

SADC Regional Agricultural Commodity Value Chain



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1. The purpose & outline of presentation

- * Give some context to theme of Conference
- * Briefly define value chains
- * Indicate some of most important VC's in SADC
- * Issues in VC's in SADC
- * Discuss important role players in VC's in SADC
- * Indicate some procurement issues
- * Indicate issue of power relations
- * Describe Private sector involvement in SADC
- * Indicate the role of PPP's
- * Give some guidance on how to improve the VC
- * Recommendations

2. Defining a Value Chain

- * A value chain consists of all **value-generating activities**, sequential or otherwise required to produce, deliver and dispose of a commodity (Schmitz, 2005).
- * More specifically, it “describes the full range of activities which are required to bring a product or service from conception, through the **different phases of production** (involving a combination of physical transformations and the input of various producer services), to delivery to the final consumer and final disposal after use” (Kaplinsky & Morris, 2000).
- This approach includes all its **backward and forward linkages**
- The concept of value chain also includes the issues of **organisation and coordination, the strategies and the power relationships** of the different actors in the chain

Most Important Value Chains in SADC

Ranked according to their potentially higher impact on the economy in achieving broad based growth

- 1. Maize** - over the period 2000-2010, it has accounted for an average of 79% of the region's cereal production
- 2. Cotton** - is a widely grown and traded commercial crop
- 3. Soybean** - has a well established industry
- 4. Broiler** - supply and consumption of chicken is increasing steadily - a cheaper source of meat protein in the region

Components of Value Chain analysis

➤ Inventory models of:

- Production
- Consumption
- Stock levels
- Value-chain mapping
- Procurement strategies
- Challenges & Constraints
- Regulation Framework
 - ✓ Grades & Standards
 - ✓ Sanitary & Phyto-sanitary requirements
 - ✓ Trade Restrictions (imports and/or exports)
 - ✓ Tariffs & NTBs
 - ✓ Informal trade

➤ Linking Country-level value chains into a Regional Framework

- a) Spatial Linkages
 - Major Transportation Corridors
 - Transportation costs
- b) Markets Linkages
 - Trade Flow Data (imports & exports)
 - Prices & Price Discovery Process

