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Driving inclusive growth through integrated value chains

Agriculture and Agro-processing
Master Plan (AAMP)

The Bureau for Food and Agricultural Policy

AgBiz, 23 June 2022

Louw Pienaar





Structure

1. Introduction to AAMP & Agro-Processing
2. Economic Uncertainties
3. Focus on Agro-processing
4. Panel Discussions



1. Introduction to AAMP & Agro- Processing



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AAMP Overview

The Agriculture & Agro-processing Master Plan is a “Social Compact” co-created by the government, business, labour and civil organisations

Facilitated by Prof Qobo, with leadership from DALRRD & DTIC

BFAP, NAMC and CCRED was the supporting research institutions

The AAMP Framework Agreement and Action Plan is used as the guiding approach for developing value chains which was signed off by all partners



Next step was to negotiate the roles and responsibilities of each partners and compile AAMP interventions

- There was several different clusters to deal with cross-cutting interventions (e.g. Natural resources, land etc.)
- Another four clusters that was value chain specific interventions (Field crops; Livestock; Horticulture & Agro-Processing)

AAMP is a partnership model



Civil organisations

AAMP Vision

“Promote a meaningful public-private partnership designed to produce a world-class, competitive, dynamic, growing, ecologically sustainable, safe, fair and inclusive sector in 2030.”

AAMP Theory of Change

The co-existence of small, medium and large commercial farmers and agribusinesses operating in commercial and marginalized agricultural areas.

AAMP Value Chain Deep-Dive Approach

Key Principals

Production

Economical & environmentally sustainable, HH food security

Trade / Aggregation

Diverse

Processing

Competitive

Markets

Inclusive & safe

Cross-cutting Enablers

General (e.g.):

- Technology
- Plant and animal health
- Risk and insurance
- Electricity, water, sanitation and roads

Smallholders (e.g.):

- Input and credit support
- Infrastructure
- Extension support & skills development
- Subsidised inputs – CSI spent

General (e.g.):

- Storehouse capacity
- Electricity, water, roads sanitation, infrastructure
- Market access
- Certification / inspections

SMME (e.g.):

- Access to credit
- Infrastructure, storage, micro-abattoirs
- Business / operator certification

General (e.g.):

- BBBEE, procurement, CSI etc..
- Electricity, water, sanitation and roads

SMME (e.g.):

- Access to credit
- Infrastructure
- Business / operator certification

General (e.g.):

- Supplier programme BBBEE, procurement
- Standards, Traceability, HACCP
- Export markets,
- Trade policy harmonisation

SMME (e.g.):

- Roots to market & supplier based
- Business / operator certification

Indicators “As is” versus “Future”

Individual value chains:
Product flow, prices, costs, location

Introduction to AAMP



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PILLARS



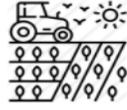
PILLAR 1

Resolving policy ambiguities and creating investment friendly climate



PILLAR 2

Creating enabling infrastructure



PILLAR 3

Providing comprehensive farmer support, development finance, R&D and extension services



PILLAR 4

Ensuring food security, expanded production and employment creation, decency and inclusivity



PILLAR 5

Enabling markets expansion, improving market access and trade facilitation



PILLAR 6

Developing localized food, import replacement and expanded agro-processing exports

KEY INTERVENTIONS

- Accelerate the redistribution of land for production purposes to deserving beneficiaries & the recording and strengthening of land rights in communal areas.
- Increase equitable access to water rights and allocation efficiency.
- Ensure a safe secure living and working environment for farmers and farm workers and address stock theft in communal and commercial areas.
- Transformation through revision of AgriBEE and NAMC transformation guidelines

- Fast track the revitalisation of irrigation schemes for increased production and more efficient water use.
- Revitalise strategic infrastructure - NFPMs, rural roads, railways (road-to-rail) and ports (depth and loading capacity).
- Liberalise electricity generation and supply
- Incentivise rural infrastructure investment and maintenance by private sector.

- Increase production and value chain transformation through accessible and affordable credit, blended financing
- Secondment of extension officers to private sector
- Expand and intensify transfer of applicable technical knowledge to specific farmer categories.
- Enable interventions and provision of holistic support to different farmer categories by completing farmer registry and updating agri census

- Ensure production expansion, intensification and value addition leads to secure, decent, inclusive, gender equitable employment through proper monitoring & compliance and enforcement mechanisms
- Create opportunities for upward mobility at the workplace and within the value chain through skills training and career path development
- Revitalise agricultural colleges – align levy funding to support colleges and training programmes

- Develop a public-private export promotion initiative to jointly identify export opportunities, better coordinate existing relationships and increase trade facilitation capacity.
- Improve biosecurity & traceability systems for national herd health and to enable market access for all.
- Jointly identify opportunities to develop Regional Value Chains (RVCs)

- Increase government, and incentivise supermarket and industry procurement from local and black owned farms, SMMEs and agribusinesses
- Invest in local processing and value addition capacity.
- Act decisively against unfair trade, illicit products, substandard products, and imports that are not properly declared.

“UNLOCKED” OPPORTUNITIES

R32 BILLION

Real GPV added by
2030

Increase of **700 000 Ha (12%)** within
crops and **611 000t (10%)** of livestock

Maintain existing jobs and add additional
Jobs: **75 000**

Cross-cutting Interventions

The Agro-processing research and interventions were facilitated by CCRED and DTIC

A few links to agro-processing in the commercial enablers:

- Improve the liquor licensing system and combat illicit sales of alcohol
- Re-establish the wine industry value chain round-table to monitor, evaluate and advocate for a sustainable, inclusive wine and beverage industry.
- Define transformation for inclusive growth in Agro-processing and super market segments
- Implement the Industrial Finance Instrument to support SMMEs
- Develop digital systems tailored to the needs of SMMEs and value chain players to enable traceability of certifications, standard compliance, labour and environmental practices (e.g., GS1).
- Discussion about including game meat in the Meat Safety Act, which has a significant effect on the supply of game meat locally and for export. Consult with the producer industry (game ranchers) and finalise the legislation.

Pillar 6:

Improving local food production, reducing imports and expanding agro-processing exports

Develop and expand industrial financing: **An Agro-processing Financing Programme** is being developed by the IDC, drawing on various existing funding streams, focusing on: SMEs in general, and Black Industrialists (BIs) in particular

Increase the **government's procurement** of products and services from SMMEs. Obtain demand-side commitments from major value chain role-players in the public and private sectors (including large food retailers and food companies) around localisation and local procurement.

Expand, refine and replicate **supplier/enterprise development programs** of supermarkets and large agro-processors to build supplier capabilities at the local (district), national and regional levels.

Coordinate with Food and Beverage SETA and other organisations to **develop skills for SMME** suppliers in food value chains that complement S/EDP needs

Increase the number of supermarkets, food processors, public procurement, and agribusinesses that purchase from black farmers and agribusinesses (**Preferential procurement policy**).

Jointly identify achievable **import replacement opportunities** in agro-processing. Implement the import replacement strategy and make industrial financing available.

2. Economic Uncertainties



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Dealing with key uncertainties first



Downside risk in global economic performance

- New wave of COVID-19 pandemic?
- Supply chain disruptions & high energy costs
- Geopolitical tensions
- Global Inflation



Weather conditions remain a concern

- Affecting supply response & global price outlook
- Extent of damage to SA 2022 crop remains unclear
- Long term climate impacts – extreme weather



Port and logistics performance is critical

- Global constraints as pandemic lingers
- SA congestions & efficiency needs to improve
- Costs have increased substantially



Expanded market access is critical

- Substantial volumes of fruit and nuts to enter market
- Sustainability of price levels will require wider access
- Coordination & queuing order in place – time is critical

