Regional industrialisation and the development of agro-processing value chains in Tanzania and South Africa: Oilseeds-to-edible oils

Cornel Jahari and Blandina Kilama (REPOA)
Shingie Chisoro Dube and Tamara Paremoer (CCRED)

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POLICY RESEARCH FOR DEVELOPMENT
REPOA

UNIVERSITY OF JOHANNESBURG

Outline

- Introduction
- Methodology and Theoretical framework
- Criteria for selection of value chains
- Description of value chain
- Key issues and challenges
- Potential initiatives

Agro processing is central to industrialisation

- Agro processing has strong backward and forward linkages
  - Primary agriculture, processing and higher value-added activities
- Agro processing, as a manufacturing subsector, is associated with production of diversified higher value processed products
- Crucial for the development of manufacturing capabilities
- Yet, food agro processing industries remain underdeveloped in the region
- Regional growth in demand for processed food products, likely to increase with urbanization and rising incomes
- Study aims to identify opportunities for value chain development and capabilities for industrial upgrading

Approach: Methodology and framework

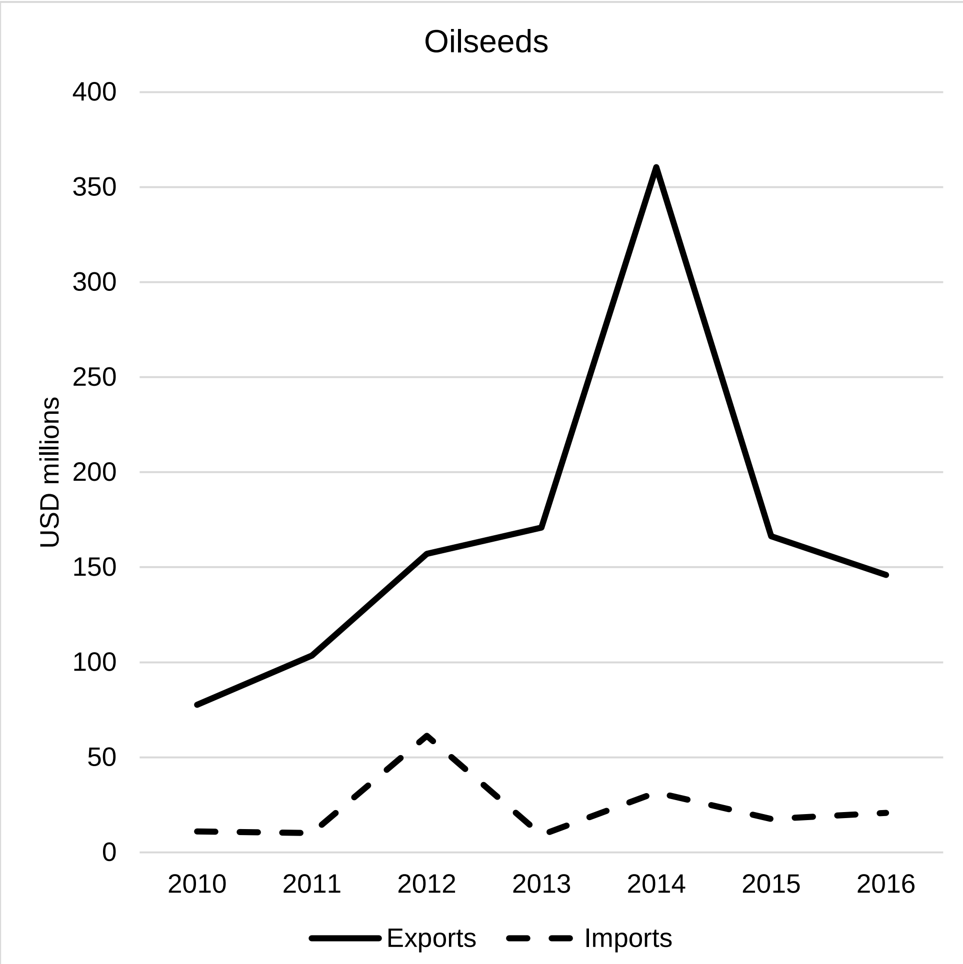
- In-depth firm interviews and secondary sources
- GVCs framework is important for understanding geographical patterns of value creation and capabilities for industrial upgrading
- Participation of firms in GVCs is important for industrial development
  - o Trade, investment and knowledge flows crucial for rapid learning, innovation and industrial upgrading
- **However,** participation of developing countries in GVCs is skewed towards exports of primary commodities and imports of higher value processed goods
  - Low-skill and low-value parts of the chain with limited opportunities for industrial upgrading
- **RVCs as a complementary development tool**
  - o Lower barriers to entry, participation of local firms and development of local manufacturing capabilities necessary for industrial upgrading