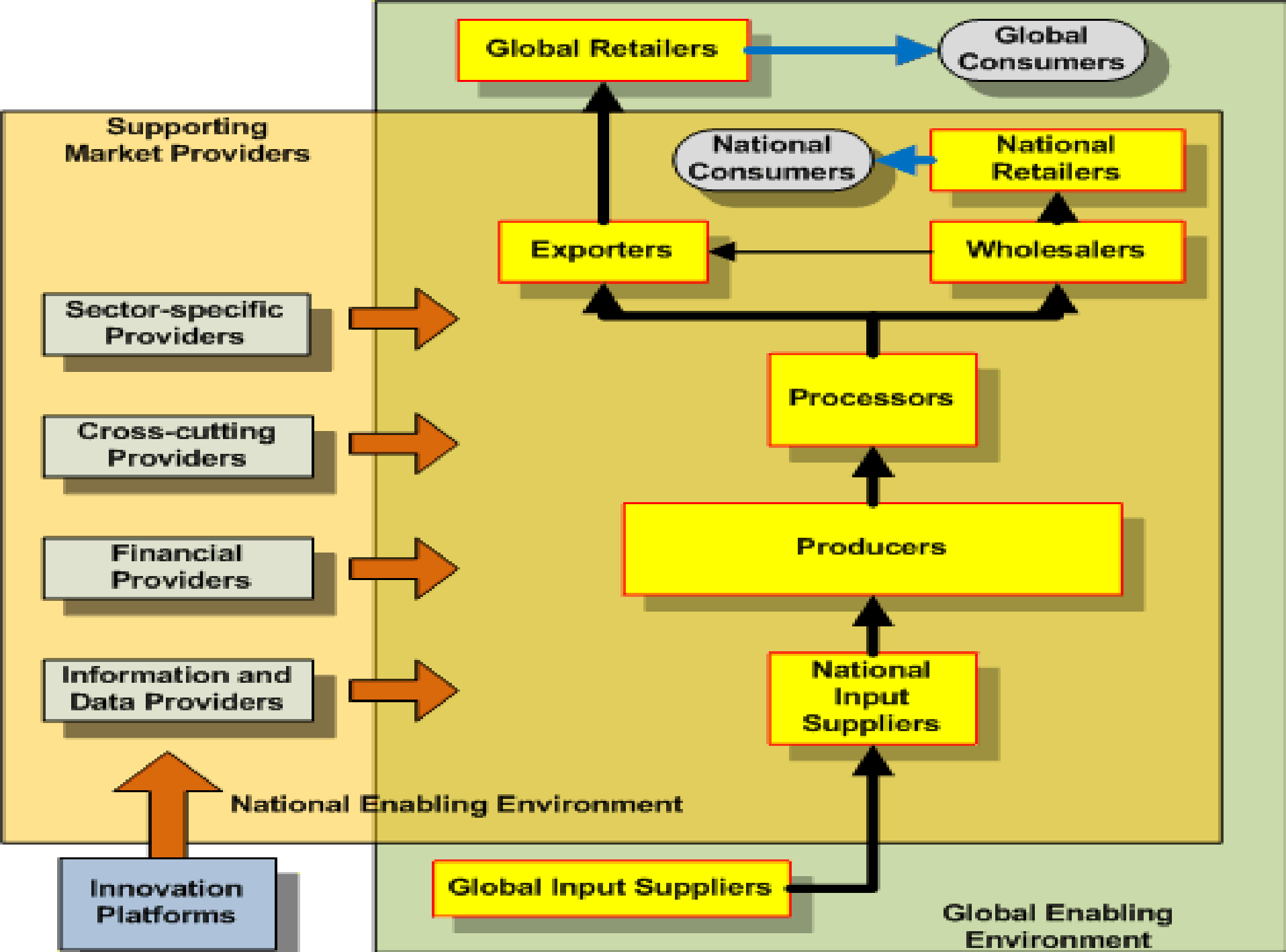
➤ Productive Resource Stock-taking

- a) Land
 - Availability & use patterns
- b) Water
 - Reservoir location
 - Existing irrigation schemes
- c) Storage Facilities
 - Inventory & location

