

THE SADC EPA – OPPORTUNITIES IN THE AGRO-PROCESSING SECTORS OF SOUTH AFRICA AND LESOTHO

TALITHA BERTELSMANN-SCOTT, CHELSEA MARKOWITZ & MAHLAPE QOANE



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Cover image: Orange Industry in Western Cape, South Africa. Citrus is the second most important agricultural export commodity in South Africa, with most of the production destined for exports. © <https://flic.kr/p/H4d9zZ>

ABSTRACT

Six SADC member states negotiated an economic partnership agreement (EPA) with the EU. This sub-group of SADC – the SADC EPA group – consisted of South Africa, Botswana, Lesotho, Namibia, Swaziland and Mozambique. The agreement was signed on 10 June 2016 after a protracted period of negotiation and came into force in October 2016. The EU remains the SADC EPA group's largest trading partner as a region, and South Africa is the largest importer and exporter to and from the EU within this group. The success of any trade agreement lies in how it is implemented and how the business community is capacitated to take advantage of the preferences offered. This paper takes a closer look at the preferences that South Africa and Lesotho's agriculture and agro-processing sectors enjoy under the EPA, and explores the remaining stumbling blocks for farmers and processors in taking full advantage of the agreement. It makes recommendations on how EU development support could target interventions that would assist small farmers, small and medium enterprises, women and youth to reap benefits from the agreement.

ABOUT THE AUTHORS

TALITHA BERTELSMANN-SCOTT heads the Regional Observatory at the South African Institute of International Affairs (SAIIA) and leads on the themes of trade and regional integration at the institute. She follows the EU and its trade negotiations with South Africa and SADC and has published extensively on the topic.

CHELSEA MARKOWITZ is a Researcher in the Economic Diplomacy Programme at SAIIA and holds an MA in Development Studies from the University of the Witwatersrand. She works on issues relating to infrastructure financing and sustainable foreign investment, among others.

MAHLAPE QOANE is an independent Researcher based in Lesotho. She has worked in Lesotho's Ministry of Trade and was the acting Principal Secretary of Trade before her retirement.

ABBREVIATIONS AND ACRONYMS

AGOA	African Growth and Opportunity Act
ATS	Agrifood Technology Station
BDS	business development services
BLNS+M	Botswana, Lesotho, Namibia, Swaziland and Mozambique
CBI	Centre for the Promotion of Imports
CPUT	Cape Peninsula University of Technology
DAFF	Department of Agriculture, Forestry and Fisheries (South Africa)
DFQF	duty free quota free
DSQA	Department of Standards and Quality Assurance (Lesotho)
dti	Department of Trade and Industry (South Africa)
EPA	economic partnership agreement
EU	European Union
HPTD	Horticulture Productivity and Trade Development
IDC	Industrial Development Corporation
ITC	International Trade Centre
LDC	least-developed country
LNDC	Lesotho National Development Corporation
MAFS	Ministry of Agriculture and Food Security (Lesotho)
MFN	most favoured nation
MSME	micro, small and medium enterprise
MTI	Ministry of Trade and Industry (Lesotho)
NDP	National Development Plan (South Africa)
NGP	National Growth Plan (South Africa)
RVC	regional value chain
SACU	Southern African Customs Union
SADC	Southern African Development Community
SME	small and medium enterprise
SPS	sanitary and phytosanitary measures
SQAM	Standardisation, Quality Assurance, Accreditation and Metrology
TDCA	Trade Development and Cooperation Agreement
TRF	Trade-Related Facility
WTO	World Trade Organization

INTRODUCTION

Six SADC member states have negotiated an economic partnership agreement (EPA) with the EU. This sub-group of SADC – the SADC EPA group – consists of South Africa, Botswana, Lesotho, Namibia, Swaziland and Mozambique (BLNS + M). The agreement was signed on 10 June 2016 after a protracted period of negotiation and came into force in October 2016.¹ The EU is the SADC EPA² group's largest trading partner as a region, and South Africa is the largest importer and exporter to and from the EU within this group. The largest single commodity export is diamonds from South Africa, Botswana, Lesotho and Namibia. However, agricultural products hold a prominent place in the export baskets of the SADC EPA group, including beef from Botswana, fish and table grapes from Namibia and sugar from Swaziland. South Africa has the most diversified import and export portfolio, ranging from commodities to manufacturing and agricultural products.

The countries in the SADC EPA group differ markedly in their levels of economic development and diversification. Lesotho and Mozambique are classified as least-developed countries (LDCs), whereas South Africa, Botswana and Namibia have an upper-middle-income profile. South Africa's economic profile has seen it enter reciprocal trade agreements with partners such as the EU. It has taken years of dedicated negotiations and diplomatic efforts to formulate a unified EU trade approach to the Southern African Customs Union (SACU), namely the SADC EPA. Its predecessor, the [Trade, Development and Cooperation Agreement](#) (TDCA), was signed with South Africa only, but became the de facto arrangement for all the SACU countries³ in terms of imports to SACU, as South Africa remains the main port of entry for 90%+ goods destined for SACU member states (for exports the BLNS had preferential market access to the EU under the Cotonou Agreement). The SADC EPA now includes all of SACU plus Mozambique, giving the region a chance to develop competitive export products collectively, via regional value chains (RVCs), as the rules of origin for some products have also become more favourable under the SADC EPA. It, however, remains the case that the BLNS+M have duty free and quota free (DFQF) access to the European market whereas some South African exports are still subject to duties and quotas, if only on 5% of total exports. (These tariffs apply to a number of different tariff lines in agricultural products, including fruit exports.)⁴

This paper builds on work done by Yash Ramkolowan⁵ that provided a high-level review of the potential sectoral opportunities likely to arise for SACU and Mozambique by analysing the SADC EPA tariff regime and existing trade patterns between the EU and

The countries in the SADC EPA group differ markedly in their levels of economic development and diversification

1 Angola has the option of joining this agreement in the future.

2 When referring to the SADC EPA group, this paper is referring to South Africa, Botswana, Lesotho, Namibia, Swaziland and Mozambique.

3 South Africa, Botswana, Lesotho, Namibia and Swaziland.

4 It should be noted in this context that the rules of origin and cumulation on these excluded products remain difficult for Swaziland. It would like to import fruit from South Africa to be processed at Swaziland, but loses the preference given that South African fruit still carries a duty.

5 Ramkolowan Y, *Opportunities Arising for SACU and Mozambique from the SADC EPA*. Pretoria: DNA Economics, forthcoming.

SADC EPA member states. The analysis identified certain key sectors where further export opportunities may be present, based on the difference between the EU's standard rate of duty on imports and the preferential rates offered under the EPA. There are many opportunities in the live animals and animal products, fruit and vegetables, and food, tobacco and beverages sectors. Further downstream, preferential access in sectors such as chemicals, textiles, footwear and vehicle manufacturing may also create opportunities for increased exports. Based on the analysis prepared by Ramkolowan, this paper delves deeper into potential opportunities under the SADC EPA, looking specifically at South Africa and Lesotho's agro-processing sectors. Both have similarly high tariff preferences for agro-processing exports under the EPA, but with different levels of productive capacity and supportive export infrastructure.

The distinction can be used to draw broader comparisons between opportunities for LDCs versus upper- to middle-income countries already engaging in exports to the EU. Moreover, it helps to identify what targeted measures should be put in place to ensure that EPA benefits are widespread among members of the SADC EPA. This requires interventions and strategies from the private sector, government institutions, the SADC Secretariat, development finance institutions, the EU and, particularly in Lesotho, the donor community.

PROMOTING THE AGRO-PROCESSING SECTORS IN SOUTH AFRICA AND LESOTHO UNDER THE SADC EPA

The Ramkolowan paper shows that the agro-processing sector stands to benefit from the SADC EPA in Lesotho and South Africa owing to the advantageous tariff preferences embedded in the agreement. Tariff preferences alone, however, will not ensure that opportunities are realised, and the two governments should aim to support especially their small and medium enterprise (SME) farmers and processors. As SMEs are seldom able to export on their own, the focus here should be on linking them to larger companies that already export. Support can and should be leveraged through the SADC EPA development component, government support schemes, and donor-funded programmes such as those of EU member states, the World Bank, the African Development Bank or [Aid for Trade](#) programmes.

