AGRO-PROCESSING - MANUFACTURING CIRCLE INPUT TO THE DTI REGARDING OPPORTUNITIES FOR TRANSFORMATION AND GROWTH THROUGH AN APSS SOLUTION

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MANUFACTURING CIRCLE EMPLOY . PRODUCE . PROSPER

Context: Industry's input to dti's APSS

Starting Point: dti's intention to implement APSS

AGRO – PROCESSING SUPPORT SCHEME (APSS) GUIDELINES
INDUSTRY STAKEHOLDER WORKSHOP

The dti, through the Incentive Development and Administration Division (IDAD) will be holding stakeholder engagements with key stakeholders in the agro-processing sector. The objective of the engagements is

- ✓ to understand the support that **the dti** can provide to firms in the sector to revitalise its potential and inject new entrepreneurial dynamism
- ✓ to understand the profile and offerings of key stakeholders in the sector
- ✓ to understand the challenges and opportunities faced with regards to the sector becoming more competitive and transformative
- ✓ to encourage the promotion of value addition, processing and economic transformation in the sector

Criteria:

- R20m per application (assume this is per business plan); dti has intimated this could possibly be higher
- Covers new and existing agro-processing activities or beneficiation across the value chain (post harvest onwards)
- Local procurement- how will inputs be sourced from primary sector
- Geographic spread
- Employment/ labour
- Transformation and Growth (to start applicants have to be BBBEE level 4 and higher)
- Funding typically applied to new machinery and equipment, commercial vehicles, buildings and competitiveness improvement and labour(?)
- Focus on various sub-sectors including Food and Beverage Value Addition

Context: Industry's input to dti's APSS –

Participating Industry Players / Bodies

Industry Representatives under MC auspices

		Business description:	Key focus of this Initiative:
DISTELL	Distell	Leading producer and marketer of spirits, fine wines, ciders and ready-to-drinks	• Substitution of international Apple concentrate with SA product • Boost for SA Cider localisation / exports
McCain	McCain	One of the world's largest manufacturer of frozen French fries and other potato specialties.	• Boost of SA potato production in support of local French Fries production
mpact	Mpact	One of largest paper and plastic packaging businesses in Southern Africa with strong Agricultural Sector focus	• Support for local AP Sector through increase and expansion of SA and Export capacity
PIONEER FOODS	Pioneer Foods	One of the largest SA producers and distributors of a range of branded food and beverage products	• Increased local beneficiation and exports in Agro-processing of Maize and Wheat products
two a day	Two-a-Day	One of the leading fruit growing, packing and marketing companies on the African continent	• Increased local beneficiation and exports of Apples / Pears or other SA produced products
agbiz agricultural business chamber the way to prosperity	Agbiz	Agbiz is a voluntary, dynamic and influential association of agribusinesses operating in South and southern Africa.	• Ensuring that agribusiness plays a constructive role in the country's economic growth, development and transformation

Context: Industry's input to dti's APSS -

Scope: Agro-processing Sector as element of integrated Agricultural Value Chain

Hi-level overview of SA Agricultural Value Chain

Competitive Equation: Yield per Ha / Cost per Ha			Competitive Equation: Cost / number of units		Competitive Equation: delivered cost
Natural Resources	**Inputs**	**Enablers**	**Infrastructure**	**Manufacturing**	**Market**
Land Water Soil Climate	Seed Fertilizer Pesticide Herbicide Energy Labour	Mechanization Technology Skills Funding	Storage Grading Energy Water Access	Capital Technology Skills	Increase local consumption Export