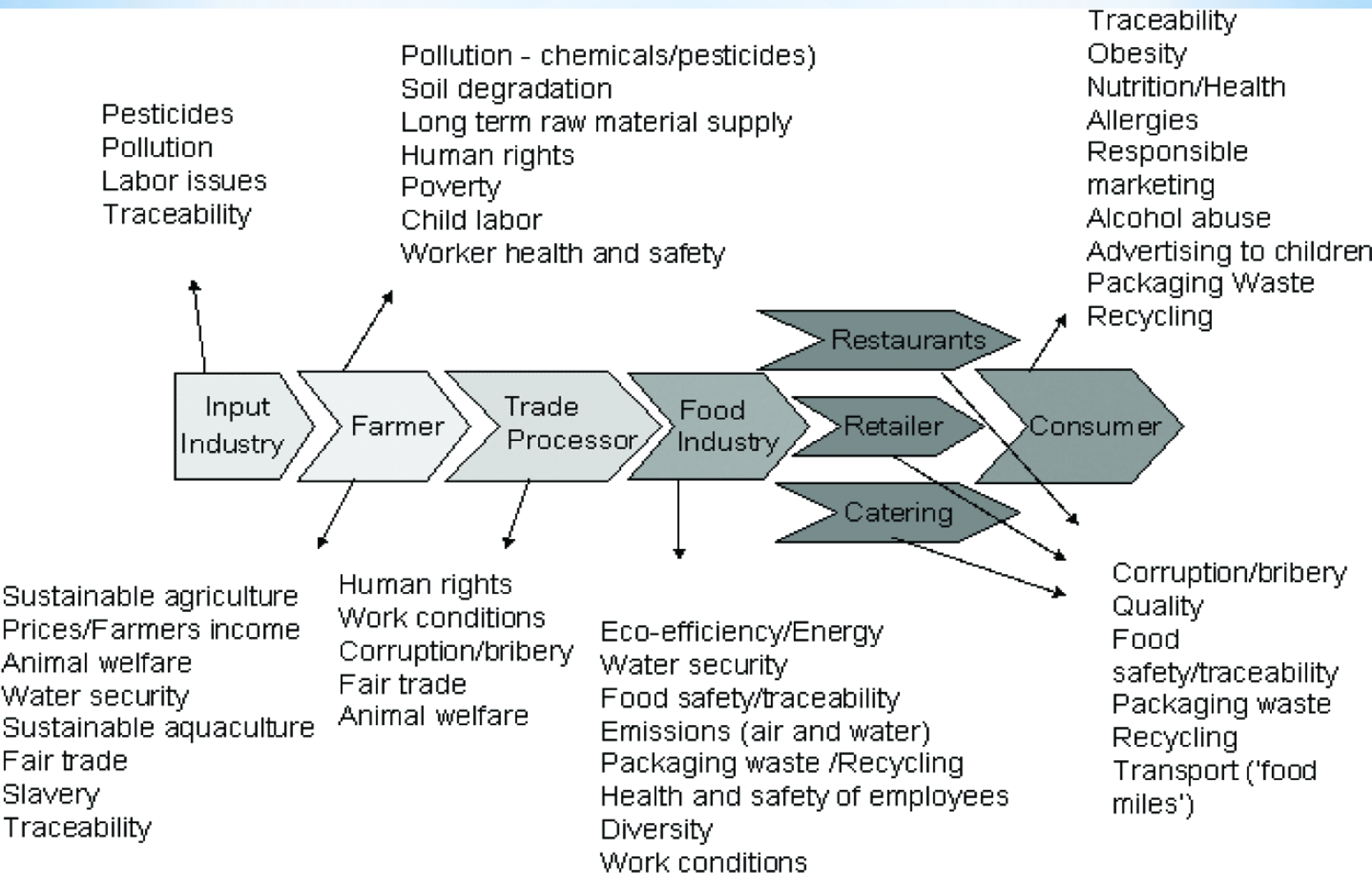
➤ Volatility of prices & vulnerability in relation to global prices & availability.

➤ Availability & quality of data/information

- Issues regarding GMO's, research, technology, infrastructure.