The potential benefit lies in both the relative advantage these countries now have over competitors in the EU market through the tariff preference granted under the SADC EPA and the opportunity presented based on pre-existing expertise. Here South Africa has a distinct advantage in agro-processing compared to Lesotho, which would require a number of policy and capacity developments to truly take advantage of the SADC EPA. There is also an argument to be made that select agro-processing products present opportunities for value chain development within the SADC EPA group, which is a key objective of the SADC EPA.

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TARIFF PREFERENCE MARGINS AS NEGOTIATED UNDER THE SADC EPA

The agro-processing industry transforms and adds value to products that originate from agriculture, forestry and fisheries. Its Standard Industrial Classification categorises 11 divisions that make up the sector: food, beverages, paper and paper products, wood and wood products, textiles, wearing apparel, furniture, tobacco, rubber products, footwear and leather and leather products.⁶ As stated, this paper will focus most of its analysis on the food sector. Value add here can range from washing, freezing and packaging fresh produce to canning and food processing such as juice production and other prepared food products.

Ramkolowan's analysis shows where potential exists for the SADC EPA countries, from the perspective of both existing capacity and the tariff advantage these countries will have over competitor countries:⁷

For Botswana, Lesotho, Mozambique and Swaziland the product opportunities are relatively concentrated, with the top 5 products accounting for between 62% and 76% of total identified opportunities. By contrast, the top 5 product opportunities account for only 23% and 34% of South Africa's and Namibia's total identified opportunities, respectively, indicating a more diverse range of prospects. At a product level, the identified opportunities are mainly dispersed across agricultural and agro-processing goods, metal and mineral commodities and clothing and textile articles.

It is interesting that the Ramkolowan analysis shows greater potential for products in existing competencies, such as apparel for Lesotho and the minerals sector for South Africa. However, when pursuing new opportunities for SMEs in these countries, the agro-processing sector provides a good entry point for both.⁸ This is partly because the SADC EPA gives higher tariff preferences for processed agricultural products, whereas the textiles and minerals industry tariff lines have been reduced over the last few decades through various WTO processes, leaving the relative margin of preference quite low for SADC EPA member states.

Table 1 shows a selection of products and specific tariff lines as they relate to the products explored in this paper and that have a preferential rate over non-African, Caribbean and Pacific (ACP) countries facing a most favoured nation (MFN) tariff in the European market. The MFN rate is the rate that the EU offers universally to all WTO members. The difference between the MFN rate and the EPA rate illustrates the advantage the SADC EPA group now has over other WTO members that are not part of the ACP group or LDCs and that do not have a bilateral agreement with the EU, such as Chile. The table shows that the SADC EPA encourages processing over the export of unprocessed agricultural goods.

6 Cape Business News, 'Agri-processing', 29 March 2017, <http://www.cbn.co.za/agriculture/agri-processing>, accessed 16 January 2017.

7 Ramkolowan Y, *op. cit.*

8 At present it would seem most feasible for Lesotho to aim to integrate into value chains of larger exporters to the EU that can ensure volumes and adherence to SPS requirements.

HS 2007 sub-heading	HS 2007 description	MFN unweighted average, ad valorem ^a	Difference between Preferential and MFN for BLNS+M ^b	South Africa's preference above MFN duty ^c
030321	Fish, trout, frozen (excluding fillets, livers, roes and other fish meat of heading no. 0304)	11%	11%	11%
070110	Vegetables, seed potatoes, fresh or chilled	5%	5%	4.5%
070190	Vegetables, potatoes (other than seed), fresh or chilled	9%	9%	8.7%
071080	Vegetables, uncooked or cooked by steaming or boiling in water, frozen	14%	14%	13.6%
080232	Nuts, edible, walnuts, fresh or dried, shelled	5%	5%	5%
080260	Nuts, edible, macadamia, fresh or dried, whether or not shelled or peeled	2%	2%	2%
080550	Fruit, edible; lemons, fresh or dried	13%	13%	12.8%
081120	Fruit, edible, raspberries, blackberries, mulberries, loganberries, black, white or red currants and gooseberries, uncooked or cooked, whether or not containing sugar or other sweetening matter	15%	15%	14.7%
081190	Fruit, edible, fruit and nuts, uncooked, frozen, whether or not containing added sugar or other sweetening matter	13%	13%	12.7%
200710	Jams, fruit jellies, marmalades, fruit or nut puree and fruit or nut pastes, homogenised, cooked preparations, whether or not containing added sugar or other sweetening matter	20%	20%	19.5%
200791	Jams, jellies, marmalade, purees and pastes, of citrus fruit, being cooked preparations, whether or not containing added sugar or other sweetening matter	22%	22%	21.6%

- a Most favoured nation tariff that is not calculated on an average of all rates but specifically for this product with the valorem tax referring to the tariff being based on the value of the transaction.
- b As contained in the SADC EPA.
- c As can be seen, South Africa's tariff advantage differs from that of the BLNS+M, but not by much in the products listed here.

Source: Authors' own analysis based on Ramkolowan Y, *Opportunities Arising for SACU and Mozambique from the SADC EPA*. Pretoria: DNA Economics, forthcoming

There is a higher tariff preference for processed produce such as jams, pastes, purees and juices than the original fruit or nut.⁹ However, some original products still attract a good tariff preference. South Africa has the capacity and expertise to exploit the benefits here, but should invest more in processing its produce. Lesotho still needs dedicated support to get to the first rung of exporting packaged fresh or frozen products to the EU.

POTENTIAL IMPACT OF THE SADC EPA

Prior to the signature and coming into force of the SADC EPA, Lesotho and South Africa had different levels of access to the EU market. As an LDC Lesotho qualified for preferences under the [Cotonou Agreement](#) as well as the [Everything But Arms](#) scheme, which allowed for near 100% DFQF access. The shift for South Africa from the TDCA to the SADC EPA has been more marked. The increased benefits in access to the EU market lie in the animal product, beverages and tobacco sectors, leading to improved market access to the EU for 32 agricultural products, including wine, fish, sugar and ethanol.

In terms of EU access to the SACU countries, there are limited changes from previous access under the TDCA. The BLNS countries have a number of years to gradually phase in EU competition to their markets on 54 sensitive tariff lines. Ramkolowan argues that 'in fact, for certain sectors (such as textiles and clothing) the EU appears to have lost some preferential access, with the average duty rate increasing under the EPA, when compared to the TDCA'.¹⁰

Mozambique has had to accept a more significant increase in opening up its market to the EU, as it had not been exposed to reciprocal preferential trade with the EU before. However, it did have a liberal tariff book given previous International Monetary Fund adjustment programmes.

The EU is a major trading partner of the SADC EPA group, although its importance differs among the member states – in Swaziland only 9% of exports are destined for the EU, whereas in Mozambique exports to Europe are 40%:¹¹

Total trade between SA and the EU – as a bloc, SA's largest trading partner – increased from R150bn in 2000 to R588bn in 2016. South African exports to the EU over this period rose from R64bn to R250bn while imports from the EU increased from R88bn to R338bn.

Although it requires more analysis of changes in export shares, this trend suggests that having a free trade agreement in place with the EU, which has allowed South Africa

9 It is interesting to note that processed fruit products attract lower prices on the EU market than fresh fruit. South Africa's Grade 1 fruit exports are still in high demand.

10 Ramkolowan Y, *op. cit.*

11 Endsor L, 'SA and UK start making plans for post-Brexit trade: Nations agree in principle to implement interim arrangement based on existing EU partnership deal', *Business Day*, 18 May 2017, <https://www.businesslive.co.za/bd/business-and-economy/2017-05-18-sa-and-uk-start-making-plans-for-post-brexit-trade/>, accessed 12 January 2017.

better access to this market than competitors such as Australia, New Zealand and South American countries, was a catalyst to improved export opportunities for South Africa. It also shows that the EU is able to capitalise on benefits presented in trade agreements for its exporters.

If the SADC EPA group wants to realise similar results from the SADC EPA, it is crucial that governments ensure that producers, exporters and, critically, potential new exporters are made aware of the opportunities

If the SADC EPA group wants to realise similar results from the SADC EPA, it is crucial that governments ensure that producers, exporters and, critically, potential new exporters are made aware of the opportunities. They should also develop appropriate support programmes to encourage production and exports in areas where they have an advantage over competitor states. Opportunities, of course, could also lie in areas where SMEs, women and youth could offer services or sell EU imports and are not restricted to exporting only.