Farming → Agro Processing → Retail / Export

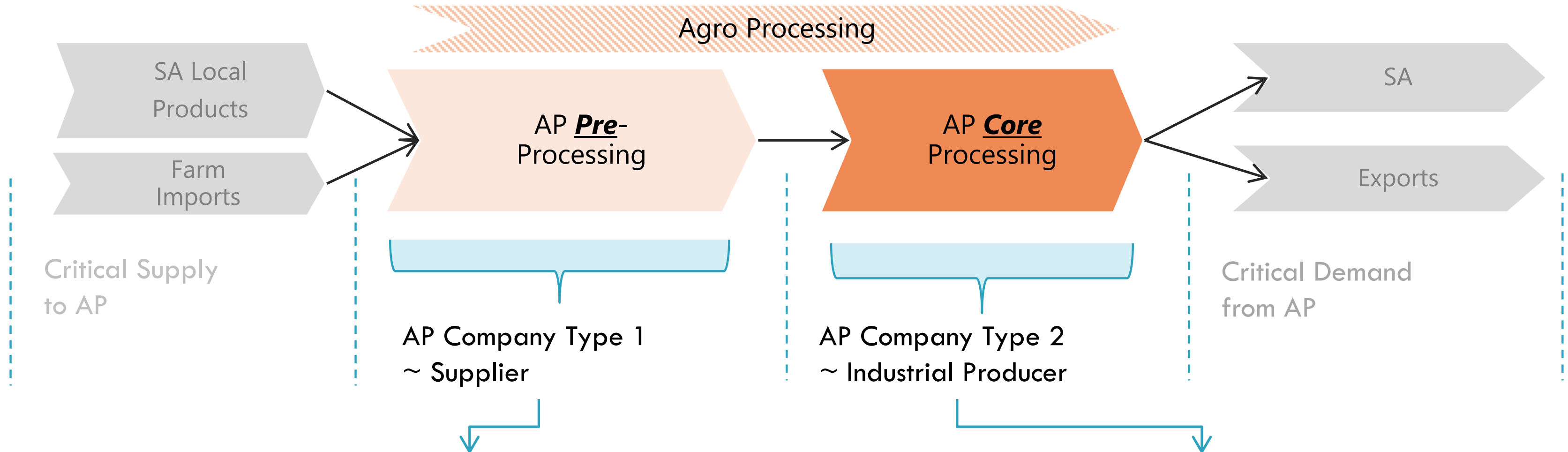
Secondary | Primary | Tertiary

Scope and focus areas of Industry Input to dti on APSS:

- Barriers to Growth incl. Supply Chain imbalances
- Off-take and markets to absorb additional growth
- Competitive-ness along complete SC
- Various partnerships and collaborative mechanisms
- Transfor-mation and expansion of Supply Base
- Effective deployment of Industrial Policy

Agro-processing workings & implications –

Distinction between two Company "Types" in AP Sector for APSS Solution Design



Size of Business	Small- to medium-sized	Large companies to Corporates
Typical Investments	< R 200 Million	R 200 million to R 2 Billion
Nature of business	1st level of conversion of Farm products or fulfilment of "in-between" upstream or downstream needs	Final conversion of agricultural product to final sellable product into SA or for exports
Regional presence	Typically localised where supply allows for this	Location dictated by Production and proximity to markets
Number of relationships	Sustainability depends on volume throughput and thus ideally multiple suppliers and customers	Business success depends on continued supply, input costs, quality and ability to satisfy upstream client needs
Nature of product	"Unfinished" Product not suited to sale to End-customer or Product used in support of AP operations	"Finished" Product which is packaged, fulfils end-market requirements and is sold to the End-customer
Examples	Production of Fruit concentrate from "raw" Fruit, which is supplied upstream as input for different products destined for End-customer consumption	Sourcing and conversion / utilization of Fruit concentrate to End-customer products such as Jam, Yoghurt, Cider, Fruit Juice, Sauces etc.

APSS Support List, Models and Benefits –

Summary of 1st Draft of Industry Projects as part of APSS (1 of 3)

	Agro-processing Sub-Sector	Model*	Proposed New Investment Activity	Specific requirements to be fulfilled	Region	Reasoning behind these intentions	Assessment of opportunity for Black Industrialisation / ESD	Estimate of overall Scale Investments / Upgrade (ZAR Millions)	Estimate of Direct jobs to be created / grown	Demand Partner(s) involved in Off-take or support of Initiative
1	Apples & Pears	1	Anaerobic Digestion Reactor	Use waste fruit for the production of Methane gas	Western Cape	- This process will generate income and will stop waste fruit from going to landfill sites	(Black Ownership > 25%)	15	4	Elgin fruit Juices
2	Apples & Pears	1	Natural Gas compression plant	Compression of natural gas from Anaerobic Digestion plant	Western Cape	Can be used as an replacement for Fuel, or other energy sources	(Black Ownership > 25%)	15	10	TAD transport division & AFROX
3	Apple	1	Apple pip extractor	To add value to pips by converting in to natural oil	Western Cape	Presently the pips form part of the waste stream in juice production which doesn`t add value	(Black Ownership > 25%)	20	5	Medical Industry
4	Maize	1	Milled maize processing	Additional capact to add value to milled maize	NW	Shift in demand patterns towards convenience	Part of Pioneer Foods	60	80	General public