Value Chain Activities & Issues



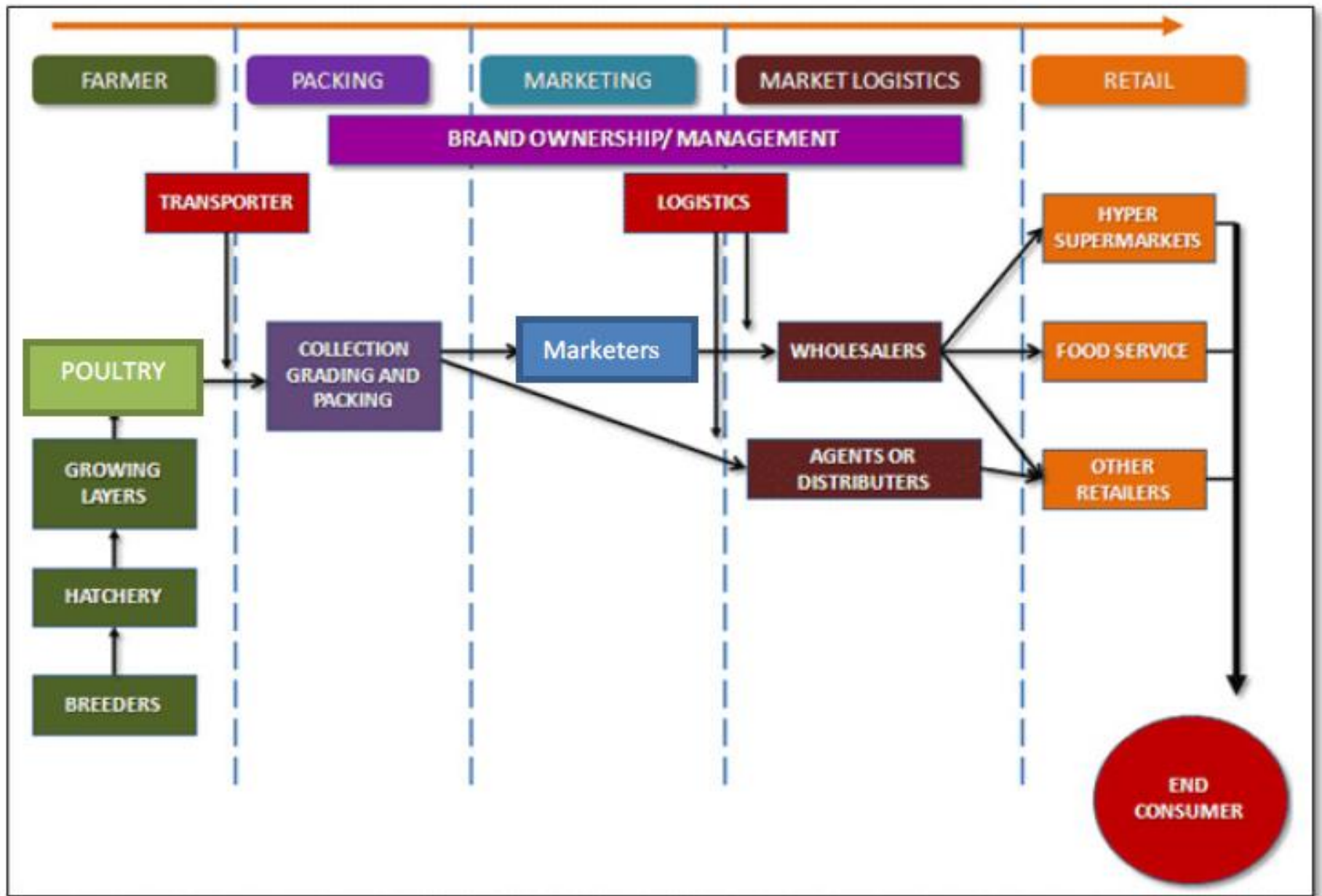


Figure 16: The Regional Broiler Supply Chain Map

3. Challenges & Issues in SADC Regional Value Chains

- * Value chain coordination & understanding amongst stakeholders
- * Value chain financing
- * Storage/ warehousing facilities
- * Price discovery throughout the value chain
- * High transaction costs
- * Participation of smallholder farmers
- * Land tenure
- * Regional/ national standards
- * Cross border trade issues
- * Infrastructure & logistics
- * Value adding challenges
- * Government intervention

Company	Sector/Industry	Type
Senwes, Afgri	Agribusiness	Input, trading, processors
Monsanto, Syngenta, Omnia	Input, R&D	Seed & fertilizer
John Deere	Machinery	Machinery, equipment
SABMiller	Beverage	Contracting, processing, retailing
Tongaat-Hullett	Sugar	Contracting, processing
Massmart, PnP, Shoprite	Retail	Procurement, retailing
RussellStone group	Agribusiness	Investing, trading
Standard, Absa	Banking	Financing, trading

Strengths

- Abundance of natural resources
- Change in mind set of leaders
- Greater level of interest in SADC
- Increases in FDI
- Increasing disposable income of SADC population
- Grocery retailers into SADC
- Banks in SADC
- Ease of doing business in SADC
- Presence of development organisations
- Internet, Telecommunication and Communication improvements
- Millennium Goals
- Political and Social unrest risk coverage

Weaknesses

- SADC countries' ranking on the HDI
- Inequalities in Africa
- Ease of doing business low
- Risk indices unfavourable
- Generally uncompetitive
- Land tenure issues
- Underdeveloped agriculture value chain
- Lack of private sector involvement
- Agriculture not attractive
- Lack of economies of scale in small agriculture
- Culture of non-payment of loans
- Lack of farmers support/ subsidies

Opportunities

- Infrastructural developments
- Interest of foreign countries
- Emerging regional trade & trade blocks
- Corridor developments
- Foreign direct investments
- Increased warehouse & storage capacity
- Value chain financing
- Value adding
- Traders & exporters

Threats

- Interest of foreign countries
- Political will
- Corruption
- Climate change
- Food insecurity
- Level of urbanisation
- Oil spikes - impact on non-oil producing countries
- Food price volatility
- 'Land grab' in African countries
- Lack of food safety infrastructure

What impact would the following changes have on Africa attractiveness?