Criteria for selection of oilseed-to-edible oils VC

Production of oilseeds in Tanzania

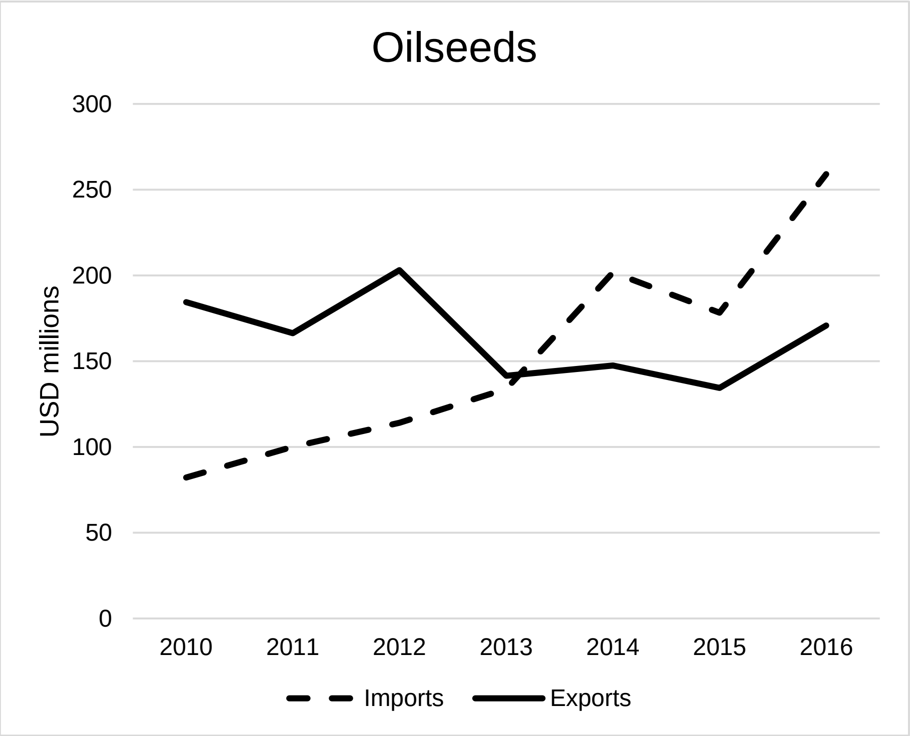
	2010	2011	2012	2013	2014	2015	CAGR
Total Production of oilseeds	1 283 200	2 099 675	2 807 442	5 631 410	5 927 607	6 337 772	38%
Seed cotton	267 000	163 644	225 938	357 133	245 831	203 312	-5%
Sesame seed	144 420	357 162	456 000	1 050 000	1 113 892	1 174 589	52%
Sunflower seed	313 110	786 902	1 125 000	2 625 000	2 755 000	2 878 500	56%
Cashew nuts	74 170	121 070	160 000	127 947	130 124	197 933	22%
Groundnuts	465 290	651 397	810 000	1 425 000	1 635 735	1 835 933	32%
Oil palm fruit	16 110	17 000	24 880	40 500	41 000	41 475	21%
Soybeans	3 100	2 500	5 624	5 830	6 025	6 030	14%