*Model refers to different Type of Transformation & Growth Model that is applicable

APSS Support List, Models and Benefits –

Summary of 1st Draft of Industry Projects as part of APSS (2 of 3)

	Agro-processing Sub-Sector	Model*	Proposed New Investment Activity	Specific requirements to be fulfilled	Region	Reasoning behind these intentions	Assessment of opportunity for Black Industrialisation / ESD	Estimate of overall Scale Investments / Upgrade (ZAR Millions)	Estimate of Direct jobs to be created / grown	Demand Partner(s) involved in Off-take or support of Initiative
5	Transpor-tation	1	None	Ability for black owners to establish own transportation business	Gauteng	Provide business opportunity for black owners at relatively low capital input requirements	Very High	30	60	Pioneer Foods
6	Wheat	1	Bread bakery	Ability to produce plant bread in EC	EC	Limited supply of bread in this region with growing demand	Part of Pioneer Foods	250	90	General public
7	Potatoes	2	Pre-processing storage	Ability to store potatoes to allow for more competitive raw materials; this benefits export opportunities	National	- Storage to scale with increased emerging farmer potato output	Very high (Black Ownership > 50%)	800	45	McCain
8	Apples & Pears	2	Plastic fruit Crates	Not enough plastic crates in SA to supply the demand, currently crates being imported. Import Replacement	Western Cape	- To manufacture crates locally would replace the import of crates to SA	(Black Ownership > 50%)	250	20	Two-a-Day & various industry players
9	Fruit prcessing	2	Fruit Processing	Ability to prduce and store concentrate from fruits	WC /Limpopo	Limited local supply due to fruit shortage as well as number of suppliers in SA.	Very high.	100	85	Pioneer Foods

*Model refers to different Type of Transformation & Growth Model that is applicable

APSS Support List, Models and Benefits –

Summary of 1st Draft of Industry Projects as part of APSS (3 of 3)

	Agro-processing Sub-Sector	Model*	Proposed New Investment Activity	Specific requirements to be fulfilled	Region	Reasoning behind these intentions	Assessment of opportunity for Black Industrialisation / ESD	Estimate of overall Scale Investments / Upgrade (ZAR Millions)	Estimate of Direct jobs to be created / grown	Demand Partner(s) involved in Off-take or support of Initiative
10	Apples	2	Fruit Concentrate Processing	Ability to produce and store Apple Juice Concentrate (AJC), and potentially concentrate from other Fruit types.	EC	- AJC supply shortfall in SA. (Local demand exceeds local supply.) - Support for Import Substitution. - Increased localisation of AJC. - Increased Black Ownership/ Participation in AJC industry.	Majority Black Ownership (>50%)	115	62	Distell
11	Potatoes	3	Mechani-sation Unit	Ability to access globally competitive potatoes allowing for export potential	National	- Support emerging farmers to become sustainable commercial competitive farmers	Very high (Black Ownership > 50%)	200	60	McCain
12	Apples & Pears	3	Greenfield Apple & Pear Orchards	Create a sustainable fruit supply to factory/processing plant	Western Cape	- Pack houses won`t be efficient without a constant supply of fruit, jobs will be created in the rural economy	(Black Ownership > 50%)	120	300	Two-a-Day / Tru Cape
							Totals	1975	821	
							Avg Cost per job	ZAR 2,405,603		

*Model refers to different Type of Transformation & Growth Model that is applicable