Political stability



Curb on corruption



Ease of doing business



Local access to finance



One-stop border posts



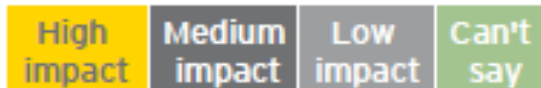
Harmonized taxation between countries



A common currency



Exclusive concessioning



Source: Ernst & Young's 2012 Africa attractiveness survey. Total respondents: 505.

4. Role of supermarkets in VC's

Supermarkets play an increasing role in regional value chains

- Development & modernization of procurement systems
- Consumer value creation
- Increased demand for farm level produce
 - ❖ = Increase in total farm output = Increase in farm income
- Inclusion of small scale farmers in fresh produce channels/chains
- Job creation
- Development/ providing of logistics, e.g. cold chains

Procurement issues.. as it becomes more modernized

- Crowding out of local/traditional retail players
- Broader supply chain efficiency challenges
- Higher levels of concentration
- Misuse of market power in purchasing practices
- Infrastructural underdevelopment
- Local procurement, contracting & technical support

6. Power relations...

In a value chain, there are **4 types** of relationships that center on information and the use of market power:

- 1. Market relationships:** Arms-length transactions in which there are many buyers and many suppliers. Little information is exchanged
- 2. Balanced relationship:** Both buyers have alternatives, that is, a supplier (farmer) has various buyers. Extensive information flow in both directions.
- 3. Direct relationship:** Main buyer takes a large percentage of supplier's output, defines the product, and monitors the supplier's performance. The buyer provides technical assistance (information included).

...Power relations

- 4. Hierarchical relationship:** Vertical integration of value-added functions within a single firm. The supplier is owned by the buyer or vice versa, with the junior firm having limited autonomy to make decisions at the local level
- Sound governance an efficient manner to manage power relations
 - Governance ensures that interactions between firms and farmers along a value chain exhibit some level of organization, trust & business ethics
 - One of the objectives of value chain development is to create informed, incentive-producing governance targeted at achieving high-value results.

‘Market power is like the wind. You can feel it but you cannot see it.’

Kohls and Uhl, 2002

7. Private sector involvement in SADC...

- Private sector agribusiness investment in the region is low but has been increasing over time, particularly in value-adding processes.
- From 2009 to 2010, FDI inflows in the region have decreased by 19%.

...Private sector involvement in SADC..

Foreign Direct Investment Inflows (US\$ Million)

	2009	2010	% Change
Angola	11,673.1	9,941.6	-14.8
Botswana	576.0	-	-
DRC	629.4	2,932.1	365.9
Lesotho	47.6	54.6	14.7
Malawi	55.5	55.8	0.5
Mauritius	257.4	430.0	67.1
Mozambique	892.5	788.9	-11.6
Namibia	518.7	864.0	66.6
Seychelles	113.1	156.8	38.64
South Africa	5,389.0	1,553.0	-71.2
Swaziland	66.0	130.7	98.0
Tanzania	414.5	433.4	4.6
Zambia	694.8	1041.4	49.9
Zimbabwe	105.0	165.9	58.0
SADC Average	21,564.3	18,391.4	-19.6