THE IMPORTANCE OF VALUE CHAIN DEVELOPMENT AND USING THE SADC EPA TOWARDS THIS GOAL

At present SADC¹² places RVC development at the heart of its approach to regional integration and economic development. This is most evident in the objectives of the [SADC Regional Industrialisation Strategy and Roadmap](#), which was promulgated in 2015. The strategy identifies ‘enhanced participation in domestic, regional and global value chains’ and, more specifically, ‘agriculture-led growth including agricultural value chains’, as one of its three priority growth paths to achieve regional industrialisation.¹³ This establishes the primacy of both value chains and agro-processing-led regional growth. The most recent SADC Industrialisation Week in 2017 was also centred on increasing private sector participation in regional development. SME inclusion was debated and found to be a critical employment creator for the region, necessitating special support.¹⁴

The introduction of the SADC EPA poses the question of whether the agreement can increase existing regional as well as domestic value chain development within the SADC EPA group. RVCs in SADC mostly take the form of investment from South African lead firms into other SADC countries. These South Africa-driven RVCs are found in manufacturing and especially in agro-processing. South Africa’s financial sector plays an important role in servicing value chains. South African investments in agro-processing are driven by land and water constraints in South Africa, as well as high labour costs, with the rest of the region offering more viable opportunities to expand. In the macadamia nut sector, for example, South African processors have invested in Malawi, Mozambique and Zambia. South African poultry firms and commodity traders have also invested in Zambia and Botswana. In the sugar industry, where major SADC EPA benefits could be

12 Here the reference is to all 16 SADC members and not only the SADC EPA countries.

13 SADC, ‘Regional Industrialisation Strategy and Roadmap, 2015–2063’. Harare: SADC, April 2015.

14 Schechter J, ‘Sunninghill declaration 2017: Private sector communiqué of the second Annual SADC Industrialization Week’, *Tribalist*, 11 August 2017, <https://www.tribalist.co.za/show/sadc-2018/post/177/sunninghill-declaration-2017-private-sector-communiqu-of-the-second-annual-sadc-industrialization-week>, accessed 2 February 2018.

realised, Tongaat-Hulett has invested in Botswana, Namibia, Swaziland, Mozambique and Zimbabwe.¹⁵

However, SADC political economy constraints are evident in regional agro-processing development. For example, in the poultry industry, at a regional level South Africa has explored greater RVC development in Zambia and Zimbabwe in line with SADC's regional industrialisation objectives. Yet domestically South Africa has promulgated strategies that promote full domestication of the poultry value chain, eliminating all imports, regional or otherwise. Similar scenarios are found in manufacturing: some South African companies have relocated labour-intensive components of production throughout the region, which has met considerable resistance from South African labour unions and often led to re-shoring.¹⁶ These conflicting political motivations remain a challenge for any potential agro-processing RVC formation within SADC. It is important to encourage continued awareness and coordination of SADC policies at national levels in order to counter re-shoring and explore synergies between national and regional policies. In time, once the East and Southern African EPA is signed, which may include most of the remainder of the SADC member states,¹⁷ there will be a need for close coordination within SADC to ensure greater processed good production and intra-regional trade.

SOUTH AFRICA'S AGRICULTURE AND AGRO-PROCESSING SECTOR

The South African agriculture sector contributed ZAR¹⁸ 72,608 million (\$5,285 million) to the economy in 2016.¹⁹ Agro-processing has been identified in South Africa's national development plans as one of the key sectors that show promise in terms of growth and specifically employment creation, including in the [National Development Plan](#) (NDP). As a sub-section of the manufacturing sector, it has grown more rapidly than any other between 2004 and 2014.²⁰

The food processing value-add (in constant prices) in 2014 was 34% higher than in 2004, more than double the 15% increase in real value added by the manufacturing sector as a

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- 15 Das Nair R, Nkhonjera M & F Ziba, 'Growth and Development in the Sugar to Confectionery Value Chain in Zambia and South Africa', Paper presented at the Third Annual Competition and Economic Regulation (ACER) 2017 Conference, Dar es Salaam, 14 and 15 July 2017.
 - 16 Markowitz C, 'The Potential for Regional Value Chains in the Automotive Sector: Can SADC Learn from the ASEAN Experience?', SAIIA Occasional Paper, 231, June 2016, <http://www.saiia.org.za/occasional-papers/the-potential-for-regional-value-chains-in-the-automotive-sector-can-sadc-learn-from-the-asean-experience>, accessed 10 June 2018.
 - 17 Tanzania forms part of the East African Community EPA.
 - 18 Currency code for the South African rand.
 - 19 Wilkinson R, 'Western Cape agricultural growth to drive economy', *Engineering News*, 11 August 2017, <http://www.engineeringnews.co.za/print-version/western-capes-agricultural-growth-to-drive-economy-2017-08-11>, accessed 17 January 2018.
 - 20 Ncube P *et al.*, 'Competition, Barriers to Entry and Inclusive Growth: Agro-Processing Sector Study', CCRED (Centre for Competition Regulation and Economic Development), September 2016, <http://www.competition.org.za/barriers-to-entry/>, accessed 12 January 2017.

whole over the same period. Food processing is playing an increasingly important role in building manufacturing capabilities and driving growth.

Another study shows that,²¹

[a]mong the divisions in the agro-processing industry, the food division remained dominant in its share of the total output (78.8%), value added (71.8%), domestic fixed investment (62.9%) and employment (73.4%), followed by the beverages division in its output (21.2%), value-added (28.2%), domestic fixed investment (37.1%) and employment (26.6%) during 2012–2014.

The importance of the sector lies in the fact that it has strong upstream and downstream linkages to other sectors, including input services, ‘retail, financial services, manufacturing and processing, transport, packaging and agro-tourism’.²²

The International Trade Centre’s (ITC) Trade Map²³ shows South Africa’s relative global competitiveness compared to other fresh food and processed food exporting countries and confirms that South Africa has good product and market diversification, although the country remains a relatively small player in the global market, hinting at expansion possibilities. South Africa is ranked 79 out of 177 countries in terms of fresh food competitiveness and 114 in processed food. Much of its current agricultural and agro-processed products are destined for the domestic market, but it has the potential to expand production and aim at exporting to the European market. This also opens up opportunities for SADC member states to export produce to South Africa for processing and export to the EU.

SOUTH AFRICAN GOVERNMENT STRATEGIES AND SCHEMES

Government strategies

The South African government does not currently have a specific agro-processing strategy, but it will reportedly be releasing one in 2018. In the interim, the overriding strategies governing agro-processing in South Africa are the NDP, the [New Growth Path](#) (NGP) and the Department of Trade and Industry’s (dti) [Industrial Policy Action Plans](#), which are adjusted and released periodically and which offer more specific measures to support agro-processing, such as incentives for companies to deepen investments.

21 ITAC (International Trade Administration Commission of South Africa), ‘Agro-Processing Markets and Related Trade Trends: Opportunities and Challenges for South Africa’, June 2016, <http://www.itac.org.za/upload/Agro-processing%20Markets%20and%20Related%20Trade%20Trends%20Opportunities%20and%20Challenges%20for%20South%20Africa.pdf>, accessed 13 January 2017.

22 *Ibid.*

23 ITC (International Trade Centre), Trade Map, <https://www.trademap.org/Index.aspx>, accessed 5 February 2018.

The NDP, released in 2012, is South Africa's vision for growth until 2030 and positions agro-industry as one of three key sectors for cluster development, which entails positioning for export as well as strengthening domestic linkages, centred around a range of agriculture-related activities (including input production, farming and downstream processing). The strategy advocates leveraging large existing agro-processors to incorporate historically disadvantaged smallholder farmers. Agro-processing is also positioned as a key sector for rural development and regional collaboration with SADC.

The NGP offers a government strategy to achieve this vision. It has ambitious targets of 300 000 new jobs for smallholders and 145 000 new jobs in agro-processing by 2020. EU support for programmes aimed at increasing exports to Europe could add an important dimension and increased benefits for smallholders. If implemented effectively – and if SMEs are able to capitalise on the opportunities presented in the SADC EPA – the ambitious targets set by the NGP could become attainable. It will, however, require close cooperation and coordination between the EU and the various South African ministries involved in this endeavour, including the new [SME Support Programme of the EU](#), which will have a strong agriculture focus.