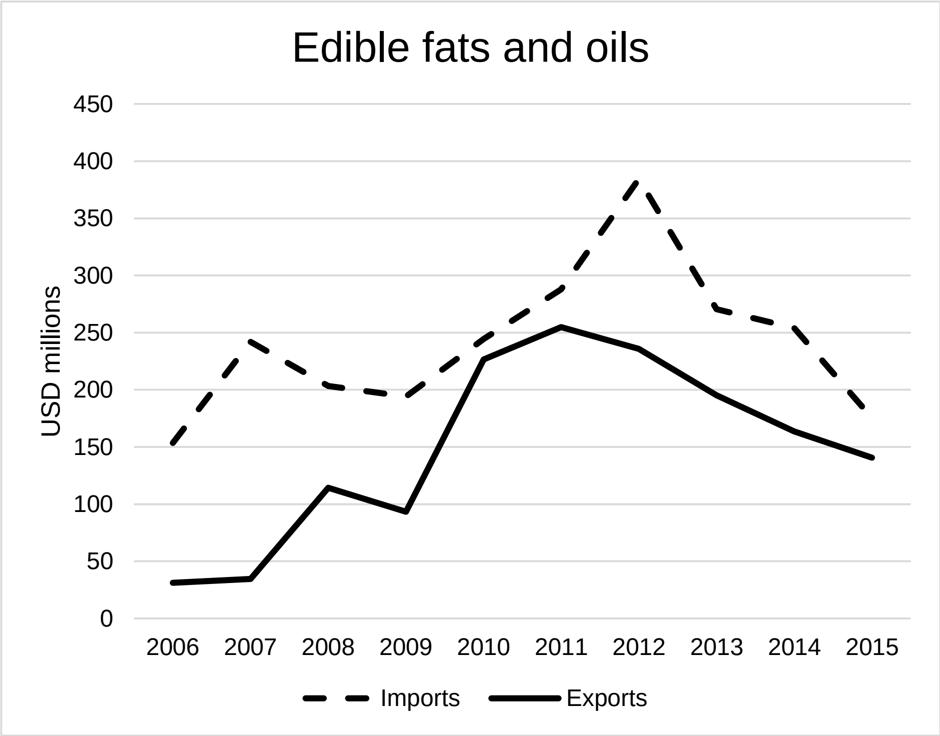
Limited processing capabilities in Tanzania



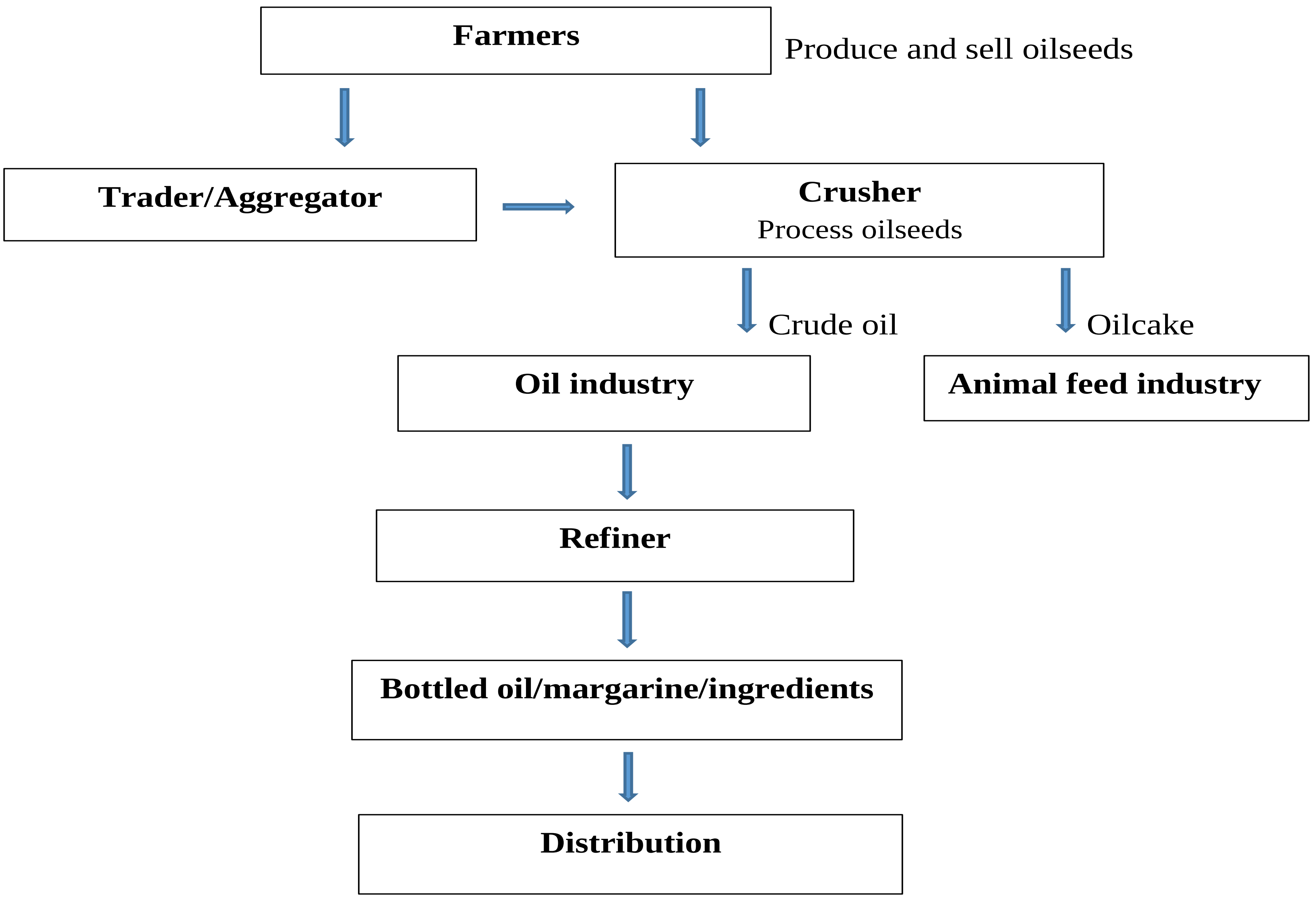
Opportunities for value addition and replacement of deep sea imports

