01. CONTEXTUAL ANALYSIS

The year 2016 will likely be marked as one of the most challenging and unpredictable years ever in agriculture. During this period, South Africa was struck by one of the worst droughts and continuous heat waves in decades. The impact foreseen on the fruit export industry was significant, as smaller fruit and below par yields were expected, which would have resulted in reduced financial returns. Marketers responded to this by preparing the import markets accordingly. However, this did not materialise and fruit - specifically citrus - turned out slightly larger than anticipated, resulting in a mismatch between market demand and supply. Although yields were below par, the returns were fair, with the weaker rand compensating for the reduced volumes exported. Export volumes are, however, expected to show a slight improvement in 2017 as El Niño makes way for the anticipated La Niña phenomenon. This is associated with much-needed rain and cooler weather conditions. Yields are, however, expected to normalise over the medium term, as some of the after effects of the drought will still be felt in the short term.

The second half of 2016 was dominated by unexpected news of the United Kingdom [UK] severing ties with the European Union [EU]. The move, commonly referred to as Brexit, created significant uncertainty and the impact on the major currencies was clear. The South African rand weakened by 11% against the yen and 7.8% against the United States dollar [USD]. The pound was not spared and fell to a 31-year low, losing 10% of its value. Once the dust had settled, the rand gained some much-needed momentum and soon traded better than expected against the euro, pound and USD.

Although the strengthening in the rand was welcomed, it immediately resulted in reduced returns for exporters. Both the UK and EU remain South Africa’s major trading partners, accounting for nearly 56% of all fresh fruit exported to these regions. Brexit may have created a lot of uncertainty over the short to medium term, but it also created possibilities, especially for the fruit export industry. The UK will now have the opportunity to renegotiate trade agreements separately from the EU, giving the South African citrus industry a glimmer of hope. Citrus infected with Citrus Black Spot (CBS) was not allowed into EU member countries due to fears of the fungus spreading to local crops. As the UK does not produce citrus, this contention does not apply, creating a major opportunity for the South African citrus industry to increase citrus exports to the UK.

During the 2016 State of the Nation Address [SONA], President Jacob Zuma reminded us of the global economic challenges we currently face and the impact they have on South Africa. He reiterated, however, that South Africa remains an attractive destination for prospective investors and should be positioned as such. The President also reminded us of his “Nine Point Plan” introduced in 2015, intended to address sluggish economic growth. In addition to the above, the following specific focus areas of the SONA can be highlighted:

- the development of Public Private Partnerships [PPP]
- investment in Information and Communications Technology [ICT] infrastructure
- the creation of jobs through innovation
- the introduction of cost-cutting measures
- the monitoring of the performance of Organs of State
- intra-Africa Trade
- the increase in exports
- skills development

It is clear that government will remain focused on measures to transform and stimulate the South African economy. The Industrial Policy Action Plan [IPAP] and the National Development Plan [NDP] are now more relevant than ever to achieve these objectives. The approval of the Department of Agriculture, Forestry and Fisheries’ [DAFF] programmatic response to the NDP, the Agricultural Policy Action Plan [APAP], is very specific about the role of agriculture over the next few years. The APAP notes the following specifically:

- an annual increase in gross value add for agriculture, forestry and fisheries
- an increase in the number of smallholder farmers
- an increase in the number of jobs by one million by 2030
- an increase in the annual contribution of processed products to the manufacturing sector
- a reduction in the number of households vulnerable to food insecurity
- a percentage increase in biomass stock levels in deep water hake
- a reduction in vulnerability and risks associated with the impacts of climate change

With specific reference to the points above it should, however, be noted that South Africa’s unemployment figures for Quarter 3 [Q3] of 2016 have increased to 27.1%, showing a 0.5% increase over the previous quarter and reflecting a 13-year high. The Medium Term Expenditure Framework [MTEF] for 2016 has lowered South Africa’s economic growth forecast to 1.3% for 2017 - an increase in the economic growth of 0.5% for 2016. South Africa’s current population growth is about 1.7% per year.
Notwithstanding the above, the agricultural sector accounted for 56,000 (19.4%) of the 288,000 jobs gained from Q2 to Q3 of 2016. This figure partially confirms the potential of agriculture as a major creator of jobs in South Africa. The APAP identifies certain products with huge growth potential as well as the potential for creating even more employment [see figure 1 below]. These include some of the major export products, e.g. citrus, plums, apples, pears, table grapes and avocados. With the potential of creating approximately 1.5 jobs per hectare, on average, and an additional job per 2,500 cartons packed, these products certainly have the potential to secure continued growth in the sector.