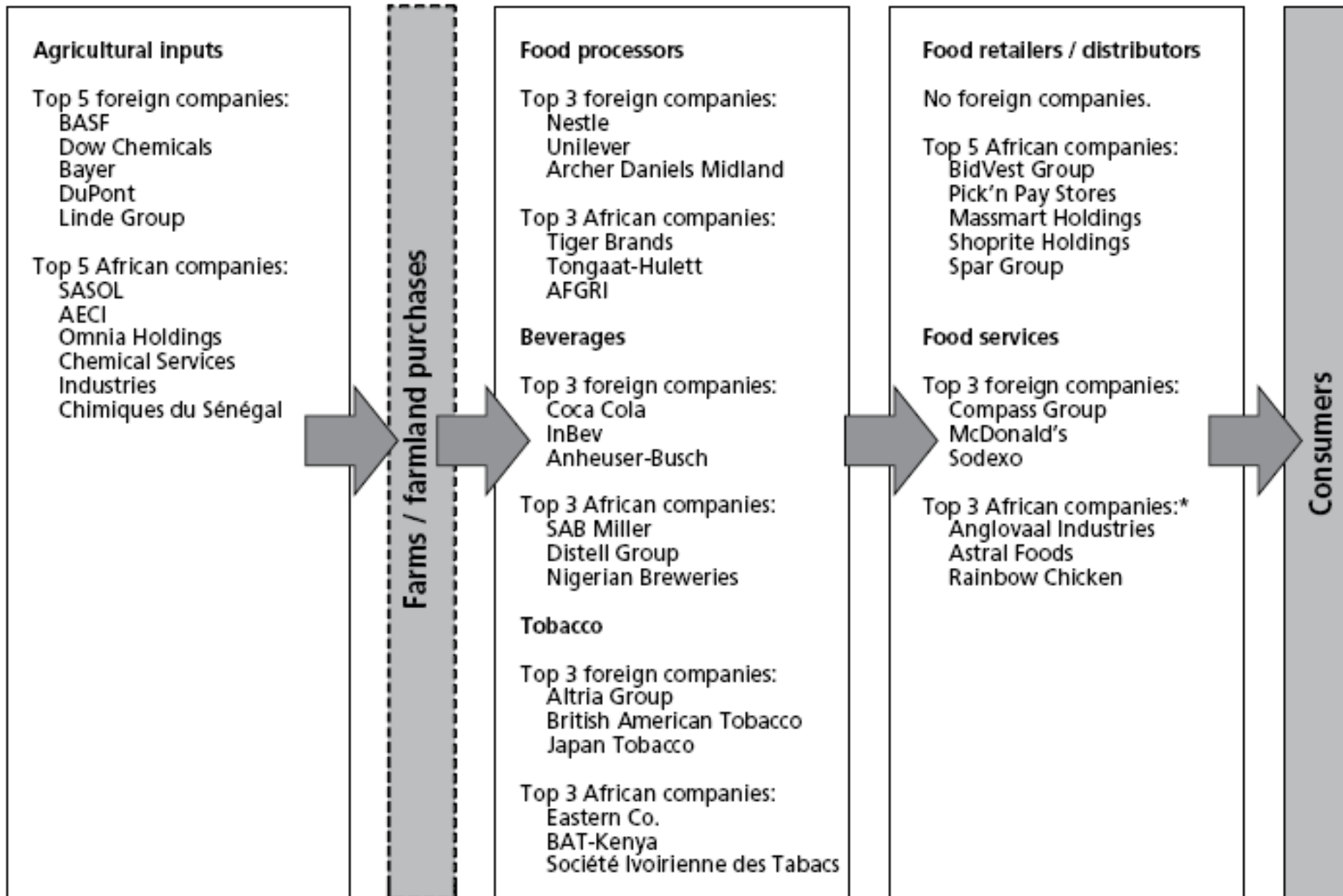
...Private sector involvement in SADC...

- For 2011:
 - Preliminary reports indicate that FDI into the region is on a growth path benefiting from the recovery of global economy
- The increase in FDI inflows can also be attributed to the various measures being put in place by member states to attract investment into the region.