APSS Support List, Models and Benefits –

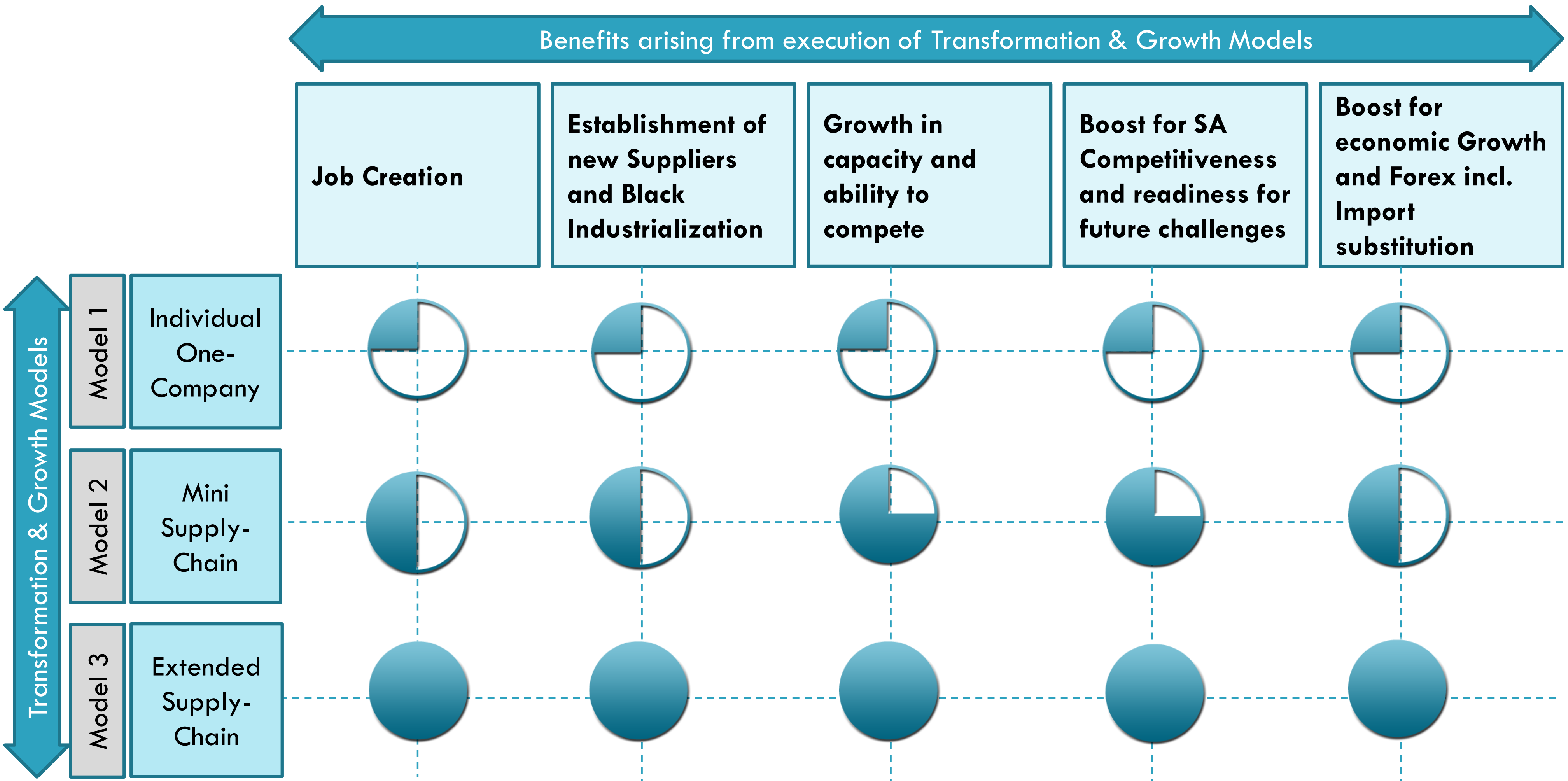
Elements of Support underpinning Transformation & Growth Models

Elements of Support to enable Transformation & Growth Model Options

Transformation & Growth Models		Support for the purchase of AP-related machinery, equipment, buildings, vehicles etc. for improvement of competitiveness	Support with aspects related to Investment Capital for the establishment or development of a Business Venture	(Possible) Support for the Development of specific Training, ISO standards, global MNV Supply Chain Requirements etc.	Support to Buying party / Sponsor to encourage and financially support establishment or expansion of Supplier	Capital for Investments related to extended Catalytic Focus beyond AP focus (i.e. including Agriculture)
Model 1	Individual One-Company	✓	✓	✓		
Model 2	Mini Supply-Chain	✓	✓	✓	✓	
Model 3	Extended Supply-Chain	✓	✓	✓	✓	✓