In addition to the above, it is essential for the growth in produce to be supported by the opening of appropriate markets. An estimated 50% of all fruit produced is exported, with the remainder channeled to local fresh produce markets. The export of perishable produce holds an even greater potential to create employment, as more services are required down the value chain. To this end, the South African fruit industry has identified nine priority markets as a first step towards maintaining and growing exports and securing access. These markets include: China, South Korea, Japan, Thailand, USA, India, Indonesia, EU and Russia.

It is crucial that a clear link be established between those products with a high growth potential and the markets identified so as to prevent duplication of effort and to ensure maximum impact. This will, however, require dedicated coordination and cooperation between government, industry and relevant stakeholders.

The EU’s Food and Veterinary Office (FVO) indicated during a visit in 2016, that they regarded the controls introduced to prevent CBS infected citrus fruit as sufficient and that no additional measures would be required. The next concern is the EU’s view on false codling moth (FCM) and its implications on the South African citrus fruit industry.

The PPECB takes note of the President’s view of the role of State-Owned Entities (SOEs) such as the PPECB. We believe that government’s role is predominantly policy making, and that it should rely more on SOEs to implement its policies. To this end, the PPECB has applied and is open to play an even greater role in supporting the DAFF to deliver a comprehensive inspection and food safety service. As a national public entity, the PPECB has a national footprint and the defined competencies to further support government. The PPECB will therefore continue to invest in its analytical laboratory by increasing its scope of analyses and service offerings over the medium term. This initiative is also well aligned to support the quest to increase exports by ensuring compliance with international food safety standards, thus keeping South African produce competitive.

One of the enabling milestones of the NDP is for South Africa to ‘play a leading role in continental development and economic integration’. To this end, the PPECB has responded and has entered into a service level agreement (SLA) to assist Namibian authorities to establish an inspection body which will render services similar to those rendered by the PPECB. In terms of this SLA, the PPECB will station inspectors in Namibia and fulfil a coaching and mentoring role for our Namibian counterparts.

Another imperative articulated in both the NDP and APAP related to the agricultural sector is the ‘realisation of a food trade surplus, with one-third produced by small-scale farmers and households’. In the first cycle of the MTEF (2014-2019), the focus is on smallholder farmer development, by providing technical, financial and infrastructural support. As experts in the field of quality inspection and cold chain services, the PPECB is continuing with its efforts to upskill smallholder farmers, in collaboration with its sister SOEs and the DAFF.

### FIGURE 1

<table>
<thead>
<tr>
<th>Low Growth Potential</th>
<th>High Growth Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat, White maize, Barley, Sorghum, Groundnuts, Forestry, Tobacco, Apricots</td>
<td>Olives, Macadamias, Citrus, Nectarines, Plums, Prunes, Mangoes, Table grapes, Raisins, Bananas, Vegetables, Pecan nuts, Avocados, Pecan nuts, Avocados</td>
</tr>
<tr>
<td>Labour Intensive: &gt;1,3 labour/ha</td>
<td>Non-Labour Intensive: &lt;0.01 labour/ha</td>
</tr>
</tbody>
</table>

- South African fruit industry identified nine priority markets as a first step towards maintaining and growing exports and securing access.
- EU’s Food and Veterinary Office (FVO) regarded the introduced controls as sufficient.
- The PPECB responded and entered into a service level agreement (SLA) to assist Namibian authorities.
- The focus in the first cycle of the MTEF (2014-2019) is on smallholder farmer development.
- The PPECB is continuing with efforts to upskill smallholder farmers.
Initiatives are specifically focused on technical matters which include Good Agricultural Practices as well as food safety and quality. The ensuing year will see the PPECB increasing the number of farmers trained and making concerted efforts to collaborate with other entities to consolidate efforts to fast-track its transformation agenda.

Another first cycle focus of the MTEF is trade development and market access through the harmonisation of policies. As the PPECB’s overall mission is to provide confidence in South African export produce, its role to facilitate market access and development cannot be underestimated. The entity will therefore continue to make a contribution at national and international forums on related matters.

Over the past three years, the PPECB has made significant investment in its national ICT infrastructure. It has migrated from a manual inspection platform to an electronic platform and to date, more than 300 inspectors have been issued with tablets for this purpose. During the 2017/18 fiscal year, the entity will continue to invest on this front by adding more modules to the electronic platform to take it a step closer to the ultimate goal of electronic certification. This initiative is directed at speeding up verifications, reducing the use of paper, increasing efficiencies and keeping South Africa competitive internationally. The project is also in alignment with the DAFF’s mission over the short term to ensure electronic certification through a partnership with the Dutch government.