Strategic goals amidst coping tactics

Ukraine conflict

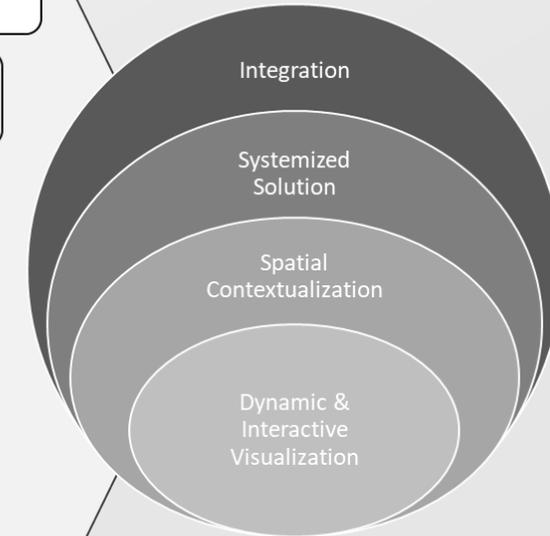
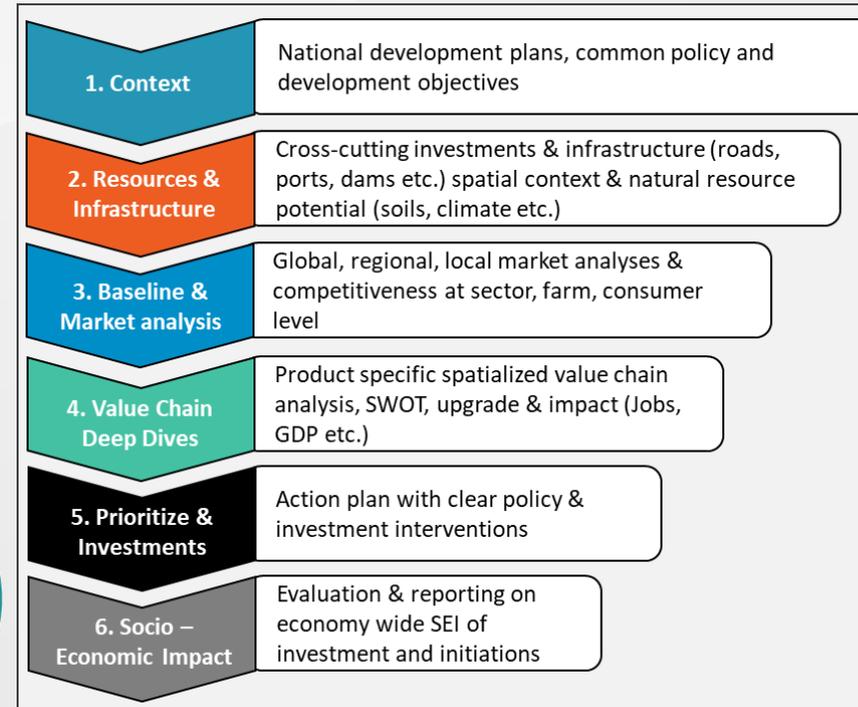
Covid supply chain disruptions

Infrastructure crises

KZN riots

Climate change

AAMP



Latest Global Outlook

Continued downward revisions: IMF April Update

	2019	2020	2021	2022		2023		Change: April 2022 vs Oct 2021	
y-o-y % change	IMF	IMF	IMF	IMF October 2021	IMF April 2022	IMF October 2021	IMF April 2022	2022	2023
World	2.9	-3.1	6.1	4.9	3.6	3.6	3.6	-1.3	0.0
Advanced countries	1.7	-4.5	5.2	4.5	3.3	2.2	2.4	-1.2	0.2
US	2.3	-3.4	5.7	5.2	3.7	2.2	2.3	-1.5	0.1
Euro area	1.6	-6.4	5.3	4.3	2.8	2.0	2.3	-1.5	0.3
Germany	1.1	-4.6	2.8	4.6	2.1	1.6	2.7	-2.5	1.1
Italy	0.5	-9.1	6.6	4.2	2.3	1.6	1.7	-1.9	0.1
Japan	-0.2	-4.5	1.6	3.2	2.4	1.4	2.3	-0.8	0.9
UK	1.7	-9.3	7.4	5.0	3.7	1.9	1.2	-1.3	-0.7
Emerging markets	3.7	-2.0	6.8	6.4	3.8	5.1	4.4	-2.6	-0.7
China	6.0	2.2	8.1	5.6	4.4	5.3	5.1	-1.2	-0.2
India	3.7	-6.6	8.9	8.5	8.2	6.6	6.9	-0.3	0.3
Russia	2.2	-2.7	4.7	2.9	-8.5	2.0	-2.3	-11	-4.3
South Africa	0.1	-6.4	4.9	2.2	1.9	1.4	1.4	-0.3	0
Nigeria	2.2	-1.8	3.6	2.7	3.4	2.7	3.1	0.7	0.4
Sub Saharan Africa	3.1	-1.7	4.5	3.8	3.8	4.1	4.0	0.0	-0.1

Source: IMF, 2022

Latest Global Outlook

Continued downward revisions: World Bank June Update

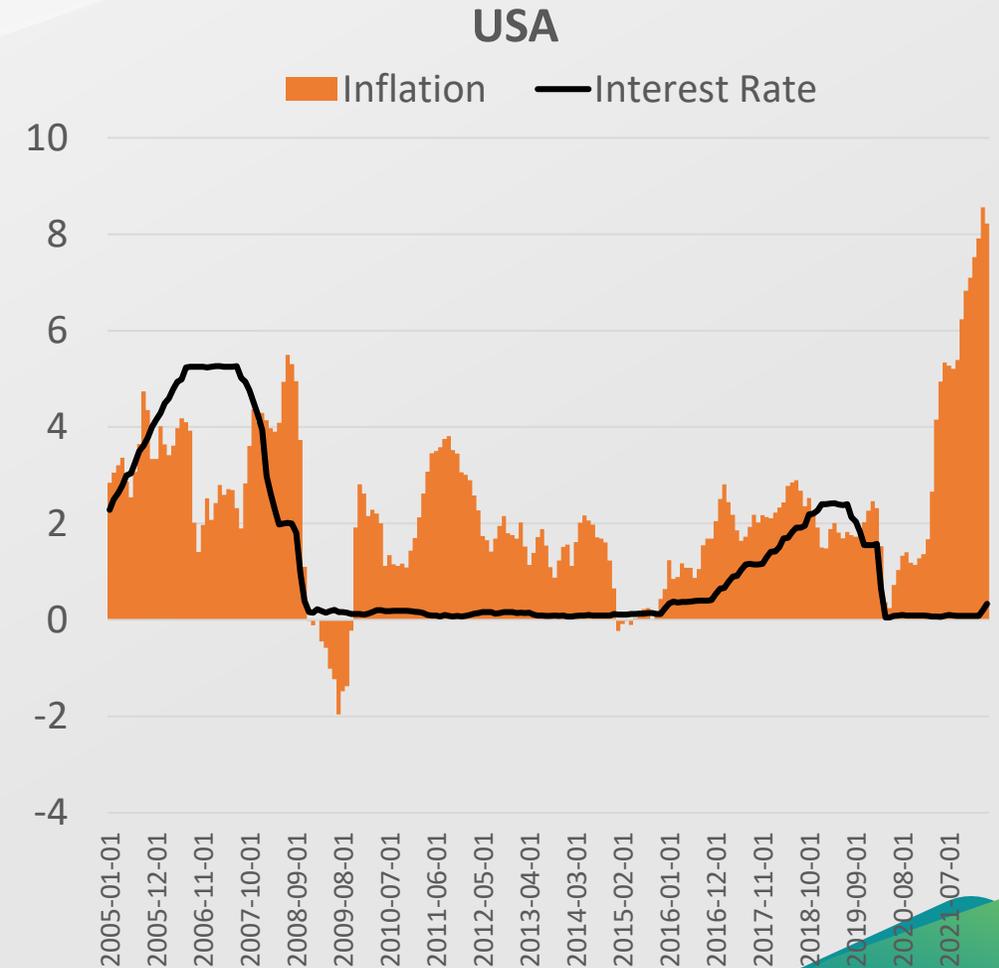
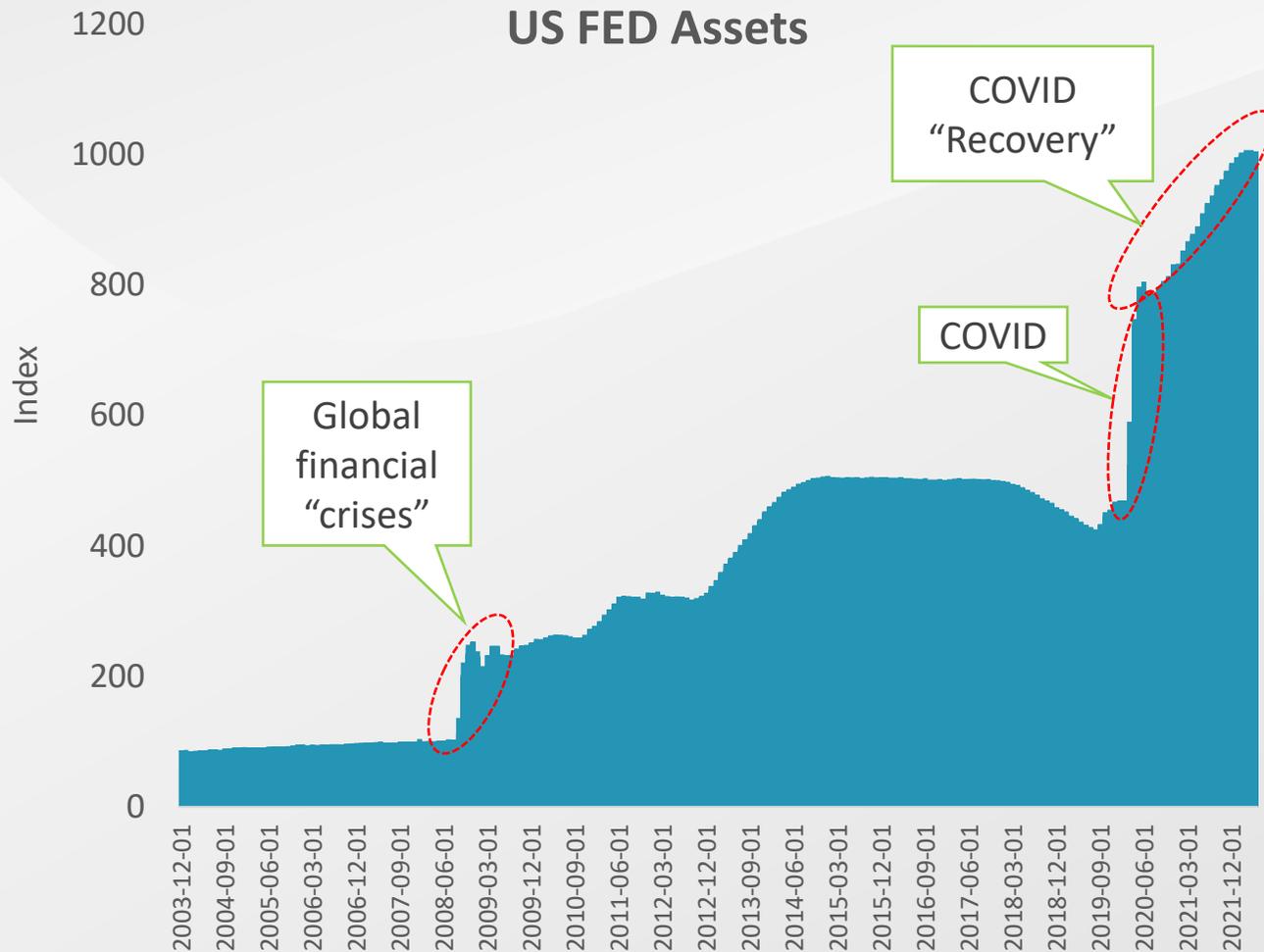
TABLE 1.1 Real GDP¹
(Percent change from previous year)