The South African government has a number of agro-processing support schemes in place that specifically target SMEs' development. These support programmes should also ensure that SMEs are linked with larger companies that already export to the EU.

Government support schemes

The South African government launched the [Agro-Processing Support Scheme](#) in 2017 in order to stimulate investment by South African agro-processing or beneficiation companies in the sector. To be eligible for the scheme companies must show that they will improve capacity, create employment opportunities, introduce modern equipment, improve competitiveness and productivity, or broaden participation. The scheme targets the food and beverage value addition and processing sector, including black winemakers; the furniture manufacturing sector; and the feed production and fertiliser production sectors. Where companies are willing to invest at least ZAR 1 million (\$728,000) the scheme offers a 20–30% cost-sharing grant to a maximum of ZAR 20 million (\$1,450,000) over a two-year period. The scheme particularly looks to support new, smaller entrants into agro-processing, differing from past agro-processing support schemes, which primarily targeted the expansion of existing multinationals.²⁴ This scheme then feeds into the [Export Marketing and Investment Assistance scheme](#), which develops export markets for South African products and services and recruits new foreign direct investment into the country.²⁵

24 Personal interview, Thembelihle Ndukwana, Director: Agroprocessing, dti (Department of Trade and Industry), Pretoria, 29 August 2017

25 South Africa, dti, 'Export Marketing & Investment Assistance Scheme (EMIA)', https://www.thedti.gov.za/trade_investment/emia.jsp, accessed 16 February 2018.

The Department of Rural Development and Land Reform has instituted the development of AgriParks, with the goal of one AgriPark in every district in South Africa (44 in total). Important components of these AgriParks are the AgriHubs, which centre on processing, packaging, logistics, and equipment hire innovation and training; and Farmer Production Support Units, which engage in capacity building and upscaling initiatives for small farmers.²⁶ These parks are important cogs in the wheel for SME farmers to collectively produce enough for export to the EU. AgriParks also shift the bulk of the certification and standards burden away from SMEs, which has in the past been identified as a key stumbling block towards becoming an exporter.

The Industrial Development Corporation (IDC) also offers a unique agro-processing scheme, the Agro-processing Competitiveness Fund,²⁷ targeted specifically at engaging SMEs in agro-processing. The scheme provides financing to either give loans or establish equity or quasi-equity for local companies with established operating partners in value-added processing activities. The local company generally owns shares in the operation. Support programmes could be tied to the SADC EPA in order to specifically target products with EPA potential.

SOUTH AFRICAN CANNED FRUIT AND FRUIT JUICE INDUSTRY

Canned fruit and fruit juice are key products in South Africa that will gain improved market access under the SADC EPA, with preference rates of between 12% and 22% for various products. According to calculations done by Ramkolowan, fruit and vegetable juices are one of the top five opportunities for increased product export under the SADC EPA.²⁸ These products, which fall broadly under the processed fruit and vegetables industry, present opportunities for value add in processing as well as branding, labelling, packaging and marketing.

In 2015 the total fruit and vegetable processing industry in South Africa was worth ZAR 14.6 billion (\$1 billion). Within the SACU region there were four fruit canning factories, two jam units, three fruit concentrate factories, one pineapple processor and over 10 vegetable/related units.²⁹ In 2016 fruit and vegetable processors directly employed 15 000 factory workers, underlining the labour intensity of production, with 55 105 people

26 South Africa, Department of Rural Development and Land Reform, 'AgriPark: Your Agri-Park, Your Future', AgriParks Presentation, 2 June 2016, <https://agbiz.co.za/uploads/AgbizNews16/Presentations/AGRIPARK%20PRESENTATION%2002%20JUNE%202016.pdf>, accessed 29 January 2018.

27 IDC (Industrial Development Corporation), 'Agro Processing Competitiveness Fund (APCF)', <https://www.idc.co.za/home/media-room/articles/382-agro-processing-competitiveness-fund.html>, accessed 29 January 2018; personal interview, Johan Botha, Senior Agricultural Specialist, IDC, Johannesburg, 7 August 2017.

28 Ramkolowan Y, *op. cit.*

29 Atwood-Palm J, 'The Impact of IPAP on the South African Processed Fruit & Vegetable Industry', Presentation to the Parliamentary Committee on Trade and Industry, 12 August 2015, <https://www.thedti.gov.za/parliament/2015/SAFVCA.pdf>, accessed 29 January 2018.

employed overall in the processing industry.³⁰ The sector also supports rural development through linkages to farms, supporting approximately 100 000 farm workers. It is also noteworthy that in South Africa one-third of fruit growers are small-scale farmers.³¹ The current industry is export driven, with 82% of canned fruits exported in 2016. In total, 50% of total exports of processed fruit and vegetables were juice products.³² The processing industry is dominated by large national companies such as Tiger Brands, Pioneer Foods and the Rhodes Food Group, which also owns Swazican.

General challenges in the industry include farming production costs (as well as processing costs, from imported packaging material), exchange rate volatility and, especially, uncertain climatic conditions, such as the current drought in the western regions of South Africa.³³

The South African government and industry have implemented various initiatives to support food and vegetable processing. The dti has released the ‘PPP Fruit Canning Initiative’, comprising business, labour, community and government. The initiative has four objectives: improving market access, developing products and markets, increasing competitiveness and addressing transformation. This has been complemented by general incentives such as the dti’s Manufacturing Competitiveness Enhancement Programme (2013), which supports local processors across industries.³⁴

However, according to the Department of Agriculture, Forestry and Fisheries (DAFF), in October 2017, a year after the EPA entered into force in South Africa, 0% of the annual quota of canned tropical fruit, 5% of the apple juice quota, and 44% of the non-tropical canned fruit juice annual quota were used by South African exporters. The most successful processed fruit was frozen orange juice, where the full quota was used. This indicates that support programmes for the industry have not necessarily been extended to EPA export promotion, and/or the major focus was on only a few products.³⁵ The reasons given by both EU and South African officials for the low uptake were a lack of awareness, sanitary and phytosanitary measure (SPS) issues, and the current drought in parts of the

30 Fresh Plaza, ‘South African fruit & veg employed 15,000 in 2016’, 23 March 2017, <http://www.freshplaza.com/article/172738/South-African-fruit-and-veg-processing-employed-15,000-in-2016>, accessed 29 January 2018; Cision PR Newswire, ‘Preserving and processing of fruit and vegetables in South Africa’, 21 March 2017, <https://www.prnewswire.com/news-releases/preserving-and-processing-of-fruit-and-vegetables-in-south-africa-2016-300427392.html>, accessed 29 January 2018.

31 Liphadzi K, ‘The South African Fruit Industry & the National Development Plan’, Presentation at the Department of Agriculture, October 2016.

32 Kriel G, ‘Opportunities in the canned fruit industry’, *Farmers Weekly*, 23 August 2016, <https://www.farmersweekly.co.za/bottomline/opportunities-in-the-canned-fruit-industry/>, accessed 29 January 2018.

33 *Ibid.*

34 Atwood-Palm J, *op. cit.*

35 Fabricius P, ‘South Africa fails to exploit free trade agreement access to massive EU market’, *Daily Maverick*, 16 October 2017, <https://www.dailymaverick.co.za/article/2017-10-16-sa-fails-to-exploit-free-trade-agreement-access-to-massive-eu-market/#.WmsylqiWbIU>, accessed 29 January 2018.

country.³⁶ However, industry interviews also indicated that despite more favourable tariffs and increased quotas under the EPA, EU market opportunities in these industries are not growing at the same rate as markets in Asia, and South African industries are therefore shifting their focus to the East.³⁷ In fruit juice, for example, many finished packaged products are already produced competitively in the EU and there is less room for new entries. Growing oranges is not climate-conducive in much of the EU, so this is where South Africa has an advantage in exporting concentrates; however, apples are grown more widely in the EU and thus there are fewer market opportunities for apple concentrate.³⁸

SME involvement in fruit and vegetable processing is quite low in South Africa, especially women-owned companies. Generally, SMEs' primary focus is on selling to local markets, with export markets out of reach save for rare cases that involve a clear niche product. The South African government should be making a much stronger business case for incorporating small-scale farmers and SMEs into the value chain, going beyond social outreach efforts. The establishment of a national food bureau could help to centralise information and requirements for agro-processors, which are currently spread across a number of government departments and difficult for small enterprises to handle administratively.³⁹ Additionally, the EPA development component could be targeted to assist companies in integrating SMEs into their operations, beyond the basic farming level. For example, the Cape Peninsula University of Technology (CPUT) houses an [Agrifood Technology Station](#) (ATS), which provides affordable technology to smaller enterprises in the agro-processing sectors, including the juice and canning industries. EU support could be directed to institutions such as this both to help finance equipment and to disseminate technical knowledge and expertise (adding an export focus to the existing programme), thereby helping SMEs to gain the economies of scale necessary to begin looking outside domestic markets to the EU.⁴⁰ Existing support schemes for SMEs in agro-processing, such as the aforementioned grants available from the IDC, could also be integrated.

