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# Sustainable Future of Agro-Processing: Policy Pathways for Eco-Inclusive Enterprises in South Africa

Sectoral Business Condition Brief



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# Executive Summary

The South African National Development Plan (NDP) Vision 2030<sup>1</sup> identifies small and medium-sized enterprises (SMEs) as key catalysers for sustainable economic growth, job creation and the reduction of inequalities. More specifically, eco-inclusive enterprises with their proven social, environmental and economic impacts they generate bear tremendous potential to contribute to South Africa's transition towards a green and inclusive economy and South Africa's commitments to global initiatives, including the Paris Climate Agreement (signed in 2016) and the United Nations' Sustainable Development Goals (SDGs).<sup>2</sup> According to the NDP, the agro-processing sector is identified as a strategic sector in the inclusive, green economy transition.

Around 90% of existing agro-processors in South Africa are SMEs<sup>3</sup>. However, SMEs continue to face challenges as they start-up and scale-up their activities. The most common challenges to eco-inclusive agro-processing enterprises relate to access to adequate infrastructure and knowledge, barriers to market entry, and lack of on-going business support and skills-sharing opportunities.

Various policy measures have been drafted to shape the agro-processing sector's future development and secure the success of eco-inclusive enterprises. The two frameworks that specifically target agro-processing SMEs in South Africa are:

*The National Policy Framework on the Support and Development of Small and Medium Agro-Processing Enterprises (2014/30)*, which aims to increase the impact and capacity of existing enterprises and reduce the barriers to new SMEs, especially in rural areas.

*The Strategy for the Development of Small and Medium Agro-processing Enterprises (2015)*, which articulates the South African Government's plan to support the establishment and growth of competitive, rurally-based small and medium sized agro-processors.

In addition, two sector-specific funding schemes have been implemented in South Africa:

*The Agro-Processing Support Scheme (APSS) (2017)* stimulates investment for new and existing agro-processors.

*The Agro-Processing Competitiveness Fund (APCF) (2010)* facilitates increased competition, growth, job creation and development through funding non-dominant players in the agro-processing sectors.

Despite these efforts to support the success of South African agro-processing SMEs, further multi-stakeholder efforts are required to leverage the full potential and maximise the contributions of eco-inclusive SMEs to national and global sustainable development agendas.

Thus, the objectives of this Sectoral Business Condition Brief are to:

- > Inform policy makers and other sector stakeholders about the challenges and barriers that eco-inclusive enterprises face in the agro-processing sector;
- > Identify action fields, or focus areas, for the development of targeted support solutions, accelerating eco-inclusive enterprises in the agro-processing sector in South Africa; and
- > Support the development of tailored, customized and tested support instruments, which strengthen the role of eco-inclusive enterprises in the agro-processing sector to achieve a green and inclusive South African economy.

The Brief is shaped out of two SEED Policy Prototyping Labs. These SEED Labs are a component of SEED's wider activities in South Africa aimed at shaping a conducive ecosystem for eco-inclusive enterprises and providing high quality, accessible business development opportunities to entrepreneurs and the wider business community. The two SEED Policy Prototyping Labs brought together multiple stakeholders from the private, public and social sectors to design instruments that scale up eco-inclusive innovation in South African agro-processing.

<sup>1</sup> Department of the Presidency (RSA) (2012). National Planning Commission: National Development Plan 2030 Our Future – make it work. Retrieved from: [http://www.dac.gov.za/sites/default/files/NDP%202030%20-%20Our%20future%20-%20make%20it%20work\\_0.pdf](http://www.dac.gov.za/sites/default/files/NDP%202030%20-%20Our%20future%20-%20make%20it%20work_0.pdf).

<sup>2</sup> UN-DESA (2017). Progress of Goal 2 In 2017: Report of the Secretary-General, „Progress towards the Sustainable Development Goals“, E/2017/66. Retrieved from: <https://sustainabledevelopment.un.org/sdg2>.

<sup>3</sup> Thindisa, L. M. V. (2014). Participation by smallholder farming entrepreneurs in agro-processing activities in South Africa (Doctoral dissertation).

# 1 Future of Eco-Inclusive Agro-Processing Enterprises: Driving Green and Inclusive Economies

Hunger eradication and food security are global imperatives in our green economy transition. The achievement of these goals demands market-based solutions that use resilient agricultural practices and sustainable food production methods while incorporating marginalised populations into value chains.<sup>1</sup>

An inclusive green economy is one that builds social equity and wellbeing while reducing environmental degradation and risks.<sup>2</sup> Numerous efforts have been made to integrate social, environmental and economic targets into this green economy agenda. Specifically, this Sectoral Business Condition Brief examines how positive eco-inclusive impacts of small and growing agro-processing enterprises in South Africa can be fostered to contribute to the South African NDP and its Nationally Determined Contribution (NDC)<sup>3</sup> on a national level, and on an international level to United Nations' Sustainable Development Goals (SDG).

The 2030 Agenda for Sustainable Development<sup>4</sup>, adopted in 2015, demands the alignment of food and agricultural industries with targets for social inclusion, economic development and environmental sustainability. Constant reminders of climate change, such as the recent drought in the Western Cape Province in South Africa, are particularly damaging to the resiliency of water intensive sectors, including agriculture. These events demonstrate that climate resilience and the alignment of agriculture with sustainable development agendas must be a global priority, as well as a national priority in South Africa.

Globally, the agricultural sector is characterised by mass production, high levels of waste, and inequitable access to sustained, nutritional food sources. Contemporary agricultural systems' dependency on resource-intensive practices paired with demographic changes – disproportionately young populations, rapid urbanisation, and technological change – in African countries challenges sustainable development on the African continent.<sup>5</sup> In South Africa, high unemployment (26.7% overall and nearly 50% among youth<sup>6</sup>), some of the highest levels of inequality globally, and lack of access to adequate food and nutrition among 50% of the population, are significant barriers to inclusive, green growth<sup>7</sup>.

Equitable and sustainable food systems are made possible by the efforts of SMEs that are low carbon, socially inclusive and resource efficient. Eco-inclusive enterprises – enterprises that actively combine social, economic and environmental objectives in their business models – in the agro-processing sector are continuously proving the pivotal role that the private sector plays in delivering innovative solutions. These enterprises are ideally positioned within communities to address social issues and provide much needed employment. They have consistently proven their capacity to innovate in the design of products and services that are environmentally friendly and help populations to adapt to and mitigate the impacts of climate change.

Achievement of our global SDGs by 2030 depends on the concerted efforts of these eco-inclusive enterprises within agro-processing (and across sectors) to provide market-based solutions to core social and environmental issues. However, these innovators cannot be left to act

1 UN-DESA (2017). Progress of Goal 2 In 2017: Report of the Secretary-General, „Progress towards the Sustainable Development Goals“, E/2017/66. Retrieved from: <https://sustainabledevelopment.un.org/sdg2>.

2 UN Environment (2015). Uncovering pathways towards an inclusive green economy. Retrieved from: <https://www.unenvironment.org/explore-topics/green-economy>.

3 South Africa's Intended Nationally Determined Contribution (INDC) (n.d). Retrieved from <http://www4.unfccc.int/ndcregistry/PublishedDocuments/South%20Africa%20First/South%20Africa.pdf>.

4 2030 Agenda on Sustainable Development (2015). Retrieved from: <http://www.un.org.za/sdgs/2030-agenda/>.

5 UN Environment (2015). Uncovering pathways towards an inclusive green economy. Retrieved from: <https://www.unenvironment.org/explore-topics/green-economy>.

6 Statistics South Africa (2018). South African unemployment rate (Q1: 2018). Retrieved from: <http://www.statssa.gov.za/?p=11129>.

7 Bormann, T. and Gulati, M. (2014). The Food Energy Water Nexus: Understanding South Africa's most urgent sustainability challenge. WWF-SA

alone and need an enabling ecosystem to grow and scale.

Small and growing enterprises require the continued support of local, national and international stakeholders from the private, public and social sectors. In late 2015, 195 countries adopted the first universal and legally binding global climate agreement at the historic Paris Climate Conference (COP 21). Through this agreement, the global community has demonstrated political commitment to climate-smart, sustainable development. The successful promotion and development of a sustainable and resilient agro-processing sector can safeguard long-term growth that is low carbon, resource efficient and socially inclusive. However, more can be done to ensure that the national commitments of signatories, contained in each NDC, incorporate the potential of eco-inclusive enterprises. The political commitment of local, national and international actors can be strengthened and operationalised by supporting eco-inclusive enterprises through targeted policy, collaboration and financing instruments.

### About this Sectoral Business Condition Brief

This Brief analyses the business conditions faced by eco-inclusive enterprises in the agro-processing sector in South Africa. It begins by providing evidence and the latest insights into enabling conditions for and barriers faced by eco-inclusive SMEs in South Africa. This includes the identification of key political, regulatory, market-based, infrastructural and social conditions common to eco-inclusive SMEs operating within the agro-processing sector. Finally, the Brief carves out action fields and instruments to promote these enterprises with regard to an inclusive, green economy transition.

The Brief serves as an introduction for various stakeholders (local, national, and international) who support eco-inclusive enterprises in the agro-processing sector, with relevance across sectors. It guides these supporting actors on how to shape an ecosystem jointly, conducive to the successful start-up and scale-up of enterprises with eco-inclusive business models.

The Brief builds upon two SEED Policy Prototyping Labs that created instruments and strategies for supporting the success of eco-inclusive enterprises in the agro-processing sector in South Africa. The Labs engaged policy makers, sector experts, researchers and eco-inclusive enterprises in the agro-processing sector to discuss challenges and prototype solutions to support enterprises to grow and scale.

#### About SEED Policy Prototyping Labs

**SEED Policy Prototyping Labs** facilitate collaboration between policy-makers, financial institutions, sector experts, researchers and eco-inclusive enterprises to prototype instruments that promote eco-inclusive enterprises. The Policy Labs result in innovative, tailor-made instruments and interventions that enable small and growing eco-inclusive enterprises to successfully start-up, scale-up, and maximise their environmental, social and economic impacts.

During the Policy Labs, SEED provides participants with up-to-date, sector-specific insights into challenges and enablers of these enterprises, and facilitates a participatory and iterative process to design customised support tools and frameworks. SEED is committed to sharing lessons and replicating instruments and experiences that support SMEs to grow and scale.

Both the instruments and underlying assumptions developed during the two SEED Policy Labs were tested through a comprehensive literature review and expert interviews. This culminated in the identification of a set of targeted and customised recommendations and instruments to maximise the socio-economic and environmental impacts of eco-inclusive enterprises.