	2019	2020	2021e	2022f			Percentage point differences from January 2022 projections	
				2022f	2023f	2024f	2022f	2023f
World	2.6	-3.3	5.7	2.9	3.0	3.0	-1.2	-0.2
Advanced economies	1.7	-4.6	5.1	2.6	2.2	1.9	-1.2	-0.1
United States	2.3	-3.4	5.7	2.5	2.4	2.0	-1.2	-0.2
Euro area	1.6	-6.4	5.4	2.5	1.9	1.9	-1.7	-0.2
Japan	-0.2	-4.6	1.7	1.7	1.3	0.6	-1.2	0.1
Emerging market and developing economies	3.8	-1.6	6.6	3.4	4.2	4.4	-1.2	-0.2
East Asia and Pacific	5.8	1.2	7.2	4.4	5.2	5.1	-0.7	0.0
China	6.0	2.2	8.1	4.3	5.2	5.1	-0.8	-0.1
Indonesia	5.0	-2.1	3.7	5.1	5.3	5.3	-0.1	0.2
Thailand	2.2	-6.2	1.6	2.9	4.3	3.9	-1.0	0.0
Europe and Central Asia	2.7	-1.9	6.5	-2.9	1.5	3.3	-5.9	-1.4
Russian Federation	2.2	-2.7	4.7	-8.9	-2.0	2.2	-11.3	-3.8
Sub-Saharan Africa	2.6	-2.0	4.2	3.7	3.8	4.0	0.1	0.0
Nigeria	2.2	-1.8	3.6	3.4	3.2	3.2	0.9	0.4
South Africa	0.1	-6.4	4.9	2.1	1.5	1.8	0.0	0.0
Angola	-0.7	-5.2	0.7	3.1	3.3	3.2	0.0	0.5

Source: World Bank, 2022

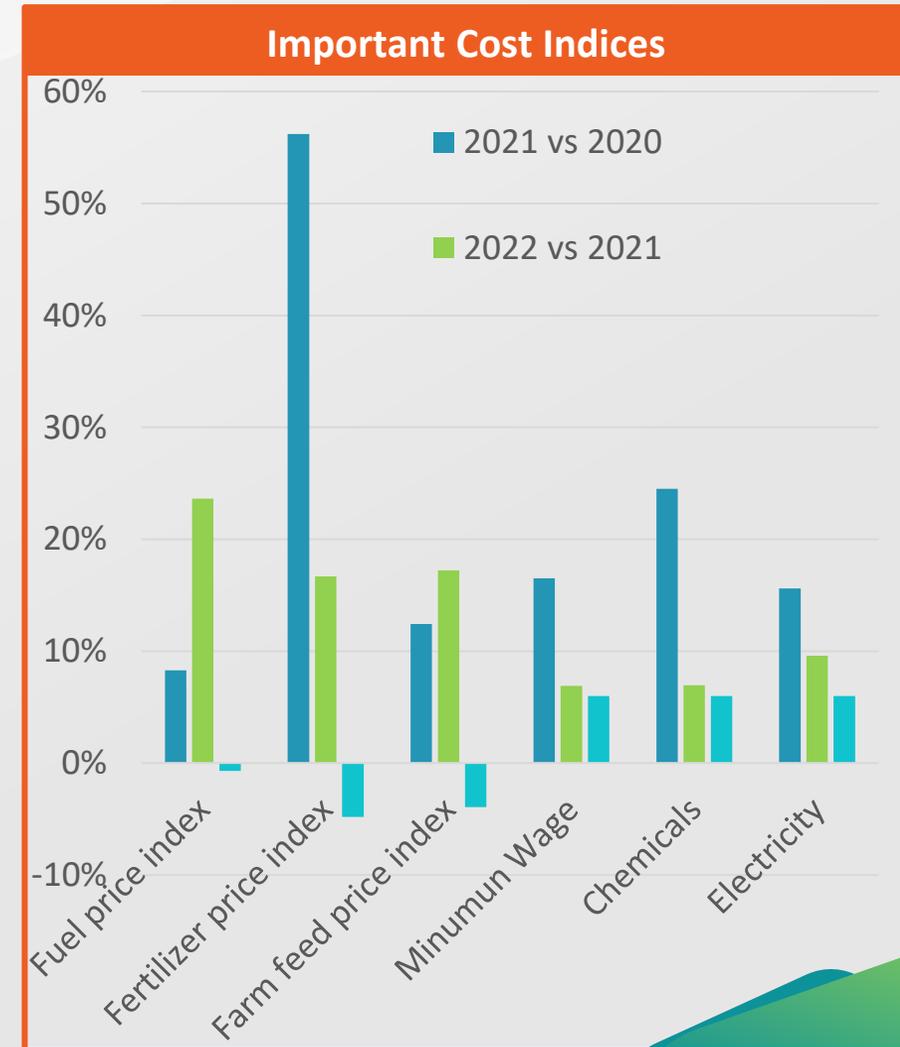
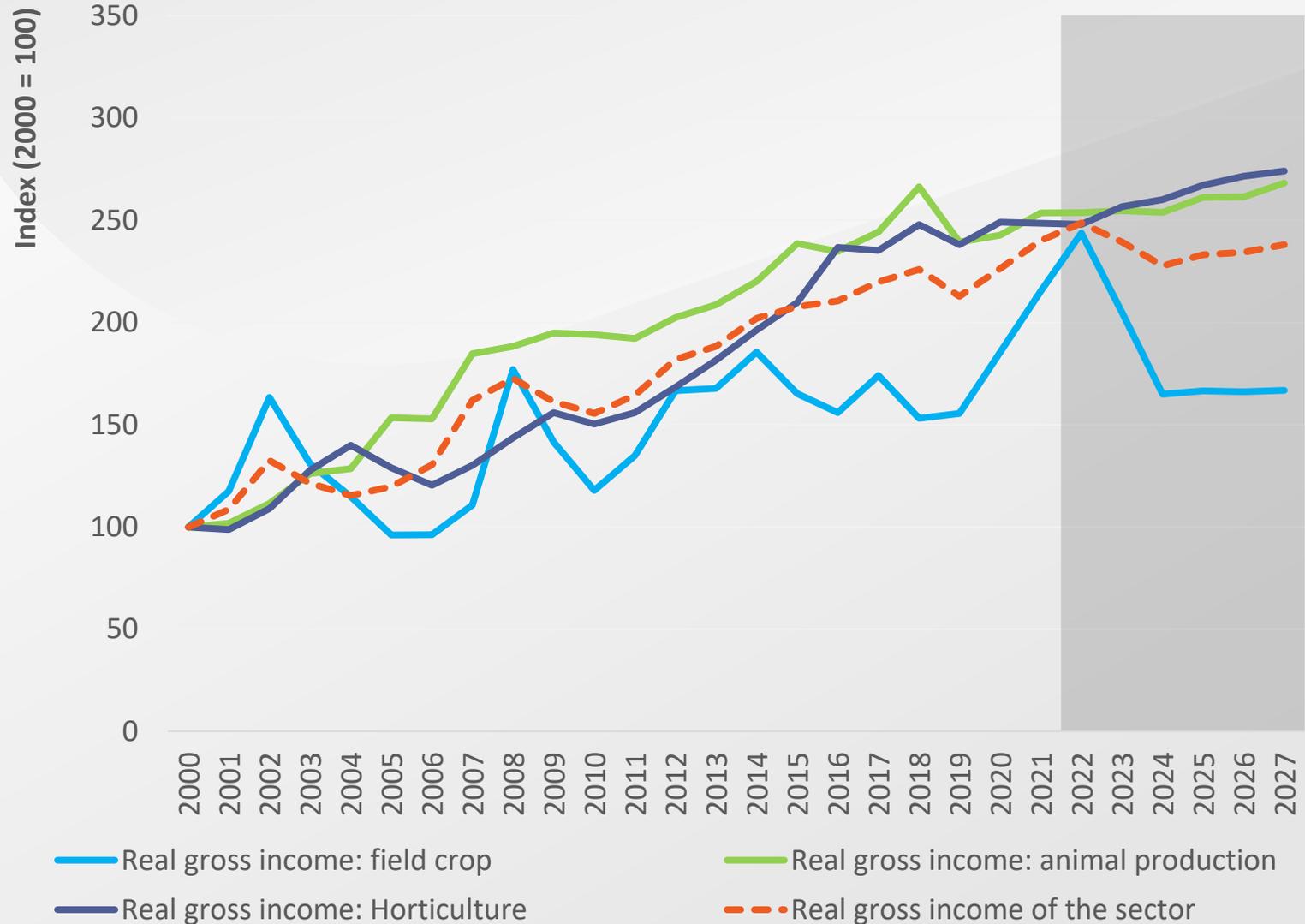
Stagflation worries?