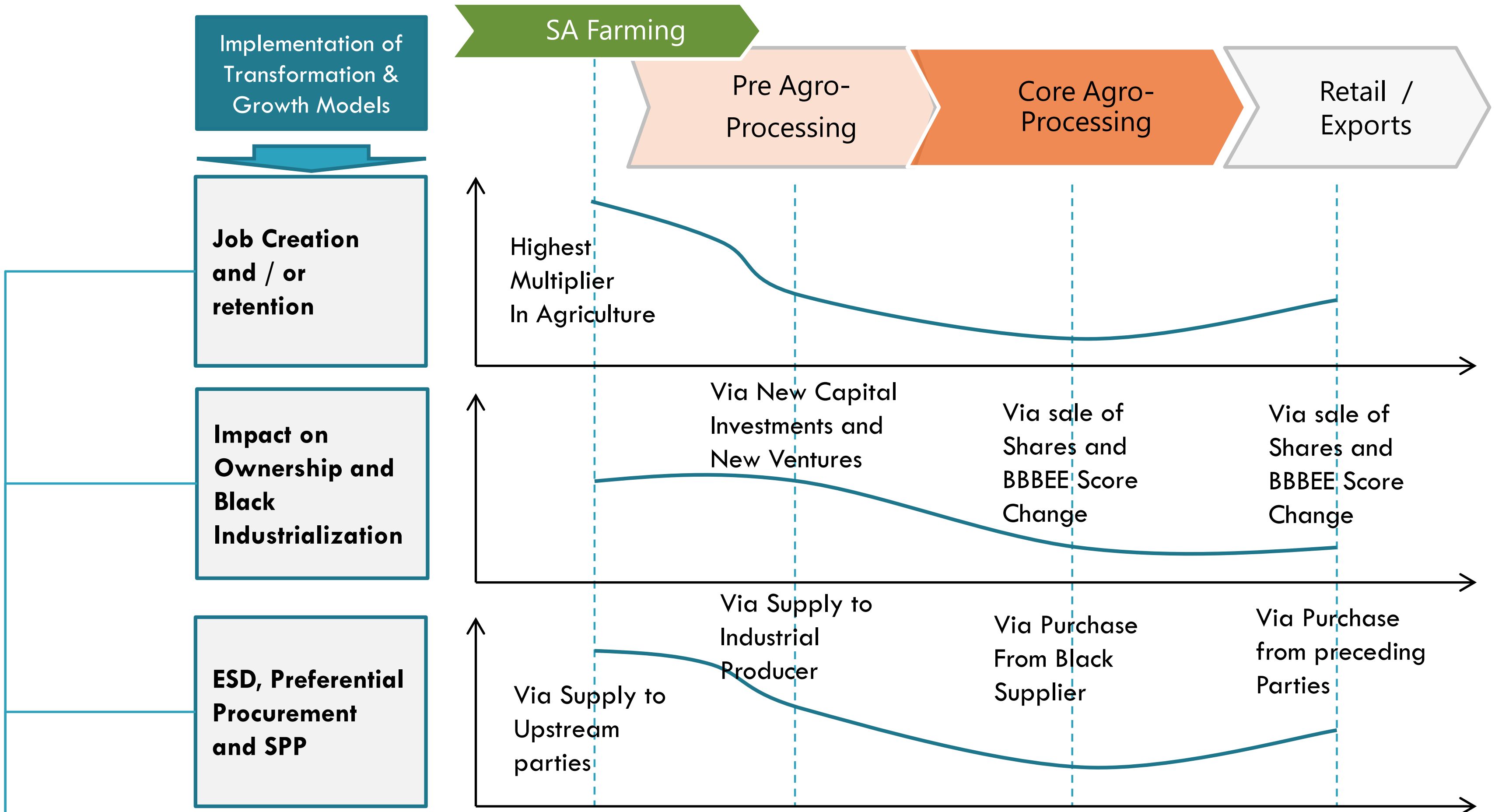
APSS Support List, Models and Benefits –

Benefits arising form various Transformation and Growth Models



APSS Support List, Models and Benefits –

Recommendation: Multi-link and extended Value Chain Solutions with greatest impact