This Sectoral Business Condition Brief aims to:

- > Inform policy-makers, sector experts, financial institutions, non-governmental organisations (NGOs), Business Development Support (BDS) providers and other ecosystem stakeholders about the challenges and barriers to eco-inclusive enterprise growth and scaling in the agro-processing sector in South Africa;
- > Identify action fields for how these obstacles can be tackled through multi-stakeholder efforts while shaping an enabling environment for the success of aspiring and growing enterprises in the sector;
- > Support the development of customised and tested policy, collaboration and financing instruments that strengthen the role of eco-inclusive enterprises in the agro-processing sector to the benefit of a green and inclusive South African economy; and
- > Outline the role that national and international governments can play in the design and implementation of the aforementioned instruments to support eco-inclusive enterprises in the sector.

The Brief reiterates the contributions of eco-inclusive SMEs to global development agendas and champions market-based solutions to achieve an inclusive, green economic future.

## 2 Scaling Up Eco-Inclusive Innovation: The Success of Triple Bottom Line Enterprises

Our global transition towards inclusive green economies necessitates focused, market-based approaches. Multi-stakeholder support on national and international scales must mobilise the transformative power of diverse small and growing eco-inclusive enterprises, in the South African agro-processing sector and beyond. Adopted approaches must actively fortify an ecosystem of policy, financing and multi-stakeholder collaboration instruments conducive to the establishment and long-term viability of these small and growing enterprises.

SMEs are the backbone of the global economy, contributing up to 40% of employment and up to 33% of GDP in emerging economies. These numbers are significantly higher when contributions to the informal sector are considered.<sup>1</sup> In addition to their economic significance, many of these smaller enterprises have adopted business models with a strong social and environmental mission. These eco-inclusive enterprises:

- > Combat environmental degradation, pioneer business models based on environmental sustainability and the creation of responsible products, services and value chains to mitigate and/or adapt to climate change; and
- > Employ and incorporate low-income or vulnerable populations, including women and unemployed youth, in their value chains as suppliers, distributors and consumers.

Eco-inclusive enterprises alleviate poverty and eradicate hunger. They help communities to access stable household incomes and reduce household dependency on social grants, which are common in South Africa. These en-

### Identifying eco-inclusive enterprises

Eco-inclusive enterprises are enterprises that integrate ecological and social inclusion objectives into their business model from the outset to generate green, inclusive economic growth:

- > **Ecological** by using sustainable production methods; contributing to resource efficiency, waste reduction, or biodiversity conservation; and helping to mitigate or adapt to climate change.
- > **Inclusive** by creating local jobs, particularly for deprived populations such as youth, women and low-income and rural households; and through integrating communities into the enterprise's local and global value chains as suppliers, distributors and customers.

terprises simultaneously reduce the negative environmental impacts of economic activities through closed-loop and less resource-intensive production processes. They often offer products that enable communities to adapt to and/or mitigate climate change. The success of South Africa's eco-inclusive SMEs in the agro-processing sector supports local economic stimulation, food security, natural resource conservation, community empowerment, and job creation – especially in rural communities where formal employment opportunities are particularly limited.

The success stories of South African SEED Award winners prove the potential of eco-inclusive agro-processing enterprises to contribute to a green and more inclusive South African economy. However, despite these inspirational success stories, small and growing enterprises require additional support from policy-makers, financial institutions, NGOs, and others to optimise their positive sustainability impacts in their efforts to scale-up and remain profitable in the long-term.

<sup>1</sup> International Finance Corporation (IFC)(2010). Scaling-Up SME Access to Financial Services in the Developing World. Retrieved from: [http://www.enterprise-development.org/wp-content/uploads/ScalingUp\\_SME\\_Access\\_to\\_Financial\\_Services.pdf](http://www.enterprise-development.org/wp-content/uploads/ScalingUp_SME_Access_to_Financial_Services.pdf).

**SAG-SEED AWARD WINNER 2017**

**Umgibe Farming Organics and Training Institute: Delivering organic products to local areas and protecting the environment through cost-effective growing systems and co-operative support**

Umigibe Farming Organics and Training Institute supports local farming co-operatives with access to technology, training and markets. Umigibe identified the need to empower unemployed and underserved communities. The services that they provide help urban and rural small-scale farmers to form their own businesses using the enterprise's cost-effective and sustainable growing system. The enterprise enables poor communities to grow organic vegetables for their own consumption and sale.

It ensures fresh, locally grown produce is available to communities at a reasonable price, while training community members in time-saving, organic farming methods. The training that Umigibe has delivered on sustainable farming practices has diverted around 10,000 plastic bags from landfills into use as growing bags. Their training programmes have also significantly reduced the consumption of water and harmful pesticides and fertilisers.

Umigibe's low-cost and environmentally friendly agricultural growing system was used to train over 41 local farming co-operatives and improve their access to markets, thereby enhancing the ability of these co-operatives to generate profits and provide equitable incomes. The growth of a local market for organic agricultural products has resulted in a sustainable income stream for more than 290 families.

**Enterprise impacts**
**Social impacts:**

- > Provide locally grown and healthy food to communities in eThekweni Municipality.
- > Inform the community and build their capacities by training community members in organic farming, crop production and food processing.
- > Minimise the physical work related to farming, to the benefit of youth, elderly and women.

**Environmental impacts:**

- > Protect the environment through the Umigibe growing system by reducing water consumption and replacing harmful fertilisers or pesticides.
- > Divert more than 10,000 plastic bags from landfills by utilising them as growing bags.
- > Minimise carbon emissions by reducing transport activities for local food provision.

**Economic impacts:**

- > Provide a sustainable source of income to more than 290 families through Umigibe's 41 partner co-operatives.
- > Create a local market for organic products.
- > Generate revenue and a stable market for Umigibe and the partner co-operatives through contracts with hospitals.

**Umigibe Farming Organics and Training Institute**

contributes to the achievement of the following Sustainable Development Goals:



## SEED SOUTH AFRICA WINNER 2013



Photo: <https://muthifuthi.co.za/>

### Muthi Futhi: Providing rural employment through the sustainable management of indigenous medicinal plants

Muthi Futhi cultivates and processes indigenous medicinal plants, for bulk sale as primary commodities and as processed herbal products. The enterprise's core objective is to create employment opportunities that support the conservation of indigenous plants and target women in rural areas.

Many of the plants cultivated by the enterprise are endangered due to over-harvesting. Through training predominantly women on the importance of environmental conservation, as well as educating the community at large, Muthi Futhi ensures indigenous plants are protected, to the benefit of both environmental and economic sustainability.

Organic cultivation methods and the processing of select indigenous medicinal plants by community members have generated sustainable employment for 10% of the community. Community members who are involved receive 50% of profits from sales, which they are able to reinvest in their communities. Muthi Futhi's network of customers is commercial companies that specialise in manufacturing herbal products locally or exporting raw materials to Europe, the US and elsewhere.

#### Enterprise impacts

##### Social impacts:

- > Enlist exclusively local community members in plant cultivation.
- > Target women as team members, since agriculture is traditionally a female activity in KwaZulu-Natal.
- > Provide the Dakeni community with access to a 25-hectare site for enterprise activities.

##### Environmental impacts:

- > Protect indigenous, wild medicinal plants through sustainable cultivation and processing.
- > Use organic cultivation methods and educate the community about sustainable cultivation.
- > Train the team on the importance of conservation, and community-based peer education.

##### Economic impacts:

- > Deliver 50% of future profits to the community.
- > Employ 30 women in the 300-person community in paid permanent jobs.
- > Serve as a replicable model of sustainable business for other rural communities.

**Muthi Futhi** contributes to the achievement of the following Sustainable Development Goals:



## 2.1 South African Support for Eco-Inclusive Entrepreneurship

The South African government has recognised the importance and made significant efforts to support climate action and the green economy agenda, with a few initiatives tailored to these exemplary small and growing enterprises. The government's objective to establish a greener and more inclusive economy is evident in its commitment to international conventions, including the Paris Climate Agreement<sup>1</sup> as well as the NDP Vision 2030.<sup>2</sup>

South Africa's NDC, resulting from the Paris Agreement, outlines the country's strategy for climate change mitigation and adaptation. In its NDC, South Africa prioritises poverty and inequality alleviation, promotes inclusive economic growth, and aims to reduce unemployment while transitioning to a low-carbon and climate-resilient future.<sup>3</sup> The South African Government also acknowledges that "poor communities are particularly vulnerable to the adverse impacts of climate change, a challenge [South Africa] shares with many poor countries in Africa".<sup>4</sup> While the importance of "sustainable small, medium and micro businesses which will add to the common wealth of our country and the achievement of enhanced economic and social well-being of all South Africans" is stressed in guidelines like the General Procurement Guideline issued by the Government of South Africa<sup>5</sup>, the South African NDC does not explicitly acknowledge the potential of small and growing eco-inclusive enterprises to reach the most vulnerable to climate change impacts.

Additionally, the South African NDP Vision 2030, which integrated the NDC commitments, aspires to eliminate poverty and reduce inequalities by actively promoting an inclusive economy through domestic policy measures.<sup>6</sup> The agro-processing sector has been identified in the South African NDP as a strategic sector with great potential to drive South Africa's green economy.<sup>7</sup> The sector offers opportunities along diverse value chains to ad-

dress various social, environmental and economic challenges that South Africa faces today. SMEs in particular have been identified in the South African NDP as key catalysts, capable of significantly contributing to economic growth and ensuring a "labour market that is more responsive to economic opportunity".<sup>8</sup>

Various instruments have been adopted to shape the agro-processing sector's future development and secure the success of eco-inclusive enterprises. The two frameworks that specifically target agro-processing SMEs in South Africa are:

**The National Policy Framework on the Support and Development of Small and Medium Agro-Processing Enterprises (2014/30)**<sup>9</sup>, which aims to increase the impact and capacity of existing enterprises and reduce the barriers to new SMEs, especially rural SMEs.

**The Strategy for the Development of Small and Medium Agro-processing Enterprises (2015)**<sup>10</sup>, which articulates the South African Government's plan to support the establishment and growth of competitive, ruraly-based small and medium-sized agro-processors using six strategic interventions around market access, technical and entrepreneurial training, infrastructure investment, technology dissemination, and business development services.

In addition, two sector-specific funding schemes have been implemented:

**The Agro-Processing Support Scheme (APSS) (2017)**<sup>11</sup> stimulates investment for new and existing agro-processors.

**The Agro-processing Competitiveness Fund (APCF) (2010)**<sup>12</sup> facilitates increased competition, growth, job creation and development through funding of non-dominant players in the agro-processing sectors.

1 195 countries all agreed to address the threat of climate change.

2 National Planning Commission (2011). The National Development Plan - Vision 2030. Retrieved from: <http://www.gov.za/>.

3 UNFCCC (2015). South Africa's Intended Nationally Determined Contribution (INDC). Retrieved from: <http://www4.unfccc.int/ndcregistry/PublishedDocuments/South%20Africa%20First/South%20Africa.pdf>

4 Department of Environmental Affairs (2015). Discussion Document: South Africa's Intended Nationally Determined Contribution (INDC). Retrieved from: <https://www.environment.gov.za/>.

5 Government of South Africa (1999). General Procurement Guidelines. Retrieved from: <http://www.treasury.gov.za/legislation/pfma/supplychain/General%20Procurement%20Guidelines.pdf>.