SMEs and even larger processors looking to export under the SADC EPA will enter a challenging environment, considering changing consumer preferences. Campaigns to reduce sugar intake in export markets such as the EU have forced the fruit juice industry to adapt its production process and its marketing. The EU Centre for the Promotion of Imports from developing countries (CBI) recommends liaising with the European fruit juice industry to receive the best information on product marketing (eg, the inclusion of more health-conscious labels such as 'liquid fruit'), replacing added sugars in these products with natural sweeteners and using fewer preservatives and ingredients, to satisfy the demand for 'clean labelling'.⁴¹ A particular bottleneck in South Africa is the

SME involvement in fruit and vegetable processing is quite low in South Africa, especially women-owned companies. Generally, SMEs' primary focus is on selling to local markets, with export markets out of reach save for rare cases that involve a clear niche product

36 *Ibid.*

37 Personal interview, industry association representative A, 12 February 2017; personal interview, industry association representative B, 12 February 2017,

38 Personal interview, industry association representative B, *op. cit.*

39 *Ibid.*

40 *Ibid.*

41 CBI (Centre for the Promotion of Imports), 'Which trends offer opportunities on the European market for processed fruit and vegetables and edible nuts?', 14 November 2017,

lack of laboratories for more sophisticated product-specific testing to fulfil the above requirements, eg, for a fruit juice processor to test the percentage of average sugar in its juice. Sending products to Europe to be tested adds costs and increases vulnerability to exchange rate fluctuations. Support to establish industry-specific laboratories will assist existing exporters and remove one of the prohibitive barriers that prevent SMEs from exporting. Establishing such facilities within the CPUT as mentioned above will also encourage youth to pursue processing activities in their studies.⁴²

According to the CBI, the juices and purees sector in Europe is one of the most proactive sectors pushing sustainability considerations. The sustainability campaigns for these products refer in part to the inclusion of smallholders and organically produced products. The CBI suggests utilising tools such as the European Fruit Juice Association's fruit juice corporate social responsibility platform to improve compatibility with EU consumer demands.⁴³ SADC EPA support programmes should be targeted at helping small processors and farmers to understand these initiatives and the opportunities they offer, and to become certified. The support programmes could also assist local processors to subcontract to European processors, which are beginning to further vertically integrate and consolidate their supply chains owing to the increasing specificity of consumer requirements. Such efforts could also be channelled through the ATS.

SOUTH AFRICAN AND MOZAMBIQUE MACADAMIA NUT VALUE CHAIN AND PROSPECTS FOR PROCESSING OPPORTUNITIES UNDER THE SADC EPA⁴⁴

Macadamia nut production accounts for 1% of global tree nut production. Macadamia nuts are a high-value crop with good export potential; the industry has experienced rapid growth in South Africa and growing interest in Mozambique. South Africa has been the top global macadamia nut producer for several years, surpassing Australia (where they originate). New plantings in South Africa ensure industry growth by an estimated 2 000ha annually.⁴⁵ The industry has a national export value of ZAR 3 billion (\$21 million).⁴⁶

<https://www.cbi.eu/market-information/processed-fruit-vegetables-edible-nuts/trends/>, accessed 29 January 2018.

42 *Ibid.*

43 *Ibid.*

44 See Parshotam A, 'Cultivating Smallholder Inclusion in Southern Africa's Macadamia Value Chains', SAIIA Occasional Paper, 278, 2018, <http://www.saiia.org.za/occasional-papers/1310-cultivating-smallholder-inclusion-in-southern-africa-s-macadamia-nut-value-chains/file>, accessed 20 June 2018. The case study is presented in the paper here to show that there are nascent possibilities for South Africa to create value chains in agro-processing products with its immediate neighbours. It also highlights the fact that deeper and more dedicated efforts are needed to target agro-processing over exporting raw or semi-processed products.

45 SAMAC (Southern African Macadamia Growers' Association), 'Industry overview', <https://www.samac.org.za/overview-south-african-macadamia-industry/>, accessed 8 November 2017.

46 Van Zyl A, 'Crop theft has major impact on macadamia industry', *Zoutnet*, 4 November 2017, <https://www.zoutnet.co.za/articles/news/44770/2017-11-04/>

The EU is the third largest importer of South African macadamias, after Asia and North America.

High international prices have seen an increase in the number of smallholder and black farmers participating in the macadamia sector. South Africa is currently planting at a rate of over 600 000 trees per year while China is expected to add 2 million trees per year.⁴⁷

In South Africa there are approximately 700 farmers growing macadamia nuts, supplying 10 cracking factories. Many growers are GLOBALG.A.P. accredited and most of the cracking facilities are Hazard Analysis and Critical Control Points accredited.⁴⁸ Yet one of the main issues identified with exporting to all markets, including the EU, are the stringent SPS requirements. African macadamia nut exports to the US in particular have been found to be contaminated, owing to poor hygiene standards at factories, with incidents of salmonella reported as well. Almost all exports to the EU are macadamia nut kernels, bulk packed according to grades and sold to manufacturers based in the EU. Doing smaller packaging processing for the EU market is challenging, given the lead times on best-before dates. Freight costs increase when the nuts are processed – when exported in bulk as kernel, the exporter can fit 18 tonnes per container, but this goes down to 6 tonnes for a packaged processed product. Current macadamia nut oil price returns in the EU are also far lower than price returns on kernel exports, which discourages processing.⁴⁹

The SADC EPA offers South Africa and Mozambique a 2% tariff preference, as the current EU MFN rate is set at 2%. This is not a particularly large preference above competitors from Australia and Hawaii. However, there is an increasing demand in Europe for processed macadamia nut products, which attract a much higher tariff preference of 20% for Mozambique (and 19.5% for South Africa) for nut purees or pastes. Nut oils and butter preparations also have a higher preference than nut in shell (12%). According to the CBI,⁵⁰

[i]nterest in various industries in Europe is increasing, with macadamia nuts increasingly used for the production of butter, for chocolate coating and as an ingredient in the confectionery industry. The high levels of omega-7 fatty acids also make macadamia nuts a desirable ingredient in many cosmetic products, especially for the production of oil.

[crop-theft-has-major-impact-on-macadamia-industry](#), accessed 8 November 2017.

- 47 Valley Macadamia Group, 'Record high macadamia prices cause for concern for industry', *Engineering News*, 9 June 2016, http://www.engineeringnews.co.za/article/record-high-macadamia-prices-cause-for-concern-for-industry-2016-06-09/rep_id:4136, accessed 20 November 2017.
- 48 Mogala M, *A Profile of the South African Macadamia Nut Market Value Chain 2015*. Pretoria: DAFF (Department of Agriculture, Forestry and Fisheries), 2015.
- 49 Telephonic interview, Green and Gold Macadamia Nut Producers representative, 31 August 2017.
- 50 CBI, 'Exporting macadamia nuts to Europe', 27 November 2017, <https://www.cbi.eu/market-information/processed-fruit-vegetables-edible-nuts/macadamia-nuts/>, accessed 29 January 2018.

In South Africa and Mozambique attitudes to oil and butter production have unfortunately been more one of last resort, using damaged kernels for this process in order to recover some income.

Interviews with farmers and processors in South Africa indicated that they would need a significant cash injection in order to bring processing up to scale, something for which none of the farmers interviewed currently had the risk appetite. There are efforts underway to adopt a cooperative model for processing, but with the little financing available even this would be difficult.⁵¹ However, with dedicated efforts to exploit the health market in Europe, this could become a significant export product for the nut sector and develop a nascent SME sector in a rural setting. The industry association has a critical role to play here, to make producers aware of the opportunity, and to work with the small local health industry that is producing macadamia nut products for local consumption to scale up towards exporting. The DAFF reported that it could see definite spikes in product exports after industry associations embarked on marketing drives in the EU, in supermarkets or at trade fairs.⁵² The knowledge they impart to their members on consumer preferences, market intelligence and market standard requirements will be invaluable to SME producers.

