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Boost for food processing sector

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The Department of Trade and Industry (Dti) has identified food processing as a priority area in the South African economy. A new incentive scheme, the Manufacturing Competitiveness Enhancement Programme (MCEP), will be launched in April to support industry development and help businesses to improve their competitiveness.

Workers place freshly sliced mangoes on drying trays at Bavaria fruit farm in Limpopo province. (Images: MediaClubSouthAfrica.com. For more free photos, visit the image library.)

Food processing is highly lucrative and there are many opportunities to grow this industry, but in recent years the sector has faced numerous setbacks, partly stemming from the impact of the global financial crisis.

These include declining export performance, more imports into the South African market and lower rates of product and process innovation.

At a recent food processing workshop hosted by the Dti in Johannesburg, trade and industry minister Dr Rob Davies explained that MCEP is one of a series of Dti interventions to enhance growth and development of the sector.

Comprehensive recovery plan for manufacturing

The MCEP incentive scheme, designed to help manufacturers that are in distress from the effects of the financial crisis, was announced earlier this year by finance minister Pravin Gordhan in his budget speech.

It is considered the major highlight of this year's budget from an incentives perspective.

Gordhan allocated R5.8-billion (US$764-million) to the programme, which will provide a support package to stabilise and grow output, increase employment and grow confidence in the manufacturing sector.

Addressing job losses

The intention of the programme is to address economic challenges that have resulted in job losses in the manufacturing sector. Through MCEP, companies can invest more in their operations and upgrade their production facilities. In doing this, firms can maximise employment, expand their value-adding potential and enhance productivity.

The food processing sector can benefit significantly from this fund, as it specifically targets businesses in manufacturing that are either labour-intensive or exposed to intense international competition.

Reducing the risk of further job losses in the food processing sector is a big focus of the incentive scheme.

"This is the largest manufacturing sector by employment, with 177 000 employees or 15.2% of total manufacturing employment," Davies said. "Food processing is also significant in value addition terms, with the sector contributing approximately 11% of total manufacturing value-added."

Industrial development

"Agro processing is of strategic importance to promote industrial development in South Africa," Davies said.

He said that the food processing industry is closely linked to the agricultural sector from where it draws its inputs. For this reason, he believes, it is important to build a greater symbiosis between agriculture and food processing and in doing this, also create more jobs.

"Agricultural production of crops in South Africa is thriving, but processing is lacking," he said.

Crops such as soybeans are grown in South Africa and exported to other countries where processing and value adding takes place. Then the product is shipped back into South Africa.

"There is an opportunity to add value to products such as soybeans and other agricultural products here in South Africa," he says.

At the workshop Advocate Leslie Sedibe, CEO of Proudly South Africa, a campaign to promote South African companies, products and services, said there is a great need to build South Africa's manufacturing capacity.

In his presentation he cited figures by Iraj Abedian, economist and CEO of financial services company Pan African Research and Investment Services.

Abedian's research shows that the manufacturing sector remains a critical source of decent and sustainable job creation. Considering the multiplier effect, a R1 ($0.13) investment in manufacturing resulted in a R1.13 ($0.15) increase in GDP, Abedian explained.

A R1-million ($131 680) investment in manufacturing translates into three decent and sustainable additional jobs.

Furthermore, he said that a R1 ($0.13) investment in manufacturing resulted in a R0.35 ($0.05) increase in fiscal revenue.

Finding new markets

Davies said that the Dti is also focusing on new export market opportunities in Africa, the Middle East region, and BRICS countries.

He appealed to local food processors to investigate these opportunities and develop products and packaging for new markets.

"Our agro processing businesses must not stay stuck in a rut, but seize new opportunities," he said.

Davies said that traditional export markets for South African food products, namely the EU and the US, are expected to register relatively low growth for the next two to three years.

"There are still opportunities in Europe, but in newer members of the EU and Eastern European countries," he said.

However, one of the major challenges to access these markets is transport and logistics.

Other potential new markets include Middle East and Gulf countries that need secure food sources.

Davies said that new product development and niche markets, such as halaal products for Middle East countries, may also yield promising opportunities.

"We need to develop market access to more dynamic economies," he said.

Regional market expansion is also on the agenda. "Agro processing is a focus of the entire continent and there is a huge opportunity for South Africa to lead in this area," said Davies.

Nimrod Zalk, deputy director-general of the Dti's industrial development division, said food processing businesses should look to improve and expand their product offering in the domestic market to serve the increasing middle class consumer base.
There is also a need to provide more affordable goods to poor households.