6 National Planning Commission (2011). The National Development Plan - Vision 2030. Retrieved from: <http://www.gov.za/>.

7 Musvoto, C., Nahman, A., Nortje, K., de Wet, B. and Mahumani, B. (2014). Agriculture and the Green Economy in South Africa: a CSIR Analysis. Retrieved from: [www.un-page.org/](http://www.un-page.org/).

8 SEED (2017). The Landscape of Eco-Inclusive Entrepreneurship Malawi, Mozambique and Namibia, Trends, Challenges and Opportunities. Retrieved from: <https://www.seed.uno/publications/policy-insights/2913.html>.

9 Department of Agriculture, Forestry & Fisheries (2015). The National Policy Framework on the development of Small and Medium Agro-processing Enterprises in the Republic of South Africa 2014/30. Retrieved from: <http://www.nda.agric.za/>.

10 The Strategy for the Development of Small and Medium Agro-processing Enterprises (2015). Retrieved from: <http://www.nda.agric.za/>.

11 Department of Trade and Industry (n.d). Null Financial Assistance (Incentives): Agro-Processing Support Scheme (APSS). Retrieved from: [https://www.thedti.gov.za/financial\\_assistance/financial\\_incentive.jsp?id=69&subthemid](https://www.thedti.gov.za/financial_assistance/financial_incentive.jsp?id=69&subthemid).

12 Mandiriza, T., Sithebe, T. and Viljoen, M. (2016). WORKING PAPER CC2016/02: The Impact of the Agro-Processing Competitiveness Fund in Facilitating Entry into Selected Agro-Processing Sectors. Competition Commission: South Africa. Retrieved from: <http://www.compcom.co.za/wp-content/uploads/2016/11/CC201602-Mandiriza-T-Sithebe-T-and-Viljoen-M-2016-The-impact-of-the-agro-processing-competitiveness-fund-in-facilitating-entry-into-selected-agro-processing-se.pdf>.

Despite efforts in South Africa to ensure the success of SMEs within agro-processing, support for small and growing enterprises across sectors must be strengthened. This is achieved not only through the formal commitment to the role of SMEs in national development agendas, as expressed in South Africa's NDC and NDP, but also with complementary local and national instruments that translate these objectives into implementable measures for governmental and non-governmental actors. These instruments must be formulated to improve the profitability of SMEs and to optimise their environmental and social benefits. The instruments must also cater to the specific challenges and enablers of enterprise success within specific sectors. The focus of the following sections in this Brief is the business conditions for SMEs in the agro-processing sector; and how these conditions can be improved through multi-stakeholder collaboration.

## 2.2 A Snapshot of the Agro-Processing Sector in South Africa: Growing Need to Strengthen Eco-Inclusive Agro-Processing Enterprises

In the light of demographic trends and intensifying climate variability, there is a growing need to strengthen a socially inclusive and environmentally sustainable agro-processing sector in South Africa. Food security and sustainable development can be achieved when the social, economic and environmental sustainability benefits derived from the value-added activities of processing agricultural goods are shared with everyone living in South Africa.

Approximately 50% of South Africa's growing population lacks adequate food, with over 20% of the population (more than 14 million South Africans) and between 20-50% of households vulnerable to food insecurity. Food insecurity in South Africa has been magnified by a 25% growth in population, widening social and economic inequalities, limited access to arable land, rapid urbanisation, and climate variability, to name a few key factors.<sup>13</sup>

South Africa continues to import the majority of processed foods consumed in country, and increasingly imports more unprocessed agricultural goods for consumption. This is despite a diverse domestic agricultural sector consisting primarily of grains, vegetables, livestock and

fruit production. Rising international food prices and volatile agricultural commodity prices have resulted in unpredictable and unaffordable food prices in South Africa. Between 2006 and 2008, the average food prices in South Africa rose by between 25 and 39% as a result of sustained price hikes in global agricultural commodities.<sup>14</sup> As more South Africans continue to locate to urban centres, fewer households are producing their own food and more consumers are at the mercy of these global market fluctuations.<sup>15</sup>

Agro-processing is defined as a subset of manufacturing that processes raw materials and associated products derived from agricultural activities.<sup>16</sup> The agro-processing sector consists of all post-harvest activities related to handling, packaging, processing, transporting and marketing of the raw resources derived from agriculture, forestry and fisheries for consumption (Figure 1). In South Africa, from 2006 to 2010, food products retained a dominant share of total agro-processing output (42,4%), employment (31,3%) and exports (28,8%). This was followed by paper and paper products, which contributed 14,3% to total output and 18,7% to exports from the agro-processing sector, and beverages (11,9% and 17,3%, respectively).<sup>17</sup>



Figure 1: Agro-processing output

Despite the high reliance of the South African economy on foreign imports of processed agricultural products, in 2016 the agro-processing sector contributed an estimated 32% (R49 billion) to the gross domestic product

<sup>13</sup> Von Bormann, T. and Gulati, M. (2014). The Food Energy Water Nexus: Understanding South Africa's most urgent sustainability challenge. WWF-SA.

<sup>14</sup> Von Bormann, T. and Gulati, M. (2014). The Food Energy Water Nexus: Understanding South Africa's most urgent sustainability challenge. WWF-SA.

<sup>15</sup> Satterthwaite, D., McGranahan, G. and Tacoli, C. (2010). Urbanization and its implications for food and farming International Institute for Environment and Development. Phil. Trans. R. Soc. B, 365(1554): 2809–2820.

<sup>16</sup> ECOSOC (2017). Innovations for Infrastructure Development and Promoting Sustainable Industrialization Background Report. Retrieved from: [https://www.un.org/ecosoc/sites/www.un.org/ecosoc/files/files/en/2017doc/2017\\_ecosoc\\_special\\_meeting\\_bkgmd\\_note\\_victoria\\_falls.pdf](https://www.un.org/ecosoc/sites/www.un.org/ecosoc/files/files/en/2017doc/2017_ecosoc_special_meeting_bkgmd_note_victoria_falls.pdf).

<sup>17</sup> Department of Agriculture, Forestry, and Fisheries (DAFF), Republic of South Africa (n.d). Introducing agro-processing: The Status of the Agro-processing Industry in South Africa. Retrieved from: [http://www.nda.agric.za/doaDev/sideMenu/AgroProcessingSupport/docs/Brief\\_introducing%20agro%20processing.pdf](http://www.nda.agric.za/doaDev/sideMenu/AgroProcessingSupport/docs/Brief_introducing%20agro%20processing.pdf).

(GDP) of the manufacturing sector.<sup>18</sup> This was the highest contributor to GDP amongst the manufacturing sub-sectors. The sector’s contribution to national job creation was 4% overall, and 41% to new job creation within the manufacturing sector.<sup>19</sup> As indicated in Figure 2, approximately 570,672 people were employed formally within the sector in 2016, with 11,331 jobs newly created in the same year.<sup>20</sup>

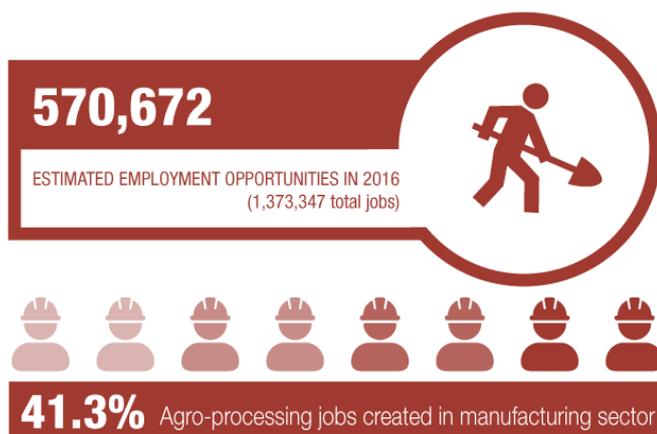


Figure 2: Jobs in South African agro-processing

Agro-processing is rich in potential to facilitate the transition to a greener and more inclusive South African economy.<sup>21</sup> Throughout various agro-processing activities, the multiple suppliers, manufacturers and others involved have the opportunity to benefit from the employment and income offered from value-added processes. The agro-processing sector in South Africa integrates a variety of local, national and international stakeholders along its diverse value chains (Figure 3), including small and growing enterprises.



Figure 3: Agro-processing value chain

Ninety percent of existing agro-processors in South Africa are SMEs, as indicated in Figure 4. These enterprises often

employ both indigenous and modern techniques to manufacture and process raw agricultural products into higher value products that generate profit in local, national and international markets. Many of these techniques are less resource-intensive and minimise waste.

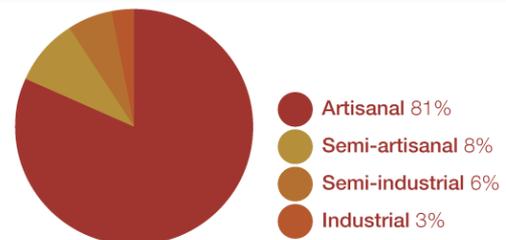


Figure 4: Sectoral overview of South African agro-processing

Nevertheless, larger enterprises continue to dominate the South African agro-processing market in terms of revenue and export value. SMEs continue to struggle in competition with larger corporations, which persistently generate higher profits from canning, bottling, baking, or cooking agricultural products for retail or wholesale.<sup>22</sup> This often crowds out the participation of SMEs that address social and environmental issues in their activities. As a result, rural areas largely remain producers of raw materials with little or no contribution to value-added processing activities. This limits opportunities for further livelihood improvements and widespread (including rural) economic development.

The following chapter delves deeper into the challenges facing SMEs in the agro-processing sector and serves as the basis for identifying actionable areas where multiple stakeholders can design and implement instruments that promote eco-inclusive enterprises and maximise their sustainable development impacts.

<sup>18</sup> Department of Agriculture, Forestry & Fisheries. Directorate: Agro-processing Support. (2016). Agro-processing Annual Brief: Looking at 2016. Retrieved from: <http://www.nda.agric.za/daaDev/side-Menu/AgroProcessingSupport/docs/Annual%20Brief%202016%20-%20edit.pdf>.  
<sup>19</sup> Department of Agriculture, Forestry & Fisheries. Directorate: Agro-processing Support (2016). Agro-processing Annual Brief: Looking at 2016. Retrieved from: <http://www.nda.agric.za/daaDev/side-Menu/AgroProcessingSupport/docs/Annual%20Brief%202016%20-%20edit.pdf>.  
<sup>20</sup> Ibid.  
<sup>21</sup> National Planning Commission, 2011. The National Development Plan. Retrieved from: [https://www.gov.za/sites/default/files/devplan\\_2.pdf](https://www.gov.za/sites/default/files/devplan_2.pdf).

<sup>22</sup> Department of Agriculture, Forestry and Fisheries, (n.d). Introducing Agro-processing: The Status of the agro-processing industry in South Africa. Retrieved from: <http://www.nda.agric.za/>.