Some factors affecting Agribusiness investment in region include:

- Access to markets and natural resources
- Good infrastructure
- Stable macroeconomic and political environment
- Commodity price trends
- Market volatility, and most crucially
- Public sector support for private sector agribusiness investments

Examples of private sector involvement in SADC



8. Public-Private Partnerships...

- PPP's present a way of assisting farmers that face difficulties in value chains.
- Position of many food-importing developing countries, explained by:
 - Low public sector funding for agriculture
 - Lack of incentives & support, &
 - High risk for the private sector to operate in areas where there is no market.
- Public & private sector could work together & jointly improve agricultural sustainability in poor countries:
 - **The public sector can provide a favourable institutional environment for the development of agricultural markets for**
 - **Investment in rural infrastructure**
 - **Facilitate local business development and fund research with local relevance**
 - **Create a stable political & economic environment**

...Public-Private Partnerships

The Private sector can bring its expertise in product development, business acumen and financing.

The private sector can perform better when:

- Involving government
- With the right partners in the right way,
- With positive synergies
- Environment is conducive

9. Role of farmers for VC's development....

The role of farmers towards value chain development chain is significant:

1. Farmers are the first link in the chain for food quality and safety and the measures they take to safeguard their products. Thus, food quality is first established at the farm level.

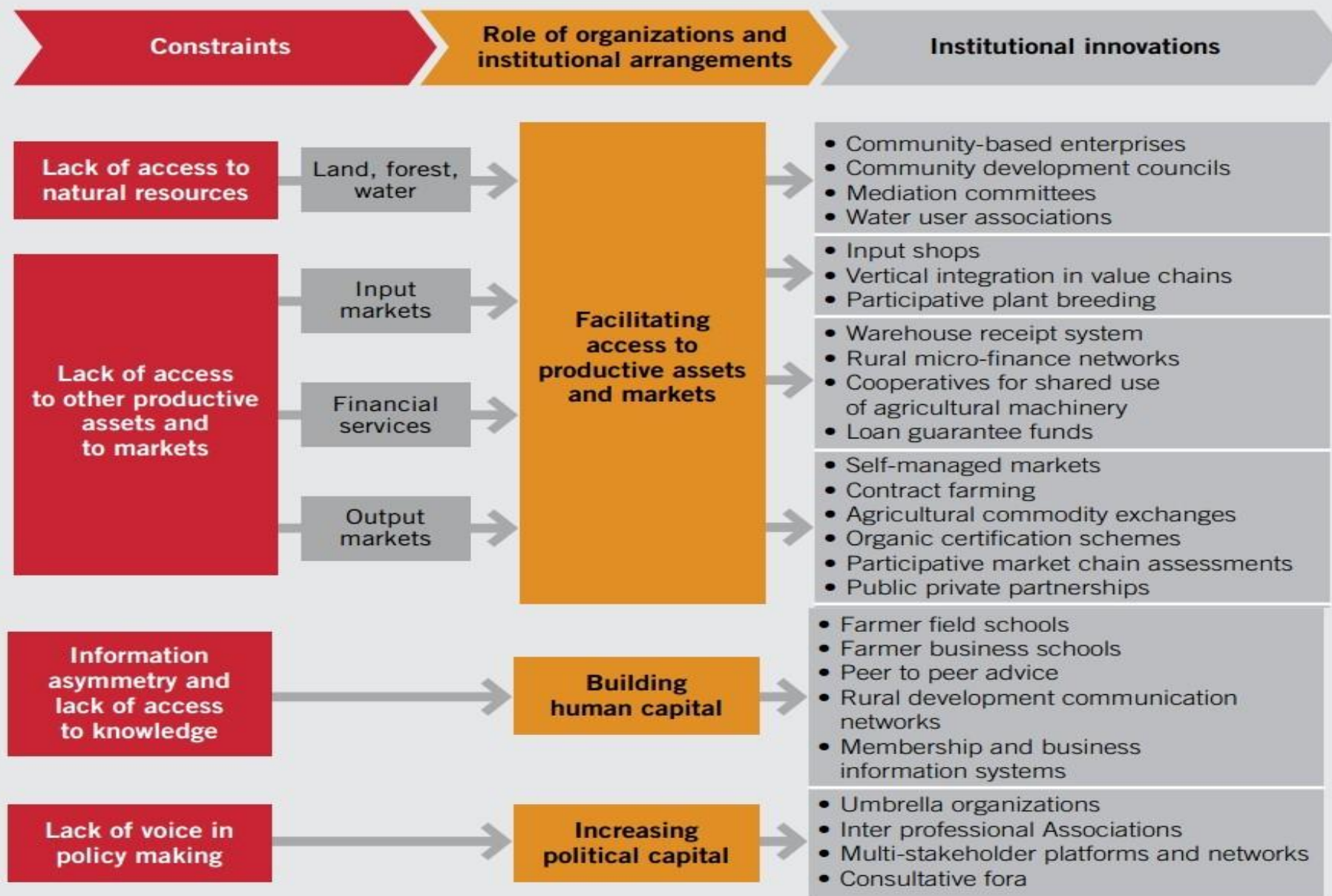
2. Many smallholders in low-income rural areas opt out of markets. It is therefore imperative that those with access to adequate assets & infrastructure & faced with appropriate incentives engage actively in markets.