The industry has tried to engage the IDC in order to secure additional investment into the sector. Established farmers and the industry association interviewed felt that macadamia nut production and processing had considerable potential to include formerly disadvantaged groups such as women. However, land tenure is uncertain at present and there is a five-year lead time from planting to first harvest.⁵³

Growing global demands necessitates that African partners improve the quality and quantity of their macadamia nuts. Farmers incur high costs when processing nuts and a lack of technical equipment leads to poor quality nuts, while the risk of stink bug, fungal infections and disease continues to threaten produce. Theft of macadamia nuts is a pervasive problem and farmers have little recourse to legal mechanisms to prevent this from happening. Theft and poor pest control efforts by smallholder farmers have heightened tensions between them and commercial growers, who are reluctant to engage with or support the incorporation of smallholder farmers into their commercial value chains.

LESOTHO'S AGRICULTURE AND AGRO-PROCESSING SECTOR

Lesotho is a small, landlocked country, completely surrounded by its neighbour South Africa. South Africa dwarfs Lesotho in terms of land and population size, while their levels

51 Telephonic interview, Mayo Mac representative, 7 September 2017; telephonic interview, Ivory Macadamias/former chairperson of SAMAC, 28 August 2017; telephonic interview, Golden Macadamia representative, 30 August 2017.

52 Interview, DAFF representative, Pretoria, 23 January 2018.

53 Telephonic interview, Mayo Macs representative, *op. cit.*; telephonic interview, Ivory Mac representative, *op. cit.*; telephonic interview, Golden Macadamia representative, *op. cit.*

of economic sophistication and development are almost incomparable. Lesotho has only around 2 million inhabitants and has been plagued by political instability for a number of years. Most recently, a vote of no confidence in former prime minister Pakalitha Mosisili led to early elections in June 2017, almost three years ahead of schedule. This resulted in a new coalition government under the leadership of Tom Thabane of the All Basotho Convention. SADC is currently working with the new government to ensure stability and good governance, based on international standards.

Agriculture contributes only 8% to gross domestic product, although it remains the main income-generating activity in rural Lesotho. Agriculture and agro-processing products do not really feature in the country's export profile, which is dominated by its clothing exports to the US, followed by water exports to South Africa and some additional diamond exports to Belgium.

LESOTHO AND THE SADC EPA

At face value it seems that opportunities for Lesotho from the SADC EPA lie in the clothing sector. The industry was initially established and promoted via the African Growth and Opportunity Act (AGOA), a US unilateral trade act of 2000, and has attracted investment from predominantly Asian companies.

Much has been written about Lesotho's clothing industry and its ability to use AGOA for economic development. However, Lesotho is at risk of losing its eligibility given the recent political instability. More importantly, the agreement will expire in 2025. Therefore, this section endeavours to explore the new opportunities presented by agro-processing tariff preferences under the SADC EPA, primarily by looking at the major stumbling blocks Lesotho's agricultural and agro-processing industries face in becoming export-competitive, and at what can be done to begin addressing them. The study also investigates opportunities for SMEs, which are more prevalent in agriculture than in the textile industry. Although it is true that many women have found employment opportunities in the textile industry that are preferable to subsistence farming, the agriculture and agro-processing industry has better opportunities for developing women and youth into business owners and exporters. This would be preferable to their remaining employees dependent on the vagaries of the AGOA benefits.

Lesotho government's role in implementing the SADC EPA

Interviews in Lesotho showed that the Ministry of Trade (MTI) remained the custodian of the SADC EPA, as it was responsible for its negotiation and therefore its implementation. However, no specific country-level implementation plan has been developed, despite meetings having taken place with the private sector, via industry associations. The associations themselves have been unable to unpack the potential benefits the agreement holds for their members and are still awaiting assistance from the government for the development of such programmes.

At face value it seems that opportunities for Lesotho from the SADC EPA lie in the clothing sector

The Ministry of Agriculture and Food Security (MAFS) supports Lesotho farmers and the government's recent drive to expand horticulture production to a commercial level. It also welcomes donor community programmes that could develop Lesotho's export capacity and eventual take-up of SADC EPA opportunities. In addition to horticulture, the ministry also supports the production of legumes (peas and beans), grains (sorghum) and berries, alongside potatoes, mushrooms and asparagus. Wild rosehip and cannabis production is being explored for oil extraction destined for the pharmaceutical industry.⁵⁴

The broad range of stakeholders interviewed revealed a total lack of knowledge of the SADC EPA. This can be attributed to the slow government response to implementing the agreement and sensitising stakeholders. The private sector remains preoccupied with AGOA and what the future relationship with the US may hold, instead of focusing its attention on diversification efforts in terms of products and markets. There is also a pervasive fear that EU standards and requirements are too stringent for Lesotho to enter the market competitively, regardless of the tariff preferences given. This is an enormous stumbling block for the country, as it has found entering even the South African market to be prohibitive in terms of meeting standards and packaging requirements. It seems that products are only successfully produced and exported in partnership with large retailers from South Africa such as Woolworths and Pick n Pay, which have introduced their own industry standards at farms that produce exclusively for them.

GOVERNMENT POLICIES AND PLANS

The Lesotho government believes the agro-processing sector could be a potential growth area for its predominantly small-scale farmers. The 2016 Micro, Small and Medium Enterprise (MSME) Policy⁵⁵ identifies the agro-processing sector as a priority area where SMEs could be established. The sector is also targeted as it could contribute to poverty alleviation and provide job opportunities for women and youth. According to a Finscope survey of the SME sector in Lesotho, 22% of SMEs are currently active in agriculture, but most are so small that they do not employ workers.⁵⁶ The survey showed that the majority of SME owners are women and that only 7% of all SMEs contribute to exports.

The policy emphasises the need to improve competitiveness by providing business development services (BDS) that cover access to finance, entrepreneurship training and skills development. The Basotho Development Corporation is a parastatal body located under the purview of the ministry, and is charged with capacitating the MSME sector. It offers technological development and innovation, infrastructure development and

54 Personal interview, Ministry of Agriculture and Food Security representative, Maseru, 17 January 2018.

55 Lesotho, Ministry of Small Business Development, Cooperatives and Marketing, 'Micro, Small and Medium Enterprises Policy for Lesotho', February 2016.

56 Finscope, *Micro, Small and Medium Enterprise Survey*, Lesotho 2016, October 2016, http://www.finmark.org.za/wp-content/uploads/2016/11/finscope-lesotho-pocket-guide_en.pdf, accessed 22 June 2018.

market access services.⁵⁷ The policy states that specific support programmes will be provided for clusters with a high potential for growth and opportunities for downstream and value-added activities. Identified clusters include agro-processing, with the potential to benefit women and youth. In this regard, rural SMEs will be targeted deliberately, in particular agro-based enterprises, in order to deal with the challenges that result from the remoteness of these settings and their associated marginalisation from the national economy.

None of the BDS providers offers specialised technical support to commercial farmers or SMEs in agriculture. The Finscope study confirmed that 81% of SME owners were unaware of support programmes targeting their development and largely managed on their own. However, it is envisaged that assistance will be given to the Horticulture SME Competitiveness Project, which was recently submitted by the MTI, under the SADC Trade Related Facility (SADC TRF). The project aims to contribute to achieving higher levels of compliance with and implementation of the SADC Trade Protocol commitments by Lesotho. The specific objective is to improve SME capacity to compete in local and regional markets. The project will develop the Horticulture BDS strategy, and provide training and accreditation to Basotho Horticulture BDS providers. The expected outcome of this project is to increase the number of smallholder farmers who can produce enough produce to allow agro-processing activities to take off in Lesotho.

The Department of Standards and Quality Assurance (DSQA), housed in the MTI, also stands to benefit from the SADC TRF under the Industrial Development Intervention area.⁵⁸ In this context the DSQA will continue to develop Lesotho's standards and the capacity of officials to certify these standards. Officials will also receive training on scientific measurement and related equipment. Finally, the water bottling industry will receive support to ensure continued export access for one of Lesotho's most important commodities.