### 3 Analysing Business Conditions of Eco-Inclusive Enterprises: An Ecosystem Framework Approach

Enterprises operate within an ecosystem. This ecosystem is a complex web of interconnected factors and actors, which enable these eco-inclusive SMEs to start-up, grow and scale. An entrepreneurial ecosystem framework (“the framework”)<sup>1</sup> has been developed in order to comprehensively identify and understand the business conditions required for successful eco-inclusive enterprises in the agro-processing sector in South Africa. The purpose of this chapter is to describe comprehensively the framework within which eco-inclusive enterprises in the agro-processing sector in South Africa operate, and identify the key factors (Table 1) and corresponding action fields required for enterprise success.

In conjunction, these eight pillars operate as an ecosystem framework (Figure 5), within which key stakeholders can employ their core competencies and leverage their institutional capacities to the benefit of eco-inclusive SMEs. Outlining these pillars helps to identify how best to focus and advise key stakeholder groups to unlock the potential of eco-inclusive enterprises within the agro-processing sector.



Figure 5: Ecosystem framework factors

Table 1: Dimensions of an entrepreneurial ecosystem framework

Dimension	Characteristics
Finance	<ul style="list-style-type: none"> <li>&gt; Ability to access and availability of public and private sector funding</li> <li>&gt; Entrepreneurship / strategic capital</li> </ul>
Skills and talent	<ul style="list-style-type: none"> <li>&gt; Skills levels (technical, business &amp; leadership)</li> <li>&gt; Competency / experience</li> <li>&gt; Opportunities for women and youth</li> </ul>
Technology and infrastructure	<ul style="list-style-type: none"> <li>&gt; Physical supporting infrastructure, R&amp;D institutes and facilities</li> <li>&gt; Availability of cost-effective technology</li> </ul>
Markets and input	<ul style="list-style-type: none"> <li>&gt; Local and International markets</li> <li>&gt; Availability of and access to inputs</li> <li>&gt; Political risks / uncertainty</li> </ul>
Business support services	<ul style="list-style-type: none"> <li>&gt; Networking / fostering partnerships, incl. strategic planning support, R&amp;D commercialisation support, mentorship</li> <li>&gt; Platform for knowledge sharing and awareness raising</li> </ul>
Policy	<ul style="list-style-type: none"> <li>&gt; Regulatory framework</li> <li>&gt; Small business and co-operative policies</li> <li>&gt; Green economy strategy</li> <li>&gt; Implementation performance</li> <li>&gt; Incentives to stimulate the sector</li> </ul>
Administration	<ul style="list-style-type: none"> <li>&gt; Ease of registration, compliance burden</li> </ul>
Mindset	<ul style="list-style-type: none"> <li>&gt; Legitimacy of entrepreneurship as a career</li> <li>&gt; Necessity-driven enterprises vs opportunity-driven entrepreneur</li> </ul>

<sup>1</sup> The framework draws on the work of Monitor (Paths to Prosperity, 2009), SEED (Critical success factors and performance measures for start-up social and environmental enterprises) 2008, SEED (Social and Environmental Enterprises in the Green Economy: Supporting sustainable development and poverty eradication on the ground) 2012, OECD (A Toolkit of Policy Options to Support Inclusive Green Growth) 2013, and ANDE (Entrepreneurial Ecosystem Diagnostic Toolkit, 2013).

### Identifying ecosystem builders

Ecosystem builders construct an enabling environment, which is conducive to the success of eco-inclusive SMEs. The collaborative efforts of multiple stakeholders within this ecosystem are central to multiplying opportunities for eco-inclusive enterprise success in the South African agro-processing sector.

**Financial institutions, donors & investors** include public and private sector actors that offer financing options to smaller enterprises through a range of financial instruments. These financial instruments are targeted or available to enterprises of varying sizes and at different stages of business development and profitability.

**Business development services (BDS)** providers extend non-financial services and products to enterprises with diverse needs and at various stages of development. Education and training providers equip enterprises, aspiring entrepreneurs and a network of trained BDS Providers with tools necessary to effectively start-up and scale-up an enterprise.

**Policy-makers (local, provincial, and national)** translate commitments to SMEs into policy commitments and instruments that are actionable and enforceable.

In coordination, these categories of actors possess tremendous potential to ensure that eco-inclusive enterprises receive the necessary finance, business development support, and physical and intellectual infrastructure to realise their social, economic and environmental objectives.

In the South African context, many ecosystem builders are already contributing to the efforts of SMEs to deliver environmental, social and economic benefits within the agro-processing sector. The efforts of these actors can be strengthened with greater attention to the core characteristics of the ecosystem framework. Furthermore, the support of additional, active ecosystem builders can be mobilised more effectively once clear objectives and corresponding instruments are identified.

This section uses the entrepreneurial ecosystem framework classifications to identify and examine the business conditions shaping the activities of agro-processing SMEs in South Africa.

### 3.1 Finance

Financing is required for enterprises to start-up, sustain and scale-up their activities. Financial instruments offered by both public and private sector actors are available to small enterprises in South Africa. These include direct funding from government agencies, banks, venture capital, crowd funding and angel/seed investors, amongst others. These sources of funding are available at various

stages and cycles of business development, from the ideation stage, proof of concept (seed), early stage (market entry), developmental (scale up) and growth (later stage).

There are two main funding schemes designed specifically for agro-processing enterprises: the Agro-Processing Support Scheme (APSS) and Agro-processing Competitiveness Fund (APCF) 2010, complemented by the IDC Social Enterprise Fund, specifically targeting eco-inclusive enterprises. These schemes are both financed directly by government departments and government development agencies.

**Agro-Processing Support Scheme (APSS)**<sup>1</sup> sits within the Department of Trade and Industry (DTI). The scheme is a policy and guideline document aimed at stimulating investment to new and existing agro-processors, or agri-businesses. The scheme provides capital to SMEs from the start-up stage to expansion, with the objective of promoting healthy competition and growth within the sector. The scheme offers enterprises between 20% to 30% cost-sharing grants, up to a maximum of R20 million over a two-year investment period. Enterprises looking to secure a grant through the scheme need to demonstrate how they will achieve increased capacity, create employment, and improve their competitiveness, productivity and participation. Enterprises that meet economic benefit criteria (such as for employment, economic transformation, geographic reach and local procurement) may qualify for an additional 10%.<sup>2</sup>

**Agro-processing Competitiveness Fund (APCF) 2010** is funded by the Industrial Development Corporation (IDC) and Economic Development Department (EDD). The objective of the fund is to facilitate increased competition, growth, job creation and development through the provision of funding to non-dominant players in the agro-processing and beverages sector. The purpose of the APCF is to provide affordable loan finance and business support to enterprises which meet specific criteria. These criteria require that the enterprises are involved in agro-processing or beverages sector activities; are at start-up or expansion phase; and are able to remain sustainable, from a financial, technical and environmental perspective. Additionally, the enterprise's beneficiaries cannot hold a dominant pub-

<sup>1</sup> Department of Trade and Industry, Republic of South Africa (n.d). null Financial Assistance (Incentives): Agro-Processing Support Scheme (APSS). Retrieved from: [https://www.thedti.gov.za/financial\\_assistance/financial\\_incentive.jsp?id=69&subthemeid](https://www.thedti.gov.za/financial_assistance/financial_incentive.jsp?id=69&subthemeid).

<sup>2</sup> Ibid.

lic position and must be unlikely to obtain third-party funding from commercial banks.

The **IDC Social Enterprise Fund** supports companies and projects that may contribute to South Africa's industrial and economic development. The fund provides investment to establish (start-up) and develop (grow, replicate, scale) social enterprises and entrepreneurs; facilitate the integration of these enterprises into the main-stream economy; build and strengthen social capital and inclusivity; and support initiatives where community empowerment and integration of first and second economies are key. IDC's partner in this programme, the Government of Flanders, has provided €4 million in funding over three years to facilitate the growth of this sector.<sup>3</sup>

### 3.2 Skills and talent

Enterprises and entrepreneurs require a combination of technical and entrepreneurial skills and talent in order to be successful. This Brief previously referred to the examples of two SEED Award winners, Umgibe Farming Organics and Training Institute and Muthi Futhi. Both of these enterprises have successfully achieved profitability and delivered combined economic, social and environmental benefits to their communities. This is in part the result of the enterprises' knowledge of the relevant technology, cultivation methods and business models, which they applied and adapted to their operating contexts – in collaboration with local partners and with the support of SEED. These are just two of several examples of successful eco-inclusive SMEs in the agro-processing sector in South Africa that possess (and develop through support services) the skills and knowledge needed to start-up and scale-up their businesses.

### 3.3 Technology and infrastructure

Adequate infrastructure improves the competitiveness and productive capacities of SMEs. Multiple government and private sector initiatives exist that specifically assist enterprises with technology transfer and infrastructural development.

The **Critical Infrastructure Programme (CIP)** is a cost-sharing cash grant awarded to projects that improve critical infrastructure in South Africa. The grant covers a portion of total development costs for qualifying infrastructure projects and is available to approved enterprises upon completion of the infrastructure project.

Agro-processing applicants are offered a grant of 10% to 50% of the total infrastructural development costs (up to a maximum of R50 million).<sup>4</sup>

The **Support Programme for Industrial Innovation (SPII)**<sup>5</sup> is designed to promote technology transfer in South African industry, through the provision of financial assistance for the procurement of innovative products and/or processes. SPII is focussed specifically on the technology development phase, which begins after initial research and ends when a technology prototype has been produced. The SPII offers two schemes for innovation transfer:

- i. SPII's **Product Process Development (PPD) Scheme** provides financial assistance to small, very small and micro-enterprises and individuals in the form of a non-repayable grant (R2 million maximum grant).
- ii. SPII's **Matching Scheme** provides financial assistance to all enterprises and individuals in the form of a non-repayable grant up to R5 million.

The SPII programme is supported by the DTI, and managed by the ICD.

The **Seda Technology Programme (STP)**<sup>6</sup> is a division of Seda (Small Enterprise Development Agency) that focuses on technology business incubation, quality and standards, and technology transfer services and support to small enterprises. The programme has a Technology Transfer Fund (TTF) that provides funding to small enterprises for the acquisition of the necessary technology and technical support. The fund primarily targets female-owned enterprises (>50% female ownership). STP offers financial assistance in the form of a non-repayable grant up to a maximum of R600,000 per project. The STP is a DTI programme that is managed by Seda.

In addition, Seda runs a Technology Business Incubation initiative that aims to grow sustainable small, medium and micro-sized enterprises by strengthening technology commercialisation and harnessing the entrepreneurship of the technology community in South Africa.

4 Jordaan, D. (2012). An overview of incentives theory and practice: A focus on the agro-processing industry in South Africa. Department of Agriculture, Forestry and Fisheries. Directorate: Agro-processing Support. Retrieved from: <http://www.nda.agric.za/doorDev/sideMenu/AgroProcessingSupport/docs/An%20overview%20of%20incentive%20theory%20and%20practice%20%20A%20focus%20on%20the%20agro-processing%20industry%20in%20South%20Africa.pdf>.