- The Transformation & Growth Models vary in the scale and breadth of the impact they achieve
- It is argued that the deployment of Multi-link Growth Options (Models 2 & 3) are critical to achieve large-scale impacts over the medium term given that Agriculture is clearly the area of highest relative Multiplication

APSS Design Inputs –

Incentive Design Inputs (1 of 3)

Issue	Challenge faced	MC Recommendation
Costs covered	The proposed incentive only covers capital costs	Consideration should be widening out the costs types to be supported in a phased approach, but process of applying for each cost type be separated out
BBBEE level 4	Many current companies in agro space are not BBBEE level 4 under new codes	• Consideration should be given to a having the entry point for the APSS to be BBBEE compliant (similar to auto) and then have a sliding scale of benefits based on BBBEE level ie companies get rewarded for higher BBBEE score rather than being excluded completely • The intention of Core AP Companies would be to improve their BBBEE score through ESD, Preferential Procurement and Black Industrialization activities • The exclusion of these companies for these companies on the basis of lacking current BBBEE score would therefore be counter-productive
"Crowding out" of other incentives	There is a risk there is an overlap between APSS and other incentives such as BIS and SPP	We suggest that the APSS be designed to cover projects below R30m BIS threshold and also below 51% black ownership. Consideration of similar costs incurred by large company to project develop be supported by APSS at project level

APSS Design Inputs –

Incentive Design Inputs (2 of 3)

Issue	Challenge faced	MC Recommendation
Quantum	The cap on the incentive of R20 million may be insufficient	Certain complex projects in the agro processing value chain need more support to ensure they are approved by the company. We suggest that a mechanism be created for special strategic projects for increased support if it meets strict criteria
Form of Incentive	We understand the dti has budgetary constraints therefore grant budget is limited	We suggest for projects above a certain value ie strategic projects, that a tax incentive be designed (as per World Bank recommendation). Learnings from S12I to be taken into account (e.g. entry level at R50m and incentive quantum range between 35% and 100% of capital cost)
Support for upstream purchasing parties sponsoring / supporting ESD and Black Industrialisation	Core AP companies or parties "sponsoring" ESD / Black Industrialist ventures face significant expenditure prior and during new Venture Development as well as risks of One-Buyer Dependency	The following is suggested: • Financial support of "sponsoring parties" linked to the size of the Supply Venture being established or supported through inter alia off-take agreements; this applies to the planning stage as well as the first few years of supply • Considerable emphasis should be placed on establishing Ventures, where off-take is agreed by multiple purchasing parties

APSS Design Inputs –

Incentive Design Inputs (3 of 3)

Issue	Challenge faced	MC Recommendation
Window for application and timelines	Agriculture projects are very sensitive to timing and seasonal. Proposed commencement of production at 90 days after approval and no costs incurred before approval creates various challenges including: • Ordering of long lead capital items esp if imported • Timing of DTI approval is unknown • Seasonal production could mean delay of 12 months if window to commission is missed	We recommend the following: • If window of application is retained, that formal processing timelines like Jobs Fund be made public so approval/rejection dates are clear • 90 days from approval should be amended to 18 months after approval to ensure seasonality and long lead times of capital items are accommodated • All costs incurred after submission of application should be allowed
Localisation of inputs	Localising of any agriculture input depends on establishment and growth period of the input.	We recommend that the length of time to establish agriculture inputs be taken into account in plans eg new apple orchards could take 7 years not 2 years to supply input. Proof that established should be sufficient.

APSS Design Inputs –

Recommendations incl. inter-relationships with other Incentives

- Manufacturing Circle values opportunity to give input into design of incentive and going forward
- Agro- processing is linked to agriculture value chain therefore it is vital that inter relationships between these 2 value chains be taken into account
- Vital that seasonal nature of value chains and length of time to set up new inputs be taken into account in design of agro-processing value chain
- Biggest opportunity for transformation is in niche agro processing and also in farming value chain
- Consideration should be given to how to incentivise current BBBEE levels that are worse than entry level of 4
- Consideration needs to be given to supporting local manufactured inputs into farming value chain as these inputs impact competitiveness of agro processing value chain
- Consideration on large incentive for game changing interventions be considered – tax incentive or link with other incentives such as SPP, Jobs Fund.