How did we get here?



Agriculture the shining star... but margins rapidly closing

Production growth, but declining prices & high input costs and weakening economy



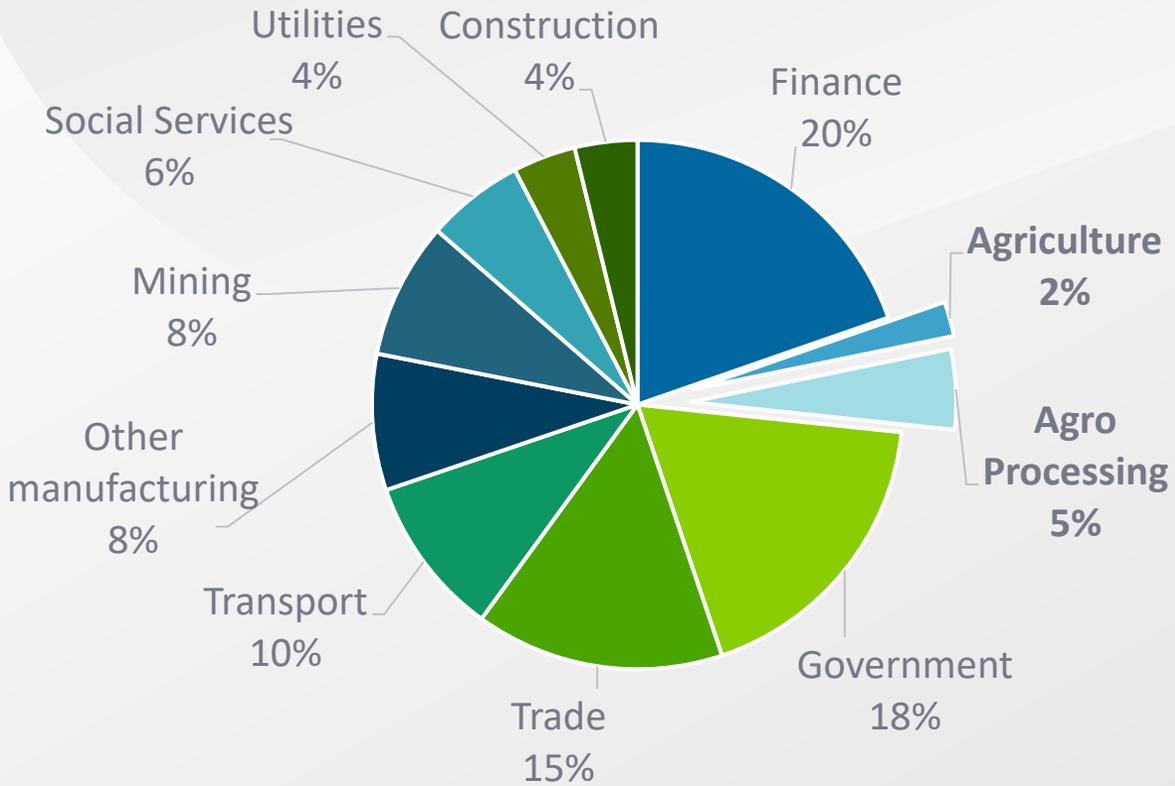
3. Focus on Agro-Processing



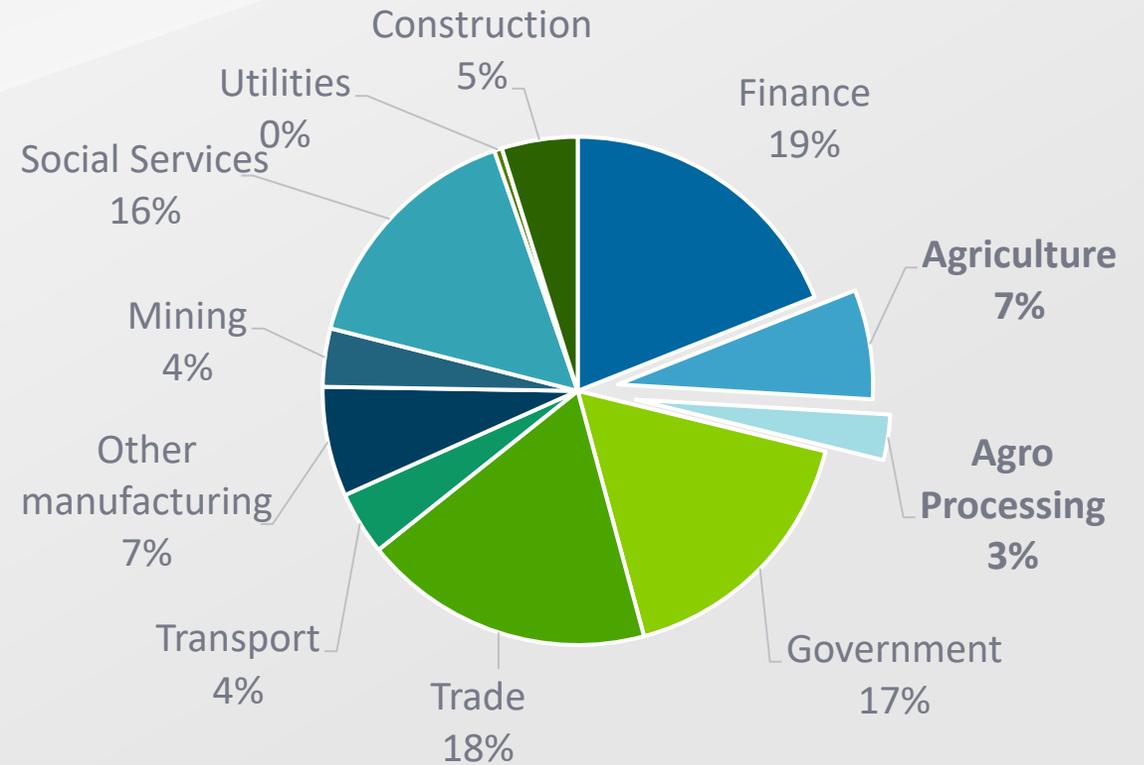
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What is Agro-processing?