5 Department of Trade and Industry, Republic of South Africa (n.d). null Financial Assistance (Incentives): Support Programme for Industrial Innovation (SPII) (n.d). Retrieved from: [https://www.thedti.gov.za/financial\\_assistance/financial\\_incentive.jsp?id=48&subthemeid](https://www.thedti.gov.za/financial_assistance/financial_incentive.jsp?id=48&subthemeid).

6 Department of Trade and Industry, Republic of South Africa (n.d). null Financial Assistance (Incentives): Seda Technology Programme (STP) (n.d). Retrieved from: [https://www.thedti.gov.za/financial\\_assistance/financial\\_incentive.jsp?id=51](https://www.thedti.gov.za/financial_assistance/financial_incentive.jsp?id=51).

3 IDC (2016): Contributing to social-economic development. Retrieved from: <https://www.idc.co.za/ir2016/performance-and-impact/contributing-to-socio-economic-development>.

### 3.4 Markets and inputs

Agro-processing enterprises require demand-side (improved market access) as well as supply-side (access to agricultural inputs) support to improve their production and profitability. This includes access to the necessary storage and retail facilities, as well as the primary commodity inputs for manufacturing agro-processed goods.

The South African Government has taken steps to facilitate access to markets and inputs through the proposed **Agriparks** programme.<sup>1</sup> The Agriparks<sup>2</sup> project, which is still in the early stages of implementation, is committed to fortifying rural-urban linkages in order to achieve sustainable and integrated communities for inclusive economies. This initiative aims to address:

- > The lack of available land for production purposes;
- > Low productivity levels of the smallholder farming sector;
- > The lack of infrastructure specifically targeting smallholder farmers and their links to value-added processing; and
- > Limited clustering of smallholder agricultural produce required to improve available agricultural input volumes and coordinated market access.<sup>3</sup>

The Agriparks have been proposed for all 44 district municipalities of South Africa. The South African Government envisions that the network of Agriparks will be able to promote the growth of the smallholder sector, create jobs and create one-stop shops for support related to production, processing, logistics, marketing, training and extension services.

<sup>1</sup> An Agripark is a networked innovation system of agro-production, processing, logistics, marketing, training and extension services, located in a District Municipality. As a network, it enables a market-driven combination and integration of various agricultural activities and rural transformation services.

<sup>2</sup> Heimann C. 2017. Agri-parks Presentation 28 February 2017. Retrieved from: <http://www.ruraldevelopment.gov.za/agri-parks/362-agri-parks>.

<sup>3</sup> Gauteng Province, Agriculture and Rural Development (2017). Agriparks: Towards an Inclusive Agriculture Economy, 29 June 2017. Retrieved from: <http://www.cpsi.co.za>.

### 3.5 Business development services

Business development services providers assist enterprises at all stages of development with mentorship, networking opportunities, access to markets, business training, marketing, financial management, market intelligence, and more. Over 100 business development service (BDS) providers have been identified in South Africa by a mapping conducted by the American Chamber of Commerce.<sup>7</sup> Business development support is typically offered in the form of short courses (up to five days) to longer-term, ongoing support lasting up to a few years. The average duration of a BDS support programme is

one year. The variety of BDS services are provided by government, public and private development finance institutes, private support programmes, and NGOs.

On the governmental side, agro-processing enterprises are supported by the government departments for Agriculture, Forestry and Fisheries (DAFF), Trade and Industry (DTI), Economic Development, Science & Technology, Public Works, Rural Development and Land Reform, Transport and Public Enterprises, Department of Small Business Development as well as various local and regional government agencies. Each of these government entities have a mandate to promote the agro-processing sector by broadening participation through networking associations, providing training and development, improving access to finance, as well as researching and developing new support services. These governmental support schemes are complemented by a variety of non-governmental initiatives and programmes offering BDS support to (eco-inclusive) SMEs in South Africa.

A **National Agro-processing Forum** was formed by DAFF and DTI. This forum is comprised of representatives from various government bodies.<sup>8</sup> The broad functions of the forum are to promote and encourage common policy through regulatory frameworks and guidelines, while implementing the Industrial Policy Action Plan (IPAP), Agricultural Policy Action Plan (APAP) and the Strategy on Support and Development of Small and Medium Agro-processing Enterprises. The forum was set-up to facilitate multi-institutional programme and project planning and execution as well as to initiate information sharing sessions on an identified topic when necessary. The forum fosters partnerships and strengthens communication amongst stakeholders in the agro-processing sphere. This engagement will serve as a platform for reporting and reviewing progress on the implementation of the agro-processing initiatives. It will also coordinate and deliver relevant skills development and capacity building programmes for agro-processors. Furthermore, the forum facilitates any projects and activities within the agro-processing sector that relate to national priority plans and strategies.<sup>9</sup>

<sup>8</sup> Jordaan, D. (2012). An overview of incentives theory and practice: A focus on the agro-processing industry in South Africa. Retrieved from: <http://www.nda.agric.za/daaDev/sideMenu/AgroProcessingSupport/docs/An%20overview%20of%20incentive%20theory%20and%20practice%20%20A%20focus%20on%20the%20agro-processing%20industry%20in%20South%20Africa.pdf>.

<sup>9</sup> Department of Trade and Industry and Department of Agriculture, Forestry & Fisheries (2015). Terms of reference for the National Agro-processing Forum. Retrieved from: [http://www.nda.agric.za/daaDev/sideMenu/AgroProcessingSupport/docs/TermsOfReference\\_National\\_Agroprocessing\\_Forum\\_15December2014.pdf](http://www.nda.agric.za/daaDev/sideMenu/AgroProcessingSupport/docs/TermsOfReference_National_Agroprocessing_Forum_15December2014.pdf).

<sup>7</sup> The American Chamber of Commerce in South Africa (NPC) (2015). Start-up Directory for Entrepreneurs "Connecting the Dots". Retrieved from: <http://www.amcham.co.za/wp-content/uploads/2015/06/Start-up-Directory-for-Entrepreneurs-Connecting-the-Dots.pdf>.

### SEED Enterprise Support and Ecosystem Building

SEED supports eco-inclusive entrepreneurship to achieve sustainable development objectives. SEED's Enterprise Support programmes enable aspiring entrepreneurs and strengthen growing enterprises. These programmes are complementary to SEED's Ecosystem Building activities, which facilitate collaboration and cultivate a supportive network of collaboration, policy and financing instruments to promote small and medium-sized enterprises.

SEED's **Enterprise Support** programmes directly assist individual enterprises at multiple levels of business development – from the early stages of inspiration and concept-building to the scaling up or the replication of proven, successful eco-inclusive business models in other geographical locations.

SEED's **Ecosystem Building** programmes enable the growth of supportive networks around eco-inclusive enterprises. SEED fortifies a network of local BDS (business development services) providers and provides platforms for coordination between key local, national and international stakeholders around policy, financing and collaboration instruments.

### 3.6 Policy

Policy leadership depends on public-private partnerships and the participation of key stakeholders and interest groups. In South Africa there are two sector-specific policy frameworks tailored to the development, support and growth of agro-processing SMEs:

#### **The National Policy Framework on the Support and Development of Small and Medium Agro-processing Enterprises in the Republic of South Africa, 2014/30**

is a government-led effort to collaborate with stakeholders such as the Department of Trade and Industry (DTI) (and its subsidiary, the Industrial Development Cooperation (IDC)) and the Department of Science and Technology (DST) (including the Council for Science and Industrial Research (CSIR)). This framework aims to create a more cohesive policy at the national level to increase the impact of existing enterprises and to increase the capacity and reduce the barriers to new SMEs, especially rural-based SMEs.<sup>10</sup> This policy framework outlines a process to support the commercialisation of agro-processing in South Africa by encouraging research and policy leadership, developing educational tools and monitoring and evaluating best practices.

The **Strategy for the Development of Small and Medi-**

**um Agro-processing Enterprises (2015)** articulates how governmental and non-governmental stakeholders (including those involved in the National Policy Framework) plan to support the entry into and growth of competitive, rural-based, small and medium-scale agro-processors in the local and global agriculture, forestry and fisheries value chains. This strategy outlines six strategic interventions, which include:

- > Contributing towards improved access to public incentives and support packages to stimulate entrepreneurship among SME agro-processors;
- > Facilitating investment in infrastructure to enable establishment and growth of value-added businesses;
- > Promoting value-chain linkages to ensure that agriculture, forestry and fisheries commodities enter the market, while also safeguarding reliable commodity inputs for SME agro-processors;
- > Supporting technical and managerial training for SME entrepreneurs;
- > Improving access to appropriate technologies to enable productive activities by SMEs; and
- > Providing access for agro-processing SMEs to business development services such as legal, accounting and related services.

### 3.7 Mindset

An entrepreneurial mindset, meaning a strong interest in establishing one's own business, alongside relevant business skills, is central to taking the initiative to establish and to continue to put in the effort to maintain or scale-up a growing eco-inclusive enterprise. According to a study from 2012 on entrepreneurial mindsets, South African SMEs and potential entrepreneurs have low levels of entrepreneurial aspirations or drive, with the majority preferring employment by someone else (or employee status). A low level of entrepreneurial spirit or motivation in South Africa has been linked with a 50-95% failure rate of SMEs within the first five years of starting a business and 75% failure rate for new SMEs.<sup>11</sup> Many South Africans have indicated that they start their own businesses as a means of survival (i.e. to make money), with limited regard for or knowledge of how to sustain the business.

<sup>10</sup> The National Policy Framework on the development of Small and Medium Agro-processing Enterprises in the republic of South Africa 2014/30 (2015). Department of Agriculture, Forestry & Fisheries. Retrieved from: <http://www.nda.agric.za/>

<sup>11</sup> Neneh, N.B. (2012). An exploratory study on entrepreneurial mindset in the small and medium enterprise (SME) sector: A South African perspective on fostering small and medium enterprise (SME) success. *African Journal of Business Management*. Vol. 6(9): 3364-3372.

The study also found that 53% of entrepreneurs who received entrepreneurial education proactively ran their businesses and took calculated business risks, and that 70.3% of these were growth-oriented, with clear objectives for growth, compared to those who had no entrepreneurial education.<sup>12</sup> Individuals with entrepreneurial mindsets are more aware of the context of their work and are able to detect and seize opportunities. For the establishment and success of SMEs in the agro-processing sector, it is necessary to inspire and promote entrepreneurship and increase entrepreneurial training in South Africa.