After many years of endless delays, the Lesotho Standards Bill has finally been passed. It allows for the establishment of a standards institution as an autonomous body. However, the process of establishing the board will take a number of years.

SUPPORT PROGRAMMES TO LESOTHO'S AGRICULTURE AND AGRO-PROCESSING SECTORS

In the absence of a strong private sector in Lesotho, the donor community has tried to focus efforts on kick-starting production in the agriculture and agro-processing sectors. Lesotho comes off a very low base in this regard, as the examples of donor-funded projects below will show. The country has a long way to go to produce the large volumes needed for export, nor is it able to meet EU standards for exporting. The government may need to focus on targeting South Africa and integrating its contribution into South African value chains.

57 Personal interview, Ministry of Small Business Development, Cooperatives and Marketing representative, Maseru, 17 January 2018.

58 Personal Interview, Department of Industry representative, Maseru, 25 January 2018.

Enhanced integrated framework support to the horticulture sector⁵⁹

The donor community has recognised the potential of Lesotho's horticulture sector. With abundant space and good access to clean water, greenhouse production has become popular in the country. Through Lesotho's Aid for Trade programme, the [Horticulture Productivity and Trade Development \(HPTD\) Project](#) was implemented. The project started on 13 October 2013 and ended in 2017. It had two distinctive components, one focusing on enhancing the production of fresh vegetables in Lesotho, and the other on developing the trading capacity of farmers and Lesotho as a whole to ensure that produce enters the South African market.

To achieve the first component, 115 farmers were given greenhouses sourced from Kenya. Women and youth were specifically targeted. Technicians spent three months with recipients and trained them on effective greenhouse production, how and when to plant, how to fertilise, when and how to treat pests and when to harvest. Lesotho's climate proved to be ideally suited for greenhouse production and most of the recipient farmers produced high-quality tomatoes, green peppers, cabbages, cucumbers and spinach.

News of the success of the greenhouses spread through the country, with several individual farmers acquiring greenhouses from South Africa. Donor organisations such as the World Bank and World Vision bought additional greenhouses for more farmers. However, output production was not enough to result in either reduced imports from South Africa or collective exports.

Low production volumes created difficulties in realising the second component, namely the development of trade and export capacity. The vision for this component was to capacitate the DSQA to self-certify Lesotho produce for local and international consumption, adhering to international food safety standards and testing levels. Although the programme did train and expose staff to international standards and procure equipment for testing, the intervention failed to go much further than that for two reasons. First, there was a delay in passing the Standards Act, with a resultant delay in creating the Lesotho Bureau of Standards. Second, the government issued a tender for the construction of a new building that will first house the DSQA and later the Bureau of Standards, but this tender process has also been delayed. In the interim DSQA officials do not have sufficient space to make full use of the equipment or training received.

The project also aimed to build a market centre that would process all fresh fruit and vegetables produced in Lesotho and prepare the produce for export. The HPTD identified a site and developed it into a state-of-the-art market centre. The site is equipped with all the modern technology imaginable, from washing and sorting stations to generators and a host of computers, as well as cold storage and packaging equipment. Large trucks have direct access to the site. However, the market centre was developed without there being a

59 The analysis in this section flows from the author's mid-term and final evaluation of the programme. As such a large number of government officials, farmers and stakeholders were interviewed over a period of three years.

business plan that outlined where the volumes of produce were going to come from, how these would reach Maseru from the various greenhouses and who the off-taker of this produce would be. As things stand, the market centre remains empty and inactive. The Lesotho government intended to launch the market centre in March 2018, but would like to see a private operator taking over the facility.

These two major problems have overshadowed a number of smaller but equally important stumbling blocks towards getting Lesotho's agro-produce exported. Most farmers sell their produce to local villages and make enough of a profit to continue with subsequent harvests. A few sell to local supermarkets, but on an ad hoc basis. They arrive at the local store with their produce without having made prior arrangements or using the proper packaging. Some supermarkets are keen to support them, buying the produce and self-packaging it. However, they cannot commit to a permanent arrangement with the farmers as there are no planting and harvesting plans in place, and the farmers cannot predict the future volumes for sale. Another major problem is that neither the MAFS nor the farmers have access to refrigerated transport that can manage the difficult terrain where most greenhouses are located. Produce is severely damaged by being transported in open vehicles.

Lesotho comes off a very low base when targeting informal farmers, specifically women and youth living in rural settings. The tariff preference granted under the SADC EPA is unlikely to result in tangible benefits for these groups unless close attention is paid to the basic problems they encounter. These include, but are not limited to, access to distribution points, internal coordination to sequence planting and harvesting, the creation of production groups, access to high-quality seeds and fertilisers, extension services, production volumes that allow for exports, the ability to produce to international standards that are documented and verifiable, access to appropriate and cost-effective transport, and access to finance to scale production. The SADC EPA development component could be a significant contributor to overcoming these stumbling blocks.

World Bank Private Sector Competitiveness and Economic Diversification Project

The [World Bank Private Sector Competitiveness and Economic Diversification Project](#) is implemented by the MTI and aimed at economic diversification through the expansion of the commercial horticulture sector. Fruit farmers in particular have been targeted to test a variety of fruit and their suitability to being farmed in Lesotho. The programme has successfully produced Grade 1 apples, and will now be rolled out more broadly across the country via a block farming approach. The objective is to scale production to the extent that the industry can tap into high-value niche markets. A total of 10.7ha of orchards were planted in three locations during the pilot project; in the second phase, the roll-out will cover 10ha, 15.6ha and 15.2ha respectively in three different locations. Apples, pears, peaches and cherries are produced.⁶⁰

⁶⁰ Personal interview, Department of Crops representative, Maseru, 23 January 2018.

The second phase of the project will focus on:

- transforming strategic areas in Lesotho into major producers and exporters of early variety tree crops by demonstrating that commercial deciduous fruit production is competitive and sustainable;
- improving the livelihoods of rural farmers through the production, export and processing of high-value tree crops; and
- developing a competitive value chain for tree crops, including:
 - » selling fresh produce in local and export markets;
 - » establishing juicing, canning and drying facilities for products of Grade 3 and lower quality; and
 - » developing a food processing industry based on derivatives from tree crops.

The project will help support the expansion of upstream activities, including seedling nursery development (the development of a nursery farm is essential, as the desired fruit tree varieties are imported and often unavailable) and downstream activities, when the project anticipates increased volumes of marketable crops entering the market from existing and new farms.

Of the marketable products, Grade 1 products will be targeted for export markets; Grade 2 products for domestic markets, where nearly all fruits consumed in Lesotho are currently imported from South Africa; and Grade 3, and lower, for local value-added processing.⁶¹

Resuscitation of the Basotho Fruit and Vegetable Cannery project

The Basotho Fruit and Vegetable Cannery at Masianokeng has been dormant for many years, but recently there has been a commitment from the government to reopen the facility under the ‘Resuscitation of the Basotho Fruit and Vegetable Cannery’ project.⁶² The Lesotho National Development Corporation (LNDC) is planning to revitalise the cannery to produce a variety of products, such as asparagus, peaches, baked beans, potatoes, fruit salad and green peas. This new direction emanates from the 2008 turn-around strategy by PricewaterhouseCoopers, which recommended the introduction of new products over and above the asparagus and peaches traditionally produced by the cannery. The study identified a number of challenges that led to the closure of the facility. These included poor production by farmers, which led to under-supply of raw materials; poor marketing strategies; poor financial management; and a poor management structure. Other reasons for the failure of the cannery include a failure to train farmers on modern farming practices and the cannery’s buying produce for less than the going market rate.

61 World Bank, PSCEDP II (Second Private Sector Competitiveness and Economic Diversification Project), ‘Sub-component 2c: Expanding commercial horticulture’, www.psc.org.ls/sub-component%202C.aspx, accessed 26 January 2018.

62 Personal interview, Lesotho National Development Corporation representative, Maseru, 24 January 2018.

The goal of the project is to revitalise production and processing in Lesotho through:

- establishing a high-tech greenhouse and irrigated area that will produce a variety of products for the existing cannery and the minimum raw material requirement for the cannery;
- establishing a pack house and marketing centre in Tikoe Industrial Area where the collection, packaging, sorting, cleaning and distribution of produce will be undertaken; and
- building the capacity of smallholder farmers through the Horticulture SME Competitiveness project, which has been submitted by the MTI for financing under the SADC TRF.