RSA GDP: 2019

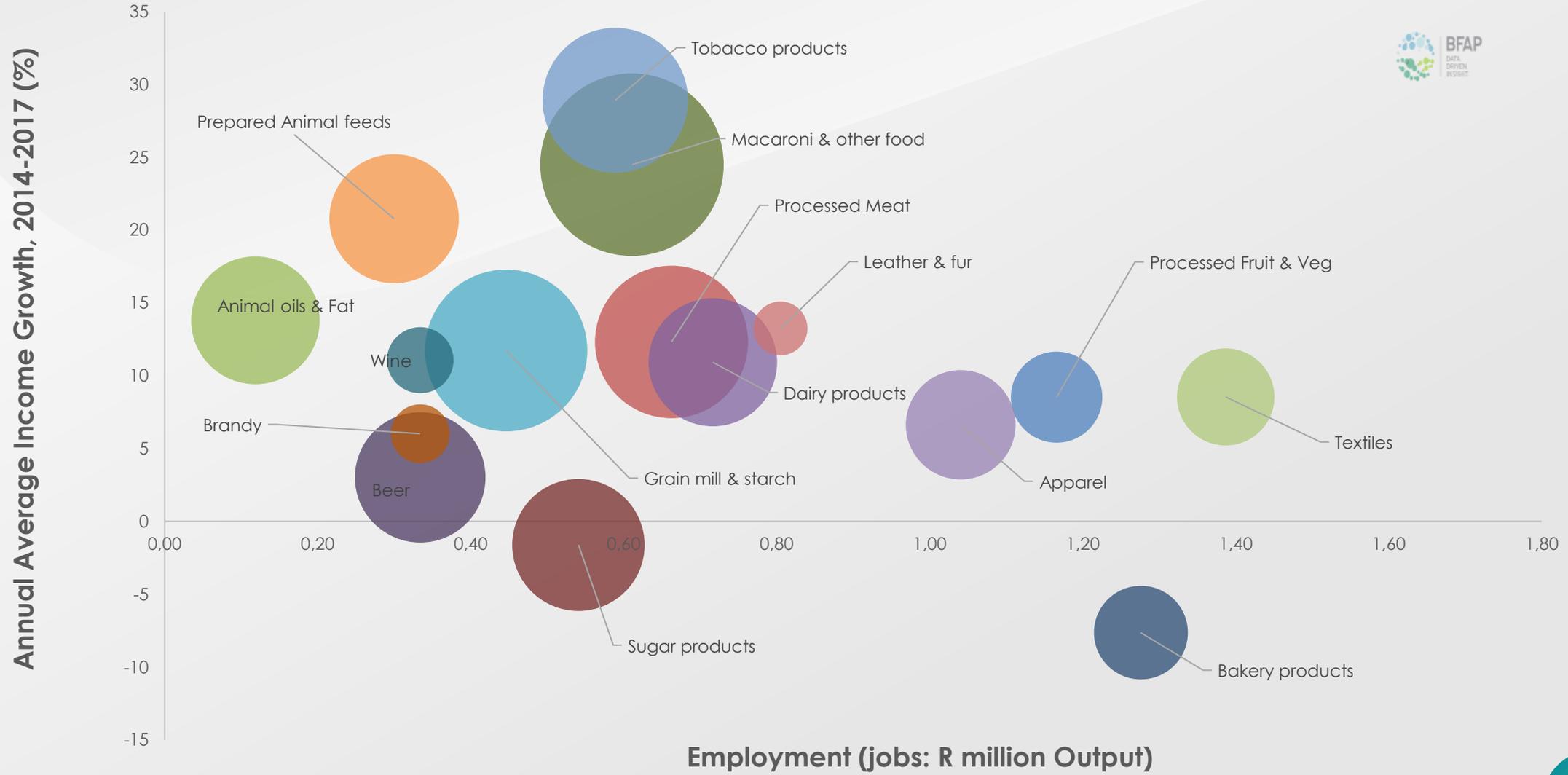


RSA Employment: 2019



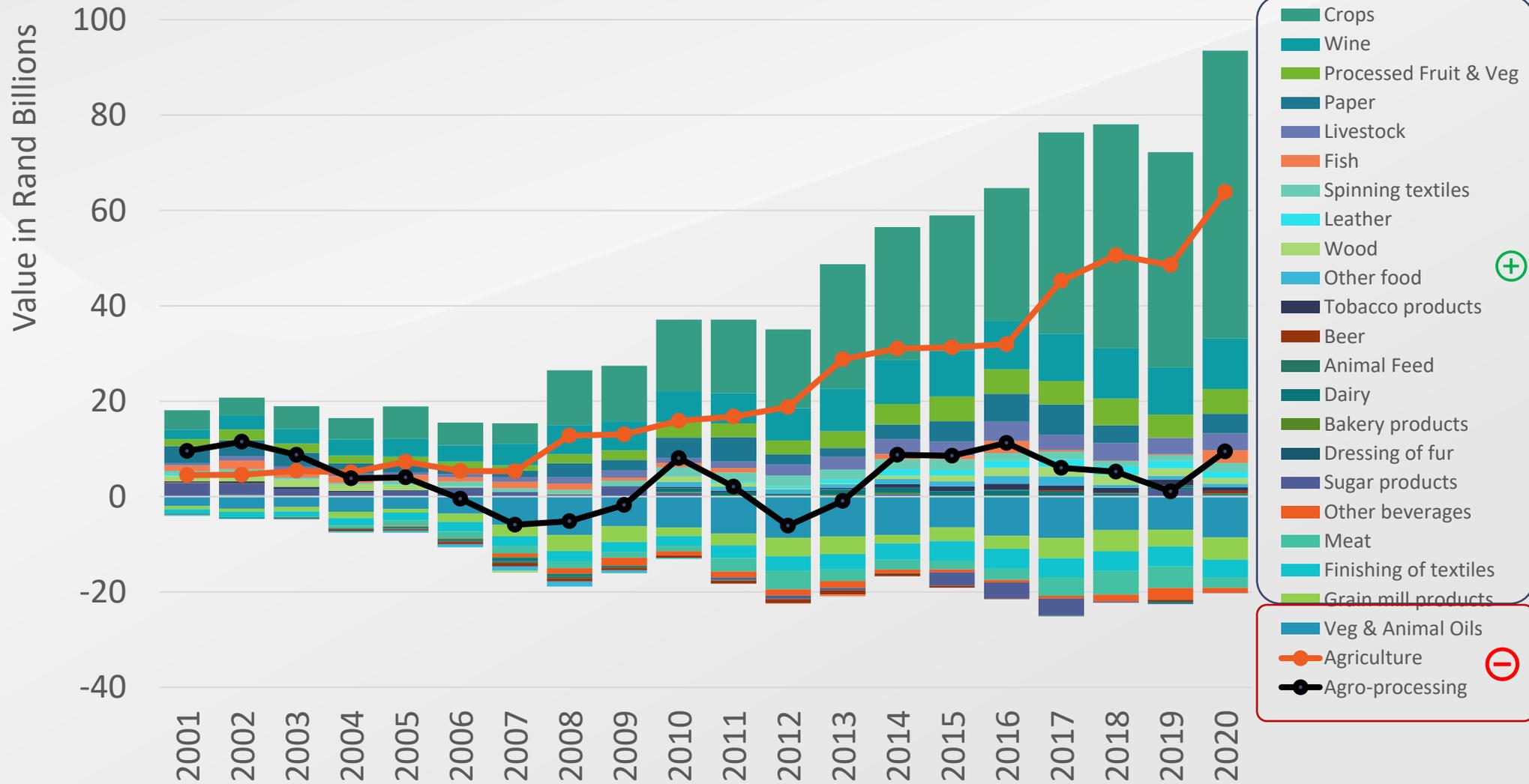
Agro-processing industries

growth and relative sizes are important, but lack updated data



Trade Dynamics

primary agriculture outperforming agro-processing in trade balance

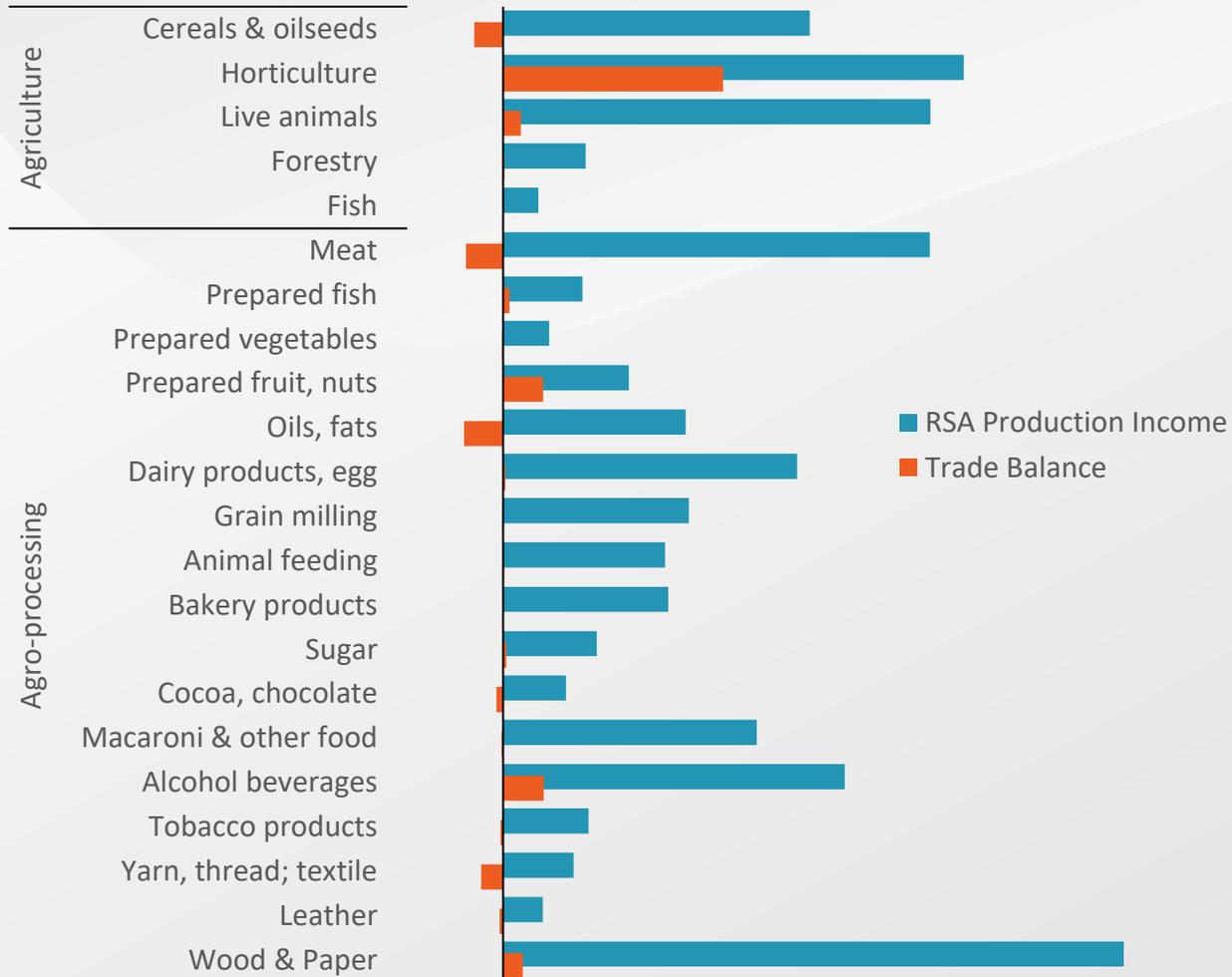


Agro-processing in Context

the main drivers of Agro-processing performance

Income and Trade Balance (R billions)

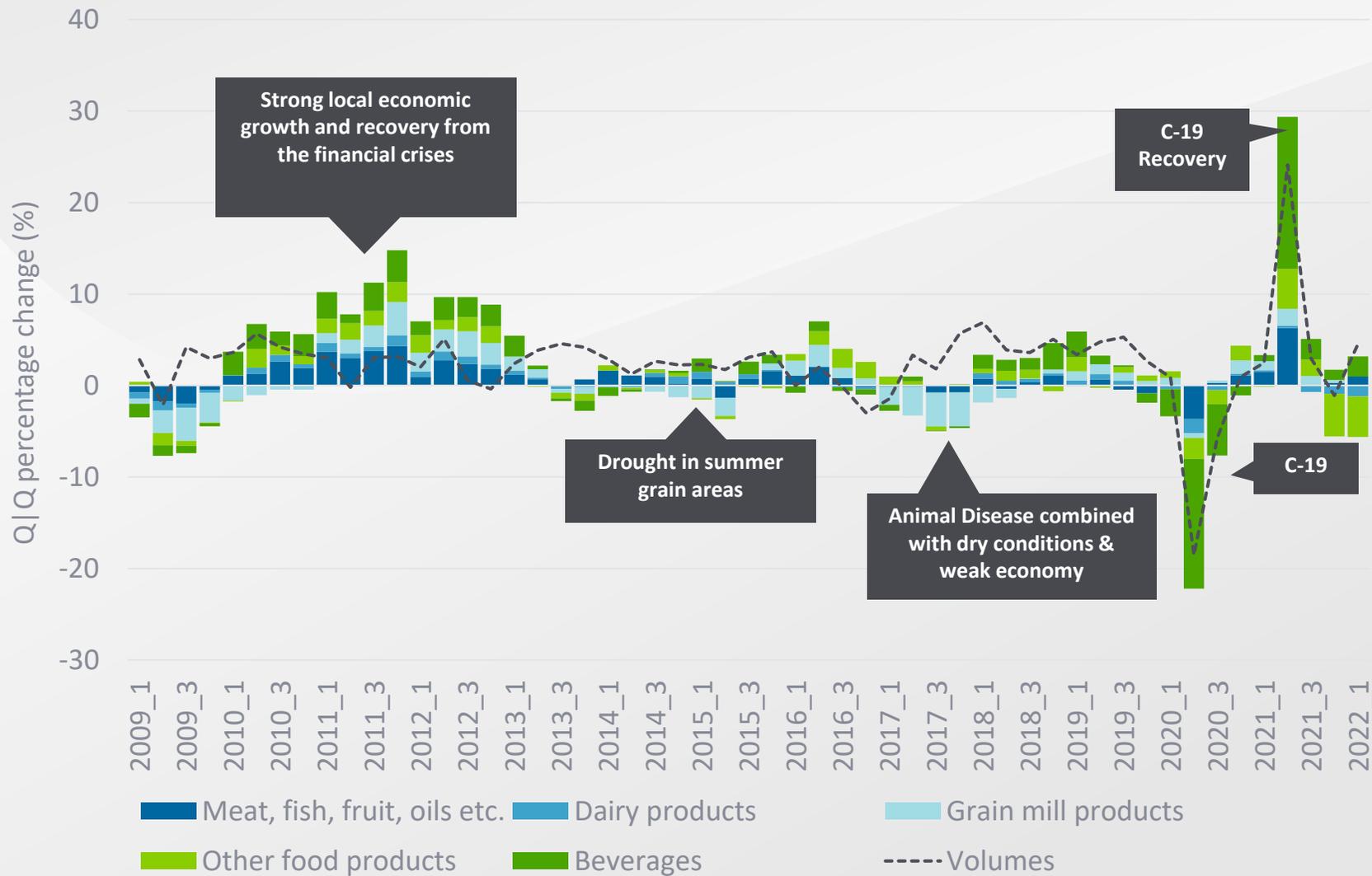
-20 0 20 40 60 80 100 120 140



- 1) Local agriculture production & competitiveness
- 2) Economic conditions and HH spending power
- 3) Trade dynamics, location and infrastructure

Industry	Real Average Annual Growth in Output (%)			
	2000-2005	2005-2010	2010-2015	2015-2020
Meat, fruit & veg, oils	7.49	2.83	0.95	1.1