### 3.8 Administration

Regulation of the agro-processing sector helps to protect consumers, the environment, and enterprises from uncontrolled competition. These regulations exist across government departments, including the departments of Environmental Affairs, Trade and Industry, Health, DAFF, and local municipalities. General governmental regulations are complementary to various industry standards such as the Perishable Products Export Control Board, the South African Bureau of Standards (SABS), and the South African National Accreditation System (SANAS).<sup>13</sup> Furthermore, the control boards within the sector have the power to set prices for specific agro-processing activities, including prices at which the inputs can be purchased, markets (imports and exports), and the prices at which final products (consumer goods) would be produced and sold. Despite the important role that these regulations play in ensuring market stability, smaller enterprises sometimes struggle to afford the associated costs of volatile market prices and to understand administrative and regulatory requirements.

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<sup>12</sup> Ibid.

<sup>13</sup> Ncube, P., Nkhonjera, M., Paremoer, T and Zengeni, T. (2016). "Competition, barriers to entry and inclusive growth: Agro-processing Sector Study. Retrieved from: <http://www.competition.org.za/barriers-to-entry/>.

## 4 Challenges of Eco-Inclusive Agro-Processing Enterprises in South Africa

Enterprises in the South African agro-processing sector continue to face major challenges, despite the efforts of multiple stakeholders and ecosystem builders mentioned in the previous chapter. Surveys, literature reviews, and several interviews led to the identification of the most common challenges faced by SMEs in the sector. The most pertinent of these challenges are included in this chapter. These challenges serve as the basis for understanding and implementing targeted instruments to empower and enable eco-inclusive SMEs.

### 4.1. Limited access to finance

Enterprises require finance at all stages of development to pay for the required equipment, agricultural inputs, and personnel to achieve profitability. Start-up costs within the agro-processing sector are high due to expensive equipment and infrastructure needs. For example, the cost of milling equipment can be as high as R6.2 million<sup>1</sup>. Despite much needed finance, SMEs encounter problems with obtaining the required capital from financial institutions that are often risk adverse to less established businesses. The application processes for financing are not only cumbersome and lengthy, but entrants are often assessed against historical performance (i.e. previous financial performance) rather than projections. For enterprises that are still in the start-up phase, historical performance indicators are unavailable. In addition, early stage enterprises without a significant credit history are often unable to offer the collateral which is needed to access finance. Transaction costs associated with investments in small ticket size projects are higher, which deters traditional banking finance. Few financial risk-management tools are designed for SME business models, and access to the existing tools is limited. Costly and insecure payment services further exacerbate financial challenges, especially for enterprises that rely on transactional revenue models. Thus, the flow of deals in ear-

ly-stage agro-processing enterprises is still very limited in South Africa and innovative missing middle financing instruments that target small and growing enterprises are lacking.

Lastly, building a pipeline of potential finance-ready deals that fit the requirements of commercial finance proves to be difficult in South Africa due to a lack of understanding and financial management skills and knowledge of management teams of SMEs in the agro-processing sector. Even though financial experiences might be limited and a lack of talent exists particular in more remote areas, access to tailored expert guidance and knowledge can help a small and growing business to build a viable business case. The integration of practical business, finance and legal advice provided by in-house or external experts into pipeline building and deal making processes is therefore of critical importance to close the missing middle.

### 4.2. Market concentration around large companies

Although large corporations in the agro-processing industry contribute a significant share of income and employment to the South African economy, the relative share of SMEs' employment contribution is higher, especially in rural areas. These SMEs reach more marginalised populations and contribute significantly to the social and economic development of suppliers, distributors and customers along their value chains.

The agro-processing sector in South Africa is dominated by six large corporations. Five of these contribute more than 50% to the various sub-divisions of agro-processing, excluding clothing apparel and footwear<sup>2</sup>. This presents challenges to eco-inclusive enterprises not only in terms of access to markets for product sales, but also in the procurement of agricultural inputs, storage and sales facilities. In provinces such as the Western Cape, the South African Government has invested in building ware-

<sup>1</sup> Ncube, P., Nkhonjera, M., Paremoer, T. and Zengeni, T. (2016). 'Competition, barriers to entry and inclusive growth: Agro-processing Sector Study. Retrieved from: <http://www.competition.org.za/barriers-to-entry/>.

<sup>2</sup> Mather, C. (2005). SMEs in South Africa's Food Processing Complex: Development Prospects, Constraints and Opportunities. Working Paper 3–2005, Trade and Industrial Policy Secretariat. Retrieved from: <http://www.tips.org.za/files/756.pdf>.

house space for SMEs in order to grow their activities. However, many SMEs continue to lack adequate facilities to manage their inputs securely.

For example, a successful milling business requires primary commodity inputs and sufficient storage to store enough maize to sustain the businesses throughout the year.<sup>3</sup> For start-ups without solid track records, the establishment of business partnerships with retailers remains challenging. Farmers are more inclined to offer their supply of maize and storage facilities to larger corporations than to SMEs. Similarly, more formal or larger scale retailers require significant supply volumes, but in the absence of adequate inputs, SMEs cannot meet the supply demands of these retailers. Consequently, SMEs typically supply the informal market where they are more vulnerable to financial losses and struggle to expand their operations. SMEs tend to work with smaller independent retail stores or other enterprises that are more established within agro-processing.

Smaller and growing enterprises require greater access to the inputs and infrastructure required for their agro-processing activities. Currently, SMEs lack the co-ordination amongst themselves as well as the resources required to form strong industry partnerships to increase their impact.

#### 4.3. Regulatory and administrative burden

A main hindrance to enterprises within the agro-processing sector is the cost of compliance with complex administrative requirements. The existence of multiple requirements across various governmental bodies at all levels of government has resulted in costly and time-consuming registration and permitting processes. Regulations specific to the agro-processing sector span a wide range of policy areas and involve various government agencies. In particular food processing enterprises are required to comply with a range of regulations. Current incidents like the listeriosis outbreak show the need to tighten regulations, thereby making it difficult for SMEs to comply.

These requirements lead many smaller enterprises to ignore or work around certain regulations. Many SMEs opt to remain small in order to reduce the time delays associated with permitting and target the informal sector to sell their products. For some agro-processing production ac-

tivities, registration and permits require the approval of multiple government departments that have various mandates and jurisdictions, including environmental and waste permits, health licenses and safety requirements (training, laboratory testing, etc.). All applications and permit renewals require capital and time investment that many SMEs struggle to procure. For example, activities directly related to the DTI's agro-processing programme are administered through national agricultural departments as well as the departments for rural development and land reform. Additionally, there are various provincial departments and municipalities with their own administrative requirements involved in the implementation of the DTI's programme. Each department has its own timelines for issuing permits and licenses.

Despite often uncoordinated or difficult to follow administrative requirements, specific policies exist that are tailored to the needs of agro-processing SMEs and seek to ease their administrative burden. These policies are at different stages of implementation and must be further pursued – ideally before the formulation of new or additional policies, which could complicate the regulatory situation for SMEs in the agro-processing sector.

#### 4.4 Lack of technical and entrepreneurial knowledge and skills

Lack of skills, both technical and managerial, is a top challenge facing SMEs in South Africa's agro-processing sector. This includes core skills relating to business management and entrepreneurship, resource management and record-keeping, financial planning and investment management, marketing, processing and packaging, transport, natural resources management, and others. This challenge has been noted as the major reason that 95% of small businesses fail within their first five years of operation.<sup>4</sup>

A 2010 study by the Agricultural-Sector Education Training Authority (Agri-SETA) identified that there is a scarcity of skills in both the agricultural and agro-processing sectors, especially amongst SMEs.<sup>5</sup> Some business owners possess the technical skills but lack business and people management skills, which are also required to run a successful business. This study furthermore indicates that

3 Ncube, P., Nkhonjira, M., Paremoer, T. and Zengeni, T. (2016). 'Competition, barriers to entry and inclusive growth: Agro-processing Sector Study. Retrieved from: <http://www.competition.org.za/barriers-to-entry/>.

4 Friedrich, C. (2016). Why do 70% to 80 % of small businesses fail within five years? ...and what should be done to strengthen SMMEs in South Africa? Retrieved from: <https://www.moneyweb.co.za/mybusiness/why-do-70-to-80-of-small-businesses-fail-within-five-years/>.

5 Agricultural-Sector Education Training Authority (Agri-SETA) (2010), Sector Analysis Agriculture: Prepared for submission to the Department of Higher Education and Training. Retrieved from: [http://www.agriseta.co.za/downloads/news/AGRISETA\\_Sector\\_Analysis\\_290610-version\\_2.pdf](http://www.agriseta.co.za/downloads/news/AGRISETA_Sector_Analysis_290610-version_2.pdf).

SMEs often lack clear management structures, with the majority of decisions made single-handedly.<sup>6</sup> The entrepreneurs making these decisions tend to lack the business experience (and some also the technical skills) necessary to manage an agro-processing company.<sup>7</sup> A lack of skills among entrepreneurs is not only present at a managerial level but extends to the general workforce. The majority of those employed within the sector are regarded as semi-skilled and unskilled. A lack of technical expertise particularly affects the ability of management and workers to adopt innovative technological solutions that increase productivity and competitiveness.

There are multiple intersecting explanations for the lack of adequate skills and development opportunities in the agro-processing sector. The Agri-SETA study highlighted that the low skills levels amongst the workforce are exacerbated by limited or absent training budgets in most small enterprises.<sup>8</sup> Of the few who do receive training within the sector, many move on to other more lucrative and socially respected businesses. Financial and time investment in skills development opportunities that emphasise business growth and innovation could potentially counteract this brain drain. Furthermore, awareness among enterprises of business development service providers remains low and BDS support offered in South Africa is fragmented. In part, rural enterprises commonly lack a reliable internet connection, limited ways to access new information about service offerings. These rural enterprises also struggle to allocate time and resources to travel for BDS workshops and support schemes, and thereby benefit from skills acquisition and networking opportunities. Additionally, the types of BDS services that are offered tend to leave out different sizes of enterprises (micro and medium), by focusing primarily on small enterprises.

6 Department of Agriculture, Forestry and Fisheries (2010). Economic Profile of the Agro-Processing Industry in South Africa: 1970-2010. Retrieved from: [http://www.nda.agric.za/daoDev/sideMenu/Agro-ProcessingSupport/docs/Economic%20Profile\\_Agro-Processing%20Industry%20Final%20III.pdf](http://www.nda.agric.za/daoDev/sideMenu/Agro-ProcessingSupport/docs/Economic%20Profile_Agro-Processing%20Industry%20Final%20III.pdf).

7 Trade & Industrial Policy Strategies (2005). SMEs in South Africa's Food Processing Complex: Development Prospects, Constraints and Opportunities. Retrieved from: <http://www.tips.org.za/files/756.pdf>.

8 Department of Agriculture, Forestry, and Fisheries, Republic of South Africa (n.d). Introducing Agro-processing: The Status of the Agro-processing Industry in South Africa. Retrieved from: [http://www.nda.agric.za/daoDev/sideMenu/AgroProcessingSupport/docs/Brief\\_introducing%20agro%20processing.pdf](http://www.nda.agric.za/daoDev/sideMenu/AgroProcessingSupport/docs/Brief_introducing%20agro%20processing.pdf).