The following products will be processed (in order of preference): peaches, asparagus, green peas, white beans, potatoes and mixed vegetables. The recommendation is based on the ability of local farmers to produce these crops, and the markets the cannery was serving inside and outside Lesotho, such as the European market. Owing to these crops' seasonality, the cannery will focus on one product per season. This will enable it to process produce while fresh, as horticultural produce loses value if left unprocessed. The schedule is based on farmers' ability to deliver the necessary produce, and on market demand.

The cannery also has enough space on its production floor to include a potato line. Potatoes are among the highest volume crops produced in Lesotho, mostly in mountainous areas. The line can be used to produce frozen chips, among others, and will be marketed locally.

The project will also make use of the market centre that, as noted earlier, was built under the HPTD project. It will be used to manage all post-harvest handling requirements, including pre-cooling, washing and grading, sorting, packaging and distribution. The project is a public-private partnership. The LNDC is still looking for a strategic joint-venture partner that will assume 40% shareholding.

EU support for Lesotho

At present the EU delegation in Lesotho supports the water, energy and governance sectors and not economic development, which is supported via regional programmes by the EU delegation in Botswana. The MTI's support for the implementation of the SADC Trade Related Facility is one such example. At a regional level, the EU's Regional Indicative Programme should support the implementation of the SADC EPA, but no specific commitments have as yet been made or programmes developed. This should be done in consultation with the SADC EPA member states in due course.⁶³

63 Email correspondence, EU delegations in South Africa, Lesotho and Botswana.

CHALLENGES FACING LESOTHO'S UPTAKE OF THE SADC EPA BENEFITS UNDER AGRICULTURE AND AGRO-PROCESSING

Lesotho has a net export deficit when it comes to trade in fresh and processed foods, as it imports more than it exports. It also has only a 0.01% share of the global fresh food market. Its global participation in this sector is negligible, and there is almost no product or market diversification. In many ways, Lesotho's agriculture and agro-processing sectors are starting from a near zero base in terms of export capacity.

Interviews with various stakeholders in Lesotho confirmed the low levels of agro-processing activities in the country. Currently it does not export any horticulture produce. In contrast, aquaculture exports of freshwater trout from the Lesotho highlands have taken off. Based on Lesotho's competitive advantage in terms of the large quantities of cold and unpolluted water in the Katse Dam, sustainable and ethical fisheries are growing in number. The trout produced here is of high quality and is packaged before being exported to South Africa and Japan. South African retailer Woolworths is involved in ensuring the fish is produced and processed according to its own industry standards. The ITC Trade Map confirms the exports and the fact that no fish is currently exported to the EU,⁶⁴ even though the SADC EPA offers an 11% tariff advantage for the product. It will take a dedicated effort by a marketing agency or industry association to ensure first entry into the European market.

Smallholder farming communities do engage in agro-processing activities by producing dried fruit, canned fruit and vegetable soup. In addition, small amounts of fruit juice and some niche production of wine and sour soft porridge were reported during the government interviews.⁶⁵ The National University of Lesotho has recently started to experiment with processing yogurt and sorghum biscuits. These products are only distributed on the local market, as they do not meet international standards or product labelling specifications.

RECOMMENDATIONS

If the SADC EPA group wants to realise similar results from the SADC EPA as South Africa did under the TDCA, it is crucial that governments ensure that producers, exporters and, critically, potential new exporters are made aware of the opportunities.

The situation in South Africa and Lesotho is a mixed one. South Africa has a solid agriculture and agro-processing base, as well as considerable experience in exporting a diverse product range to the EU. By contrast, Lesotho has almost no experience in exporting fresh produce even as far as its neighbour, South Africa. All its horticulture

64 ITC, Trade Map, 'Product: 03 fish and crustaceans, molluscs and other aquatic invertebrates', https://www.trademap.org/Bilateral_TS.aspx?nvpm=1||14719|426||03||4|1|1|1|2|1|1|1|1, accessed 29 January 2018.

65 Personal interview, Ministry of Agriculture and Food Security representative, Maseru, 24 January 2018.

produce is sold on the domestic market, and various stumbling blocks (such as productive capacity and standards compliance) have to be addressed before Lesotho can export fresh fruit and vegetables to South Africa and beyond.

RECOMMENDATIONS FOR THE EU

- The EU delegation in Botswana will be responsible for developing the SADC EPA support programmes. This support should focus on encouraging SMEs in SADC EPA member states to integrate into South African value chains that already have export capacity to the EU.
- While developing the SADC EPA support programmes, the EU should target or include industry associations as far as possible. They are mostly based in South Africa, but some do have a regional mandate. They play a critical role in promoting market access and in giving farmers vital information on standards requirements and market tastes, trends and opportunities.
- The European Commission should, through the SADC EPA development component, prioritise standards negotiations. This support can be directed at the SADC Secretariat in its efforts to address standards certification as a non-tariff barrier. SADC has housed the Standardisation, Quality Assurance, Accreditation and Metrology (SQAM) programme since 2006, to assist member states with national standards systems and to harmonise standards regionally.⁶⁶ However, SQAM initiatives in recent years have been stifled by funding shortfalls. The EPA presents an opportunity for renewed support to standards infrastructure in SADC countries, to eliminate the costly process that exporters undergo when sending processed products overseas for testing and to increase the cost-competitiveness of exports.
- The EU must enforce its own policies regarding discrimination and labour standards in EPA assistance programmes. While the EU cannot realistically monitor all trade under the EPA, it can enforce these policies, for example, with agro-processing subcontractors in South Africa, where EU consumer drives for sustainable products have made a concerted effort to include women.

RECOMMENDATIONS FOR SOUTH AFRICA

- The South African government and industry associations such as the South African Fruit and Vegetable Cannery Association should set up an information portal on the most attractive opportunities under the SADC EPA, new EU consumer trends and standards in fruit juice and processed products; and provide support and information on compliance, an EU company database, and special programmes to assist prospective SME fruit processors.

⁶⁶ EPA Monitoring, 'Implications of improved phytosanitary control systems for the attainment of SDGs', 25 January 2018, <http://epamonitoring.net/implications-of-improving-phytosanitary-control-systems-for-the-attainment-of-sdgs/#more-561>, accessed 3 March 2017.

- Greater efforts should be made in addressing the stumbling blocks towards fulfilling South Africa's quotas by explaining SPS requirements and capacitating producers to meet them.
- In South Africa the further processing of nuts should be encouraged and supported with technical assistance to optimise efficient production and to access financial support. This is clearly becoming an important niche market in the EU and has the potential to create real opportunities for small-scale farmers and agro-processing SMEs. Progress here should be tracked and studied in order to provide lessons learnt for Lesotho on how to develop a relatively small value chain with South Africa in order to access the large EU market. For instance, Lesotho's fruit exports could link in to the South African processing chain, which could contribute to South Africa's also reaching its quotas. Other similar opportunities for SME processing that could benefit from the SADC EPA should be explored and supported.

RECOMMENDATIONS FOR LESOTHO

- Lesotho's agriculture and agro-processing production is still in its infancy. In order to promote production a few donors have been implementing support programmes. Greater coordination between these programmes could be beneficial. The report has focused on two key areas, namely the establishment of the market centre and the revitalisation of the cannery. If these two were to become successful they could play a key role in developing value chains with South Africa and allowing some export potential to develop in agro-processing.
- Greater awareness of SADC EPA opportunities in the agro-processing sector can be created by hosting events in Lesotho that specifically target women and youth groups and SMEs. These awareness-raising events should not just state the benefits that could accrue but also point out how new entrants to farming can become important cogs in the wheel to augment local production.
- Lesotho would do well to emphasise the stumbling blocks it is experiencing in developing its export capacity and ensure that the SADC EPA development component can contribute to overcoming them. It is also worth exploring how the support programme can ensure the successful revitalisation of the cannery and how greenhouse farmers can be supported to produce volumes suitable for the market centre. The EU has extensive private sector development experience and this could be used to encourage the share uptake of both the cannery and the market centre.

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Jan Smuts House, East Campus, University of the Witwatersrand
PO Box 31596, Braamfontein 2017, Johannesburg, South Africa
Tel +27 (0)11 339-2021 • Fax +27 (0)11 339-2154
www.saiia.org.za • info@saiia.org.za