..Role of farmers for VC's development

3. Farmers must make production risk assessments and consider the everyday practices to assure clean produce with high quality, high yield and high grades. **Ensuring sustainability of production.**

4. For export-oriented agribusinesses and those that produce in large volumes, storage facilities are imperative. Farmers in particular are assuming increasing responsibilities for commodity storage.

Figure 2.1 Small producers' constraints and institutional innovations



10. Recommendations....

- Improved level of management information
- Improved levels of sustainable production capacity...
- Improving market efficiency
- Improving storage & warehousing
- Improved access to finance
- Value adding (processing, partnerships, branding, etc.)
- Improving the business & policy environment
- Instill contract farming
- Invest into Public-Private Partnerships
- Empowerment of Farmer Organisations....
- Involving private sector role players
- Attracting FDI & long term investments
- Public Policy Improvement...

ii) Issues regarding the level of farm production..

- * Farm level problems that require government & private sector attention for improved production.

Key issues include:

- * The regional characterization of smallholder production.
- * Issues regarding economies of scale should be resolved, e.g. pooling through centralized collection points or larger farming operations.
- * Improvement on the level of management information at farm level
- * Address the culture regarding the non-payment of loans
- * Avoid side-selling in contracting/agreements

..Issues regarding the level of farm production

- * More market driven approach
- * Add value at farm level to improve farm gate margins and cash flow - understand the value chain, players, functions
- * With producer/commodity organisations, the right people should be appointed, i.e. which could add significant value to the organisation
- * High levels of trust & governance in the production level & along the supply chain are required
- * Ensure the credibility of the supply chain by supplying consistent quantity & quality of agreed produce.

xi) Empowerment of Farmer Organisations

To influence policy to support the production base of the region's agricultural sector - evidence based arguments:

- All over the world farmers work together, in both formal & informal settings
- Collective action can help to have their voices heard in the political & commercial arena, to minimize risks, to strengthen their capacities & to secure property rights
- Farmers can build strong track records to assist them obtain financial support
- FO's can be instrumental in buying, selling or processing agricultural products in bulk - do this in a profitable & sustainable way

xiv) Public Policy improvements.....

- *To ensure the region to operate effectively as a single market, to encourage investment in land under cultivation & to promote the maize, cotton, soybean & livestock markets.
- *Improve the quality, integrity & availability of information (as mentioned).
- *Implementation of the SADC Seed Harmonization protocol, to increase access to improved seeds, stimulate R & D in new seed varieties to improve yields
- *Restrictions on trade within the region should be addressed

....Public Policy

- * Clarification & simplification of land tenure rules to allow long term investment in commercial farming
- * Remove restrictions on GMO seeds outside South Africa to access the most advanced seeds - reduce the variability of yields and reducing the cost of other inputs (e.g. herbicides)
- * Border crossings made more efficient to reduce the costs & delays in trade within the region
- * Infrastructure improved to reduce the cost & risk associated with trade within the region - improve competitiveness
- * Enforcement of levying duties & tariffs on imported palm oil to compete fairly with maize, cotton & soybean oil

How
Big is
Africa?



Thank you

Prof Andre Louw