- South Africa is net importer of oilseeds and crude oil





Oilseeds to fats and oils value chain



Description of the value chain

1. Farmer upstream level

- TZ has largely smallholder farmers on less than 5 acres, use traditional farming methods
  - Depend on rain fed agriculture, mainly use low productivity, local variety seeds which takes 120 – 150 days to harvest and produces 3–5 sacks per acre of sunflower seeds.
  - Improved variety of seeds takes 75 – 90 days and produces 13–15 sacks/acre
- SA is largely commercial

2. Procurement of seeds

- In TZ, traders and processors compete for seeds from the farmer
  - Lack of storage facilities, farmers sell all their produce soon after harvesting
  - Speculative traders/middlemen buy and stock for non-productive purposes while the processor buys the product in order to process
  - Traders/middlemen then on-sell to processors during periods of short supply
- In SA, processors have business relationships with farmers

Description of the value chain

3. Processors

- In Tanzania, processors are small scale, use infant technology, produce crude unrefined oil, sold in the informal market
- SA has developed processors using advanced crushing and refining facilities. Processors manufacture industrial products and consumer products

4. Overall structure of the value chain

- In SA, degree of vertical integration from farming through to downstream manufacturing of consumer products
- In TZ, players operate at distinct levels of the value chain

Key issues and challenges

Security of oilseeds supply in Tanzania

- Significant local production
- Challenges of reliable supply of oilseeds to processors
- Due to the lack of storage facilities which result in middlemen or traders speculating and holding stock until out of season
- Underutilization of processing capacity during off seasons

Processing capabilities

- Limited processing capabilities in Tanzania
  - Poor quality processing equipment, low oil extraction, requires frequent maintenance and replacement of spare parts
- Developed processing capabilities
  - Excess crushing capacity
  - Due to challenges of disposing sunflower oilcake

Potential initiatives

Improved seed technology

- Improved variety of seeds exists but requires additional support services such as irrigation

Equipment, skills and technology transfer

- South African firms could assist with supply of machinery & equipment and skills transfer to support upgrading within the Tanzanian processing industry

Enforcement of contracts between farmers and processors

- Ensure reliable supply of oilseeds to processors
- Initiative undertaken by the Agribusiness Incubation Center (AIC) in Tanzania