## 5 Action Fields: Multiplying Opportunities for Eco-Inclusive Enterprises

As evidenced in this Brief, eco-inclusive enterprises in the agro-processing sector are pivotal in delivering innovative solutions for the eradication of hunger and improved food security, while accelerating the transition towards an inclusive, green economy.

This chapter presents action fields for bringing together multiple private, public and social sector stakeholders (or, ecosystem builders) to shape an enabling environment for South African agro-processing enterprises.

These action fields present focus areas for key stakeholders in their efforts to support eco-inclusive SMEs. They serve as the basis to better understand why and how specific instruments can be implemented to increase the positive impacts of SMEs. Several instruments are included here that were developed during SEED Policy Prototyping Labs.

### Defining action fields

An action field is a targeted area of needed support for eco-inclusive SMEs. These focal points result from discussions with ecosystem stakeholders at the SEED Policy Labs and have been selected from the more extensive list of enterprise challenges within the ecosystem framework (Chapter 4). The identification of selected action fields for multi-stakeholder engagement helps to frame core objectives and align the interests of ecosystem builders with those of enterprises in the design and implementation of effective instruments, which multiply opportunities for eco-inclusive enterprises and increase their chances of successful growth and scale.

In the light of the challenges identified previously, the following action fields have been identified:

- i. **Improve support services for SMEs** through opportunities for entrepreneurial skills- and talent-building, delivering business development support services (BDS), shaping mindsets, easing administrative requirements, and facilitating affordable process inputs and market access; and
- ii. **Increase access to financing and technology**

through disseminating up-to-date technology and infrastructure, and delivering targeted, customised financial instruments that enable the use of these resources as enterprises grow.

For each of these action fields, multiple approaches or measures are recommended to ensure that support services as well as financing and technology transfer instruments are responsive to the specific challenges and needs of eco-inclusive agro-processing SMEs in South Africa. The corresponding policy prototypes identified in the remaining sections of this Brief enable stakeholders to collectively build an ecosystem conducive to SMEs in the South African agro-processing sector.

### 5.1 Improving support services for SMEs

Improved support services for SMEs are central to capitalising on the innovation potential of eco-inclusive agro-processing enterprises. The collaborative efforts of multiple key stakeholders can increase and improve the quality of services accessible to SMEs at different stages of enterprise development. Multi-stakeholder initiatives, driven by ecosystem builders, are essential for overcoming intersecting obstacles, such as scarcity of valuable skills and business development services and a complex regulatory environment. Tailor-made support instruments for eco-inclusive agro-processing enterprises are needed, which:

- > Provide tailored, individualised business development support services (BDS) that develop the entrepreneurial skills and talent of enterprises and aspiring entrepreneurs;
- > Shape entrepreneurial mindsets and inspires social and environmental entrepreneurship;
- > Ease administrative requirements for SMEs; and,
- > Facilitate affordable production inputs and market entry.

### Facilitate partnerships and promote the success stories of SMEs

The SEED Policy Prototyping Lab elucidated how both established agro-processing SMEs and aspiring eco-inclusive entrepreneurs could benefit from initiatives that facilitate stronger sectoral, local, and global partnerships and increase the visibility of SME success stories. Through engaging leaders from the business community, government and beyond, all enterprise supporters should identify ways to increase participation of rural enterprises and inspire information sharing. The SEED Labs emphasised the importance and potential of enterprise support programmes and initiatives to reach enterprises across sectors and equip them with the skills and support required to start-up and scale-up.

A multi-stakeholder forum was discussed as an instrument prototype during the SEED Prototyping Lab. This forum should facilitate partnerships, improve coordination, and promote the success stories of SMEs in the agro-processing sector. The multi-stakeholder forum would adopt the functions of a sectoral think tank, with a mandate to unpack problems, address knowledge gaps, and implement constructive initiatives to realise a collaborative agro-processing sector in South Africa. This forum should encourage stakeholder mapping, as well help stakeholders to reach a consensus on the definitions and roles of various ecosystem builders. This collaboration would result in more networking opportunities for agro-processing SMEs and entrepreneurs, as well as bring into the spotlight the success stories of SMEs. Furthermore, it would facilitate sectorial gap analysis, to gather further insights into the underlying causes of poor coordination in the sector; and, to design mutually beneficial strategies to redress poor coordination and weak partnerships.

This prototype calls for the engagement not only of SMEs and ecosystem builders, such as business development support providers, government bodies and policy makers, and financial institutions and donors, but also additional stakeholders, such as academic institutions and consumers. Policy-makers will be encouraged to input into stakeholder mapping initiatives to identify valuable ecosystem builders and to implement policy instruments to strengthen frameworks that support agro-processing SMEs. Collaboration with existing forums such as the National Agro-processing Forum (NAPF) and Agriparks could also be leveraged to maximise the forum's contributions to SME success.

### Existing initiatives

The **National Agro-processing Forum (NAF)** (presented in Chapter 3) supports efforts to improve coordination and encourage collaboration between agro-processing enterprises and support providers. The NAF would benefit from further advertising of its programmes through media platforms including radio (commercial and community) to expand its reach, especially to rural enterprises. The NAF should promote the formation of its localised agro-processing and online mini forums. The aim of the locally based forums will be to share information, knowledge, learning and skills as well as to offer general support to new entrant enterprises. The leadership of the locally based forums could be tasked with attending all regional NAF meetings and sharing information gathered from these meetings with their members.

All **SEED programmes** help to promote eco-inclusive entrepreneurship by sharing tools and methodologies that are necessary to SME success and common to enterprises across sectors and locations.

- > The **SEED BDS+ (Business Development Support)** programme has proven to be successful in continuing to fortify a network of BDS providers working directly with enterprises. SEED supports these BDS providers by implementing Training of Trainers (ToT) workshops across the country and dispensing comprehensive enterprise development guides, the SEED Toolkits. SEED Toolkits cover a range of topics from conducting market research and drafting step-by-step organisational development plans to improving investment readiness and identifying strategies for scaling-up.
- > The **SEED Replicator** programme facilitate partnerships for both established SMEs and aspiring entrepreneurs through the implementation of the Replicator Connect Workshops, where SMEs and aspiring entrepreneurs form partnerships with established, successful eco-inclusive enterprises. Participants also utilise SEED Workbooks that contain insights into the business models of successful enterprises across sectors, along with guidelines for successful business model refinement.

These SEED activities are celebrated and strengthened through national dialogue forums and large symposium events, which bring together leaders from the private, public and social sectors.

**Instrument prototype:**  
**Multi-stakeholder agro-processing forum**

The strengthening of a multi-stakeholder forum, which builds on existing sector-relevant forums, would increase the visibility of successful SMEs, facilitate partnerships, and improve coordination. This forum would focus specifically on the needs of eco-inclusive SMEs at different stages of development and in different geographical contexts across South Africa within the agro-processing sector.

**Allow greater access to high-quality entrepreneurial education and skills development**

In order to provide coordinated and tailor-made support services it is important that local governments, training institutes and programmes, and financial institutions band together to provide high-quality education and business skills training to both aspiring and experienced entrepreneurs, particularly youth, women, and entrepreneurs with disabilities.

**Existing initiatives**

The **Small Enterprise Development Agency (SEDA)** is an agency of the Department of Small Business Development (DSBD). SEDA's mission is to develop, support and promote small enterprises throughout the country, ensuring their growth and sustainability in co-ordination and partnership with various actors, including global partners, who share international best practices with local entrepreneurs.

The SEED Labs emphasised the potential of SEED programmes and other initiatives to improve the educational and skills development opportunities offered to enterprises. Training institutes, with the support of other ecosystem builders, could act as peer and industry linkages by auditing and profiling the skills of entrepreneurs dedicated to inclusive, green growth. These institutes could also help match entrepreneurs with sector partners and investors. A renewed focus on such institutes would enable peer-learning and market entrepreneurial opportunities for agro-processing SMEs. These institutes could increase youth engagement with eco-inclusive entrepreneurship through media awareness campaigns and by word-of-mouth. These institutes would build on existing tools and methodologies that are tailored to eco-inclusive business models and enterprise development, including those developed and implemented through SEED programmes.

**Instrument prototype:**  
**Eco-Inclusive entrepreneurship hubs**

Ecosystem builders must work together through training institutes to increase access to and improve skills training while facilitating networking opportunities. These hubs would bolster the success of agro-processing SMEs by providing these enterprises with the necessary technical and entrepreneurial skills to develop their eco-inclusive businesses.

**Streamline regulatory processes and administrative tasks**

Deliberation on how to streamline regulatory processes and administrative tasks was another focus of the SEED Policy Prototyping Labs. Ecosystem builders reached consensus on the importance of researching, developing, and implementing interventions tailored towards reducing associated registration, permits, and licencing requirements within the sector.

**Existing initiatives**

The **Agriparks programme** (presented in Chapter 3) launched by the South African Government sets out to ensure that SMEs have greater access to the required inputs and opportunities for market access through three core support centres. It is expected to play a pivotal role in improving coordination within the agro-processing value chain through its three operating units:

- > **Rural Urban Market Centre Unit (RUMC)** will link the rural and urban areas in terms of market access, both locally and internationally, as well as act as a holding facility, and provide market intelligence.
- > **Farmer Production Support Unit (FPSU)** will primarily engage in collection, storage, processing for the local market and extension services, including mechanisation and agricultural input supply for subsidised farmer support (e.g. depot/redistribution point for farmer support, etc.).
- > **Agri-Hub** Unit will offer processing, packaging, logistics and training services.

Ideas discussed at the SEED Policy Labs include proposals to the government for setting up a unified electronic application system for enterprise registration and licensing. Another proposal aimed specifically at ensuring the effectiveness of Agriparks involved the establishment of help desks in each of the planned Agriparks across the country. Help-desk personnel could provide SMEs with much-needed assistance, feedback, and follow-up consultations on registration and licensing procedures.

In addition to the aforementioned suggestions for ensuring the success of the Agriparks programme, the SEED Prototyping Labs focused on possibilities to bolster the success of SMEs, engage youth in agro-processing, and promote inclusive, green rural growth and development. The resulting policy prototype to focus activities around this action field was the establishment of “one-stop shops” within the Department of Agriculture, Forestry and Fisheries (DAFF) to ease the regulatory burden associated with SME entry into the agro-processing sector. These putative one-stop shops would simplify and shorten the registration process for the start-up of new enterprises, thereby minimising market entry costs for SMEs. Fewer barriers to entry are expected to reduce the risk of failure for SMEs, encouraging more of these enterprises to register and transition from the informal economy into the mainstream. This would naturally not only enhance the local social, environmental, and economic impacts of these enterprises, but also increase fiscal revenues for the government, resulting in a win-win-win situation for SMEs, communities, and ecosystem builders. Given the regulatory nature of these one-stop shops, the engagement of government, financial institutions, and agro-processing associations would be vital to their success.