Finally, in addition to the above, the entity will continue with its objective of providing an effective and efficient service to its customers. The ultimate goal is to embed a culture of service excellence and superior levels of performance. Thus, the PPECB will persist in its strategy of consolidation to contain costs and achieve its vision of enabling its customers to be the preferred suppliers of perishable products worldwide. Furthermore, having included transformation as a strategic objective during 2016/17, the PPECB will look to excel in this area, within the confines of its mandate, and to play a more significant role through collaboration.

02. VISION, MISSION, VALUES

The VISION of the PPECB is to enable our customers to be the preferred suppliers of perishable products worldwide.

This vision is supported by the PPECB’s MISSION to empower our people to execute our mandates to ensure the integrity of their customers’ products.

This mission is further underpinned by the PPECB VALUES:

PROFESSIONALISM
We aspire to doing the job right the first time, while displaying a positive attitude towards our relationships with our clients, colleagues and stakeholders.

ACCOUNTABILITY
We pro-actively assume responsibility for all our deliverables and areas of influence. This is done by creating and maintaining an environment which fosters the guidance and empowerment of our employees to take ownership of their actions.

PASSION
We are driven and committed to continually serve our stakeholders with energy and enthusiasm.

INTEGRITY
We uphold the highest standards of honesty, impartiality and confidentiality in the execution of our duties, services and stakeholder relationships.

CONFIDENCE
We believe in our people, processes, proficiency and in-depth knowledge which enable us to execute our duties and deliver our services with conviction and excellence.

COLLABORATION
We actively engage in building and maintaining relationships in which we share information and exchange innovative ideas with all stakeholders.

03. LEGISLATIVE AND POLICY MANDATES

The PPECB is governed mainly by the Perishable Products Export Control Act (PPEC Act), [Act 9 of 1983] and the Agricultural Product Standards Act (APS Act), [Act 119 of 1990]. In terms of this legislation, the PPECB is responsible for overseeing the export of perishable produce. This is achieved through the inspection of listed agricultural products and management of the cold chain. The PPECB is further mandated to conduct food safety audits in terms of the APS Act on all food business operators (FBO) exporting perishable produce of plant origin.

During 2016, the DAFF also mandated the PPECB to handle all operational activities relating to the risk management system (RMS) for citrus exports to the EU. This mandate is, however, limited to the 2017 citrus season.

Both the PPEC and the APS Acts are currently under review and have been published for public comment. The PPECB is hopeful that the amended legislation will be passed by Parliament during the latter part of 2017. To date, there have been no significant changes to the legislation with a direct impact on the PPECB’s mandate.

04. POLICY MANDATES

Informed by the National Growth Path (NGP) and the National Development Plan (NDP), the Medium Term Strategic Framework (MTSF) places great emphasis on small farmer development and rural employment, among others.
As subject matter experts for the inspection of listed agricultural products, the management of the cold chain and food safety certification targeted at the export market, the PPECB is committed to supporting government in achieving these objectives.

The PPECB has formulated policies to promote and facilitate the achievement of these objectives and has also introduced programmes to direct organisational resources in accordance with these policies.

05. SITUATIONAL ANALYSIS

5.1 EXPENDITURE FRAMEWORK

There are four main drivers for the 2017/18 budget:

[1] the delivery of statutory services
[2] the execution of the Board-approved Strategic Plan
[3] the mitigation of the main risk areas in the PPECB’s service delivery priorities

The spending focus over the medium term will be on continued service delivery without compromising the integrity of product quality or our continued contribution towards social responsibility in building capacity and assisting small farmers. We will also continue to focus on establishing a professional and well-trained staff complement to add value to the perishable export industry.

EXPENDITURE TRENDS

Between 2013/14 and 2015/16, total expenditure grew by 13%, from R226.6 million to R327.9 million. This increase resides in employment, travel and accommodation costs, all of which increased annually in excess of the Consumer Price Index [CPI], coupled with the continued pressure to increase staff resources to ensure compliance with the DAFF’s mandate.