Dairy	4.37	2.22	2.1	2.46
Milling products	8.39	1.92	0.03	-0.33
Other Food	3.72	2.46	-1.17	2.62
Beverages	2.44	-0.21	0.75	-1.13
Tobacco	0.9	-0.3	0.56	-2.65
Textiles	-3.63	3.77	1.5	-5.14
Other textiles	3.95	1.2	-2.83	-7.54
Leather	6.34	3.3	-1.69	-7.34
Wood	4.38	1.43	1.26	-4.53
Paper	3.51	1.14	-0.3	-2.45
Total	4.5	1.65	0.24	-0.55
RSA GDP	3.90	3.49	2.30	-0.23

Agro-Processing Performance



The period after the global recession saw strong growth in the local economy

2010-2013 – GDP growth averaged 2.7%

During times of excessive price increases in commodity prices, processors are squeezed.

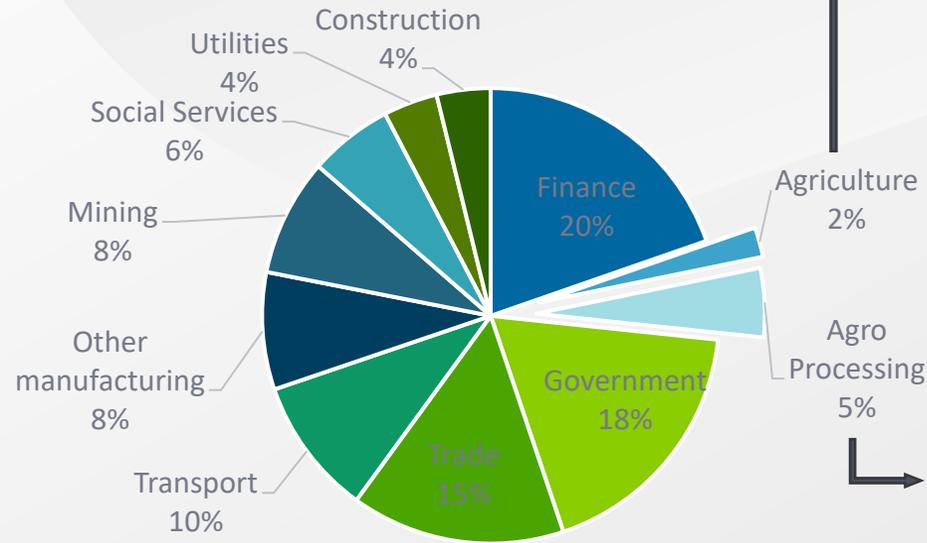
Example of the 2015/16 drought on the milling industry.

Animal disease also heavily affected margin in the feed industry with Avian Influenza on poultry in 2017.

