. MONITORING AND EVALUATION

Provincial departments directly affected by this policy will include these policy directives in their annual departmental strategic plans and key performance areas of the responsible officials. Annual and quarterly progress reports will be presented to the national agro-processing forum to entrench alignment and integration.

- Entrepreneurial support:
 - ◇ The extent of participation by SME agro-processors in the entrepreneurial support programs;
 - ◇ The effectiveness and usefulness of the entrepreneurial support programmes implemented by the departments and incubation agencies.
- Enterprise development:
 - ◇ The extent of participation of SME agro-processors in the incubation programmes;
 - ◇ The effectiveness and usefulness of the incubation programmes;
 - ◇ Growth in SME agro-processors who accessed mainstream retailers, wholesalers and supermarkets;
 - ◇ Growth in SME agro-processors who have accessed finance.
- Industry research and technology transfer:
 - ◇ The effectiveness and usefulness of the agro-processing research disseminated to SME agro-processors;
 - ◇ Growth of SME agro-processors with adequate agro-processing machinery and equipment.
- Infrastructure investment:
 - ◇ The extent of agro-processing infrastructure investment in rural areas;
 - ◇ Growth of agro-processing infrastructure investment in support of small and medium agro-processing enterprises.

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