**Instrument prototype:  
One-stop approval shops**

The establishment of one-stop shops for the approval of agro-processing licensing by government, financial institutions, and agro-processing associations would lower barriers to entry for SMEs by simplifying and shortening regulatory and licensing procedures.

## 5.2 Increasing access to financing and technology

As highlighted in this Brief, SMEs are faced with various challenges, particularly around financing and technology transfer, which make it difficult for them to realise their potential for driving inclusive, green growth. Expensive technology for value-adding processes results in high capital expenditure, making early-stage operations complex and high-risk for SMEs. Current educational systems are not conducive to knowledge and technology transfer, resulting in a high barrier to entry in the agro-processing sector, particularly in rural communities. Furthermore, agro-processing SMEs are faced with a myriad of financial challenges, ranging from difficulties developing financially via-

ble business models, to difficulties connecting with and persuading the appropriate investors and donors, low awareness of existing financing options, low awareness of which financing options are appropriate, limited financial risk-management tools, and unsafe and cost-inefficient payment services.

Ecosystem builders must devise multi-stakeholder approaches to assist SMEs in overcoming these financing and technology transfer obstacles. Finance providers, policy makers, and national and global government bodies must work together to increase finance and technology transfer to eco-inclusive SMEs in the South African agro-processing sector. Greater access to tailor-made financing instruments and better technology transfer will multiply opportunities for SMEs to start-up and scale while optimising their socially inclusive economic and environmental impacts. Specifically, instruments to increase access to financing and technology are needed, which:

- > Provide capacity building in order to increase financial management knowledge and skills;
- > Incentivise investments and financial partnerships in the agro-processing sector;
- > Establish associations for fair trade; and
- > Provide customised financial instruments that support enterprises at varying stages of development, especially early-stages.

**Promote investment readiness and deliver targeted financial instruments to SMEs**

The exploration of new sources and tailor-made instruments of finance, combined with diverse revenue streams and financially viable business models, is pivotal to the success of SMEs in the South African agro-processing sector. Efforts to attract private investors, utilise additional financial resources, launch crowd-funding schemes, and secure co-funding from industry partners would help SMEs to achieve greater financial security. Ecosystem builders must, therefore, support the agro-processing sector by improving financial management skills and increasing access to innovative financial instruments targeting small and growing (eco-inclusive) enterprises.

### Existing initiatives

The **SEED Practitioner Lab on Climate Finance** in March 2018 in Pretoria identified key challenges to small and growing climate-smart enterprises in accessing finance. Despite the multiple contributions of international and national public institutions, donors, banks and investors to financing enterprises with environmental (climate-smart) objectives, there is a persistent lack of steady financial flows from the domestic and international private sector. The majority of private sector actors continue to be risk averse to these smaller enterprises. Additionally, very little finance is offered to early-stage climate-smart enterprises and many enterprises struggle to communicate their investment readiness effectively. Ongoing Practitioner Labs will support efforts to deliver finance to enterprises across sectors and stages of development.

The **CIP, Agro-processing Support Scheme, and other funds** target the acquisition of technologies and equipment by SMEs. However, these schemes are not well known. They must be publicised further by both governmental and private initiatives.

Discussions during the SEED Prototyping Lab revealed that SMEs and other stakeholders in the agro-processing sector must increase communication with private investors. Improved access to information about the business interests and investment portfolios of notable investors can assist SMEs in attracting funding. Additionally, the promotion of success stories of Muthi Futhi, Umgibe Farming Organics and Training Institute, Agro-processing Competitiveness Fund (APCF) recipients, and other enterprises' success with co-funding can serve as indicators of successful strategies for other SMEs. Additional stakeholders in the agro-processing industry can further facilitate funding for SMEs by exchanging information and utilising networking opportunities to stay up-to-date with and sharing details on financial opportunities. Government representatives can also use policy to incentivise private sector investments in eco-inclusive agro-processing enterprises by offering tax incentives for larger investment levels.

The formation of an online finance platform for agro-processing SMEs would facilitate access to important information about financially viable business models, improve financial literacy, communicate the investment readiness of enterprises to potential investors, and make available financing targeted at or available to SMEs in the South African agro-processing sector. The forum would also encourage collaboration between SMEs and centres of technology innovation such as Technology Innovation Agency (TIA) and the Agricultural Research Council (ARC) to promote the adoption of cost-efficient technology. Through their interaction with the finance platform,

emerging SMEs should be encouraged to adopt green technologies and equipment for their businesses. This could form part of the business development stage to ensure that costs associated with the acquisition of green technologies and equipment are incorporated in the business plans and investment agreements to reduce the added costs of future technology procurement.

### Instrument prototype:

#### Finance platform for agro-processing SMEs

A finance platform with specific information about financing instruments available to SMEs in the agro-processing sector would enable SMEs to develop more financially viable business models as well as facilitate the adoption of cost-efficient technology.

### Incentivise investments and deal flow in the agro-processing sector

In order to increase the investment flows to eco-inclusive SMEs in the South African agro-processing sector, incentives for investment must be strengthened, in part by increasing opportunities for face-to-face interaction between enterprises and potential investors.

### Existing initiatives

The **Presidential Infrastructure Coordinating Commission (PICC)** supports infrastructure development and fast-tracks the implementation of capital investment in infrastructure in rural economies. The PICC comprises of ministers, premiers and executive mayors from metropolitan councils. These public-sector actors join quarterly to assess the implementation progress around the National Infrastructure Plan and reflect on how better to remove barriers to efficient and effective infrastructure improvements for social and economic development.

Agro-processing SMEs require increased investment levels and deal flows with financial institutions, funders and donors. Investment in SMEs enables the adoption of low carbon technology and infrastructure, agricultural and other product inputs, and the growth of enterprise activities. Enterprises would benefit from profiling opportunities that market the investment readiness of enterprises to investors; the implementation of tax incentives for private investors to direct financial flows to SMEs; and efforts to combat risk aversion to early stage enterprises, including the shielding of these investors from losses by offering capital guarantee funds.

The establishment of an agro-processing finance hub

has been identified during the SEED Prototyping Lab as an instrument to support SMEs in accessing funding schemes. These funding schemes must be targeted at capital flows for equipment acquisition as well as building networks with financial institutions and donors. The agro-processing financing hub would aim at creating awareness around existing funding schemes targeted at infrastructure procurement, and improving access to equipment and technology to meet industry standards. It would also improve the operational efficiency and yields of agro-processing SMEs. Additionally, the network effects of increased marketing of eco-inclusive SMEs' sustainability impacts could lead to greater demand for innovative, sustainable technologies and production methods. An effective agro-processing business hub would facilitate the sale of equipment, start-up investment agreements, skills development, and networking and collaboration between the various sector stakeholders. Government agencies, financial institutions and donors interested in supporting eco-inclusive enterprises will be engaged with the hub.

**Instrument prototype:**  
**Agro-processing business hub**

The establishment of an agro-processing hub will support SMEs in accessing funding schemes as well as showcasing entrepreneurial successes among financial institutions, investors, and donors.

**Establish associations to improve competitiveness of fair trade SMEs**

SMEs with environmental and social objectives require greater opportunities to increase coordination and access fair trade markets. Eco-inclusive enterprises are often unique from the dominant agro-processing sector corporations in South Africa due to their production of fair trade products that are environmentally friendly and provide fair employment. As such, enterprises that fulfil fair trade requirements possess tremendous potential to access markets where they will receive greater profits for their products and maintain their competitiveness globally.

During the SEED Policy Prototyping Lab, an instrument was discussed which would establish associations for SMEs to learn about and contribute to fair trade markets. The objectives of the instrument are to increase the competitiveness and fair trade of SMEs and allow market access (including internationally) for small, eco-inclusive enterprises that sell fair trade products. This association will

increase the market share of these enterprises and provide SMEs with a larger pool of consumers willing to pay for high quality, environmentally friendly, and socially inclusive products.

The association for fair trade agro-processing SMEs would be comprised of agro-processors, farmers, suppliers, government, and retailers. The services of the association will include the provision of technical assistance, training, sectorial standards, export licenses, and seminars and other forms of information sharing. The association would be fee-paying to ensure buy-in and long-term participation.

**Instrument prototype:**  
**Association for fair trade agro-processing SMEs**

An association for SMEs to learn about and access fair trade markets for their products will help enterprises to improve their competitiveness and access sustainable markets that offer reliable profit-making opportunities.

### 5.3 Call to Action: Next steps for ecosystem supporters

Eco-inclusive enterprises are at the centre of global sustainable development initiatives through their resource efficient and socially inclusive value chains and low-carbon products and services, which help communities to adapt to and mitigate the impacts of climate change. In coordination, ecosystem builders – key stakeholders from the private, public, and social sectors – possess tremendous potential to ensure that eco-inclusive enterprises receive the necessary support to realise their social, economic and environmental objectives and drive the global transition to an inclusive, green economy.

Collaborative action is required to overcome the central challenges facing eco-inclusive SMEs in the South African agro-processing sector. These actions should improve support services for SMEs by:

- > **Facilitating partnerships and promoting the success stories of SMEs** through a multi-stakeholder agro-processing forum;
- > **Allowing greater access to high-quality entrepreneurial education and skills development** using eco-inclusive entrepreneurship institutes; and
- > **Streamlining regulatory processes and administrative tasks** with one-stop licensing approval shops.

All stakeholders must also actively increase access to financing and technology by:

- > **Promoting investment readiness and delivering targeted financial instruments to SMEs** via an online finance platform for agro-processing SMEs;
- > **Incentivising investments and deal flow in the agro-processing sector** through the support of an agro-processing business hub; and
- > **Establishing associations to improve the competitiveness of fair trade SMEs** through an association for fair trade agro-processing SMEs.

## Imprint

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## About SEED



SEED is a global partnership for action on sustainable development and the green economy. Founded by the United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP) and IUCN (International Union for Conservation of Nature) at the 2002 World Summit on Sustainable Development in Johannesburg, SEED supports innovative small scale and locally driven enterprises around the globe which integrate social and environmental benefits into their business model. SEED is hosted by adelphi research gGmbH, based in Berlin, Germany. adelphi research is a leading think tank for policy analysis and strategy consulting. The institution offers creative solutions and services regarding global environment and development challenges for policy, business, and civil society communities.

## About Greater Impact



Greater Impact is a South African incorporated entity and a member of the African Management Services Company (AMSCO) group. As an active role-player in the development sector for over a decade, we have a deep understanding of the needs and aspirations of communities and civil society organisations, as well as the corporate social investment and finance sectors. We help our clients integrate social impact and value creation practices into their core business strategy so that, together, we are growing an inclusive African economy. We partner with our clients to ensure that their social and economic development programmes are high impact and sustainable and we do this through trusted partnerships and using our experience and expertise in a broad range of strategic impact advisory services that help clients map, design, assess and enhance their development impact. We work with funders, regulators and implementers of social and economic development programmes, and have the knowledge and experience to offer solutions that are tailored to meet their specific needs.





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