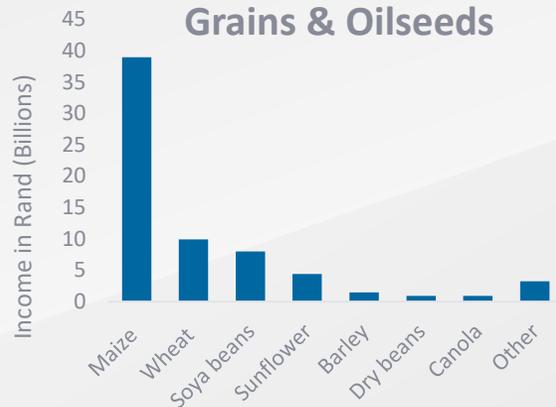
Integrated Value Chains

Example of Animal Feed

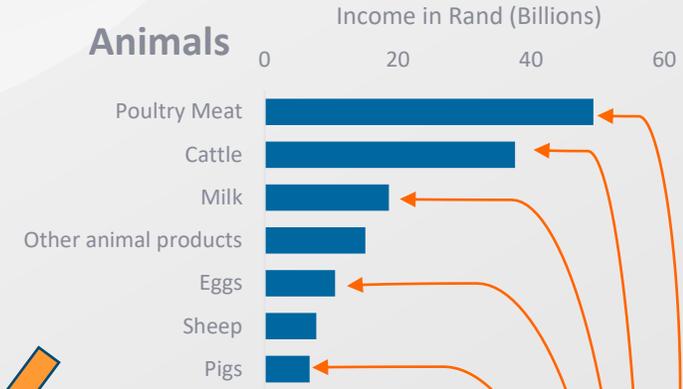
RSA GDP: 2019



Income



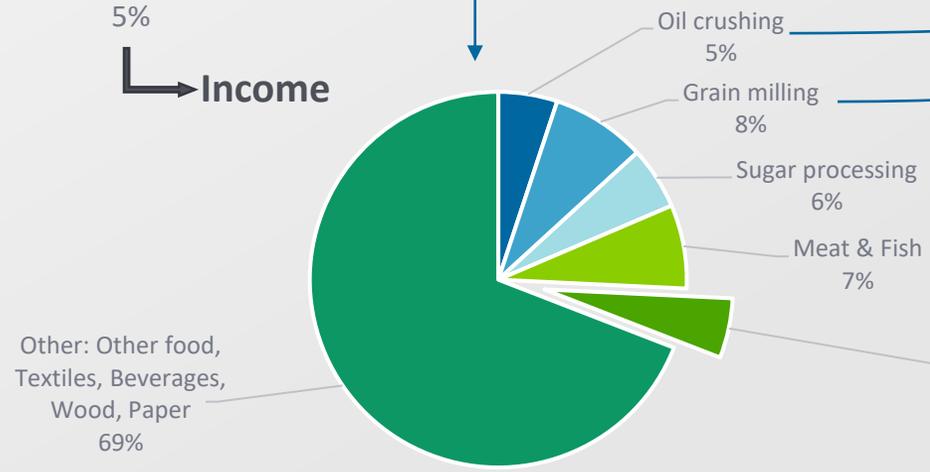
Animals



Agriculture 2%

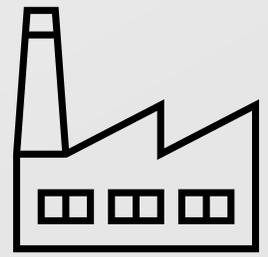
Agro Processing 5%

Income

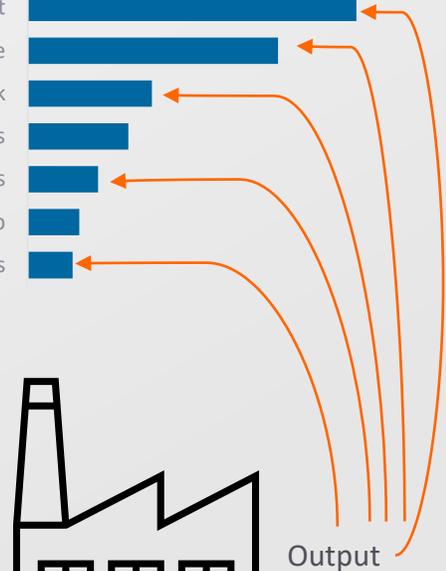


Prepared Animal feeds
5%

Input



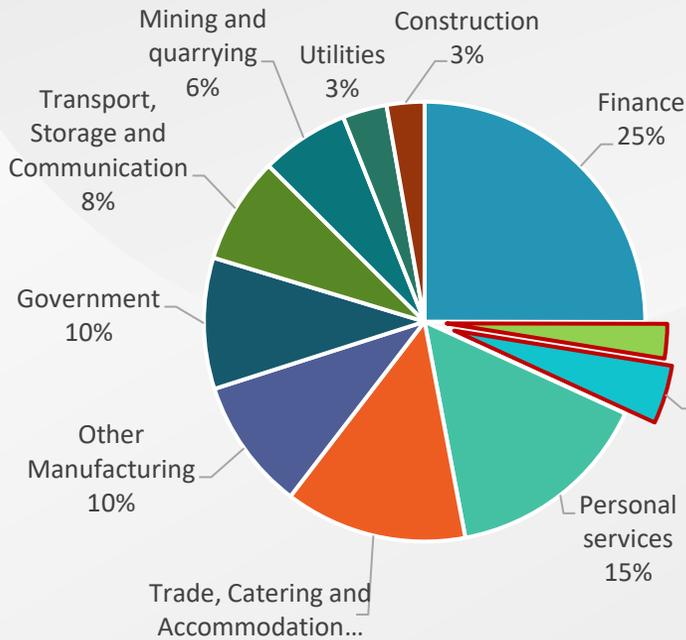
Output



Integrated Value Chains

Example of Oil Crushing

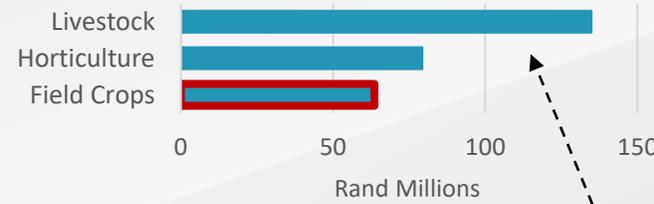
RSA GDP 2018



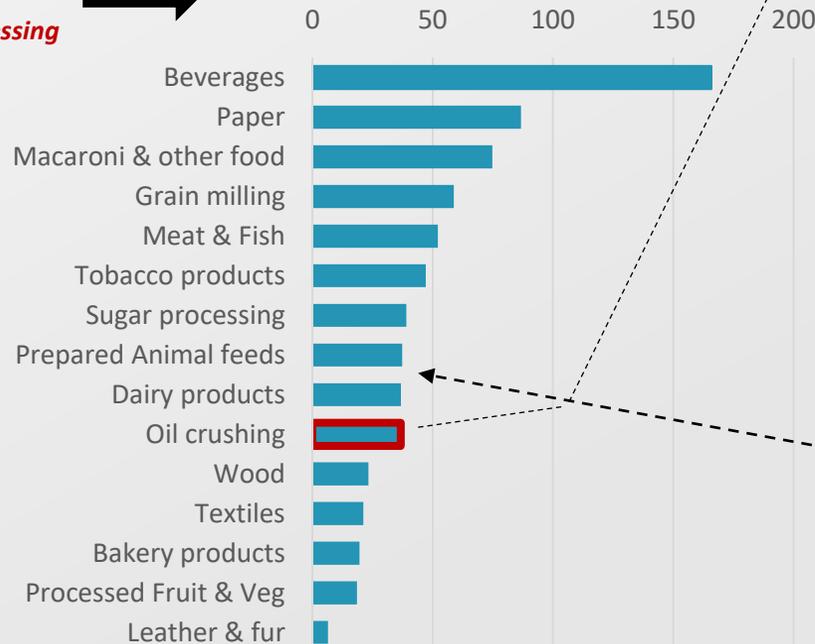
Agriculture, forestry and fishing
3%

Agro-processing
4%

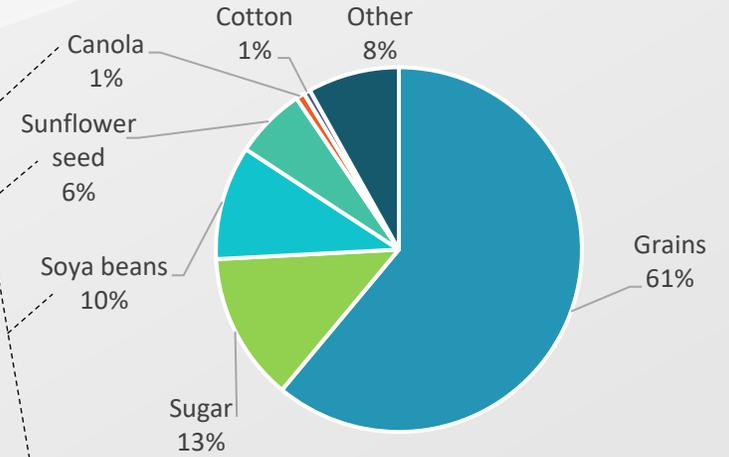
Income Breakdown 2017



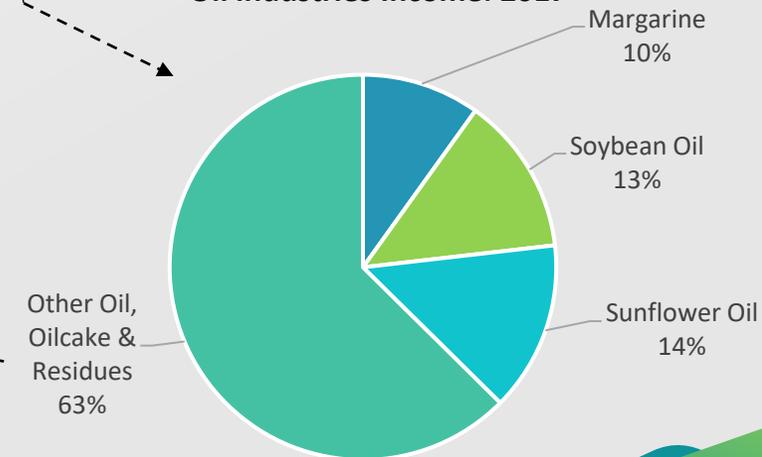
Income Breakdown 2017



Field Crop Income 2017



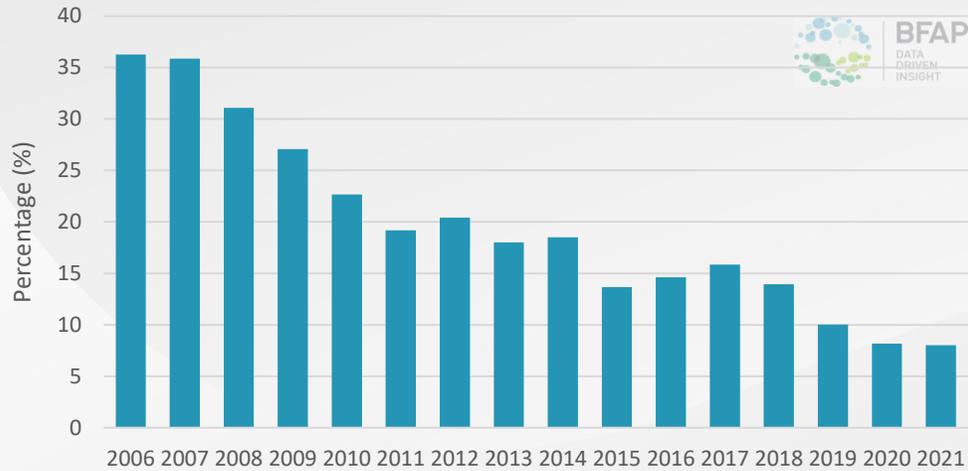
Oil industries Income: 2017



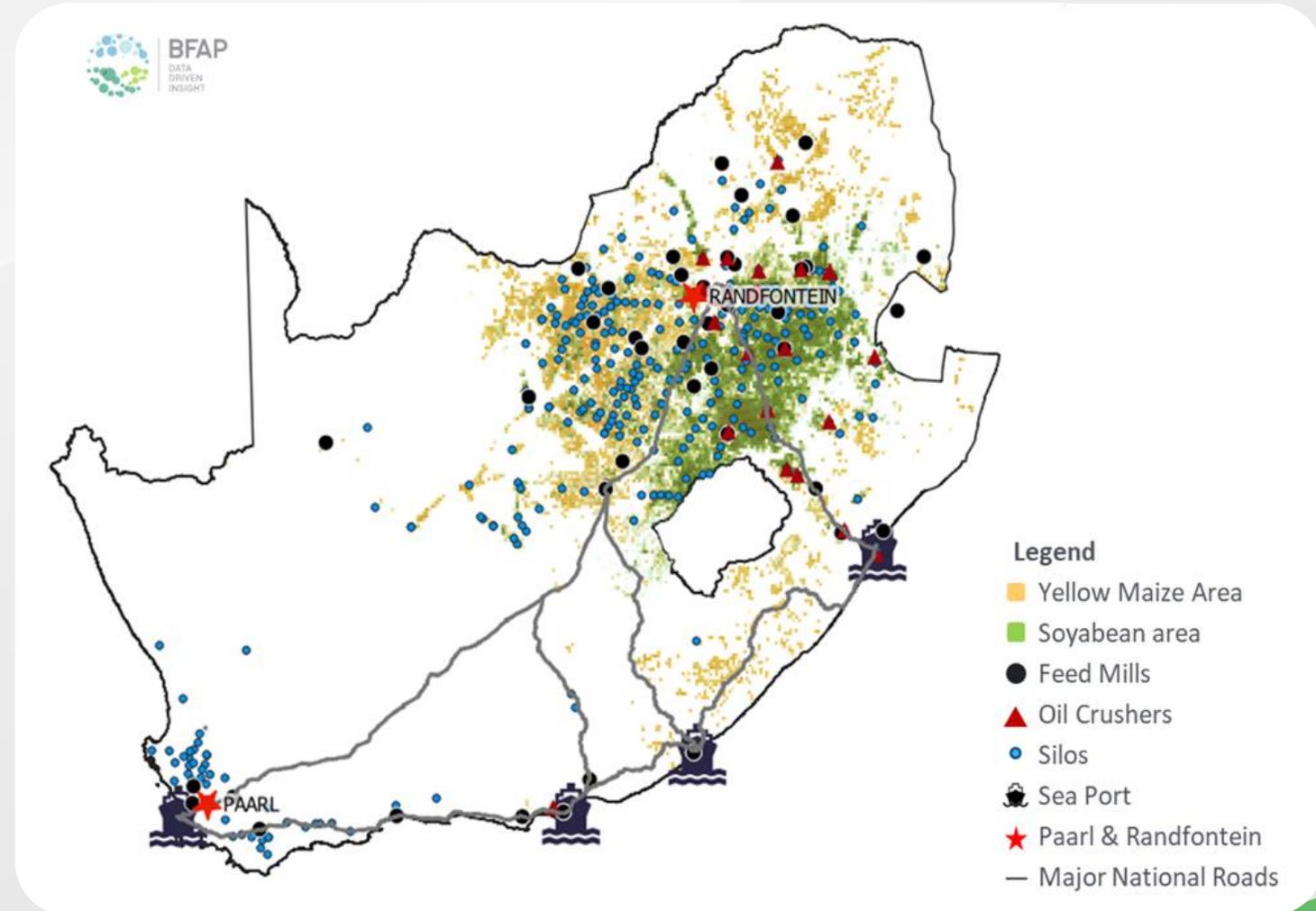
Transport & Location

Declining use of relatively cheaper rail transport at additional cost

Maize & Wheat rail use



Soyabeans, Barley & Oats rail use



Scale, Investment & Risk

Important differences between agriculture and agro-processing

Item	Agriculture R million	Food Processing R million
Income	332 756	373 678
Number of Farms/Firms	40 122	3 696
Average size	8	101
Employment	757 628	189 162
Employment Multiplier	2	0.51
EBIT Margin	12%	6.34%

- Similar income size
- X10 fewer commercial firms and much larger units
- Lower employment multiplier
- Tight margins

Industry	Net Profit before Tax & Dividends (%)				Average Margin (%) 2016-2019
	2016	2017	2018	2019	
Meat	2.59	3.60	4.21	1.96	3.09
Fruit & Vegetables	6.62	6.81	6.42	4.03	5.97
Oil crushing	1.59	2.78	3.17	2.68	2.56
Dairy	4.01	2.68	2.55	2.82	3.02
Grain milling & Other food	7.74	1.54	1.42	2.86	3.39
Animal Feeds	5.90	3.31	4.56	2.36	4.03
Bakery	5.54	5.45	6.36	0.77	4.53
Sugar	1.61	6.44	1.05	-4.92	1.04
Wine	8.52	8.47	7.56	5.64	7.54
Spinning textiles	4.15	3.32	4.39	2.23	3.52
Average	4.83	4.44	4.17	2.04	3.87

Agro Processing:

- Lower margins, relatively lower risk
- Volume & capacity
- Imports & sourcing of raw materials
- Location, Capital investment, local demand

4. Panel Discussions



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Panel Members

Lithu Kutta – Tiger Brands

Nico Moloto – Pepsico

Rico Basson – Vinpro

Charles Wyeth – Distell

Guiding Questions

- 1) Given the context provided the overview presentation, talk through what you expect to happen in the next 6-12 month in your industry
- 2) What is your take on the AAMP's interventions for Agro-Processing
- 3) Any specific views on policy levers that can help unlock growth in agro-processing and specifically boost transformation in this sector

Thank you



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