Expenditure is set to increase over the next five years to R494.4 million by 2021/22, at an average annual rate of 9%. It is assumed that the activity base used in 2017/18 will track the growth in exports. The activity base refers to the operational resources deployed, kilometres travelled and relief duty days. Computer expenses increase by an average of 11% as a result of the introduction of mobile technology in PPECB’s business. Depreciation is based on an annual CAPEX replacement in technology of R8 million per year and written off over a five-year period.

REVENUE TRENDS

It is assumed that total income will increase by 9% over the next five years. This 9% increase is based on an initial 6% inflationary adjustment to levies, increased to 7% over the last three years. A 2% growth rate in product volumes is expected.

The volume growth on statutory services anticipates that citrus fruit inspected volumes will increase by 2% per annum, and deciduous fruit inspected volumes by 3% per annum. A 3% growth is assumed for all other products and services. Interest income is assumed to reduce marginally due to shortfalls during the first two years. Interest rates are expected to remain stable.

PERSONNEL INFORMATION

The period ending 2021/22 is informed by the two major objectives listed above, namely fulfilment of government’s mandate and the execution of the Strategic Plan approved by the Board.

Over the past decade the PPECB has become increasingly under-resourced as far as meeting these objectives is concerned. The period ending 2021/22 will continue to address human resource constraints to ensure that the PPECB is able to meet its mandate and strategic goals. Cost of employment, which totaled R241 million in 2017/18, is set to increase to R327 million over the next five years, at an average rate of 8%. Salaries, including promotions, have been adjusted by an average of 6% per annum, while growth in employment is 2%. The PPECB is a service-orientated entity and as such 66% of total expenditure is made up of personnel costs. The vacancy rate remains at 5% of total staff over the five-year period.
PERISHABLE PRODUCTS EXPORT CONTROL BOARD MTEF FOR THE PERIOD ENDING MARCH 2021

<table>
<thead>
<tr>
<th>STATEMENT OF COMPREHENSIVE INCOME</th>
<th>AUDITED OUTCOME</th>
<th>REVISED ESTIMATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(ZAR) ‘000</td>
<td>2013/14</td>
<td>2014/15</td>
</tr>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax revenue</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Non-tax revenue</td>
<td>223 698</td>
<td>251 485</td>
</tr>
<tr>
<td>Sale of goods and services other than capital assets</td>
<td>214 904</td>
<td>246 082</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative fees</td>
<td>214 904</td>
<td>246 082</td>
</tr>
<tr>
<td>Sales by market establishment</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other sales</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Interest received</td>
<td>8 794</td>
<td>5 404</td>
</tr>
<tr>
<td>Transfers received</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>224 298</td>
<td>252 085</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current expenses</td>
<td>226 694</td>
<td>261 775</td>
</tr>
<tr>
<td>Compensation of employees</td>
<td>146 483</td>
<td>176 688</td>
</tr>
<tr>
<td>Goods and services</td>
<td>77 688</td>
<td>81 512</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2 499</td>
<td>3 565</td>
</tr>
<tr>
<td>Interest, dividends and rent on land</td>
<td>23</td>
<td>10</td>
</tr>
<tr>
<td>Transfers and subsidies</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>226 694</td>
<td>261 775</td>
</tr>
<tr>
<td><strong>SURPLUS/DEFICIT</strong></td>
<td>[2 396]</td>
<td>[9 689]</td>
</tr>
</tbody>
</table>

5.2 ORGANISATIONAL PLANNING PROCESS

5.3 MONITORING AND EVALUATION

The PPECB monitors and evaluates its performance against predetermined objectives listed per sub-programme. Although progress against the stated targets is reported quarterly, divisional discussions on performance progress are held on a monthly basis. Organisational performance reports are escalated to executive meetings, following which they are approved by the Accounting Authority (PPECB Board), before being submitted to the Executive Authority.

Great emphasis is placed on evidence-based monitoring, audited on a regular basis. The PPECB currently uses a manual reporting system, coordinated by a senior manager within the organisation. The effective monitoring and reporting on organisational performance rests with the office of the Chief Executive Officer (CEO).
06. STRATEGIC OUTCOME-ORIENTED GOALS

The PPECB has defined the following key strategic objectives:

- **STRATEGIC OBJECTIVE 1 (SO1):**
  Enhance the credibility of the South African export certificate

- **STRATEGIC OBJECTIVE 2 (SO2):**
  Support the export competitiveness of South Africa’s perishable products industries

- **STRATEGIC OBJECTIVE 3 (SO3):**
  Strengthen the PPECB’s capacity to provide a professional suite of services for its customers

- **STRATEGIC OBJECTIVE 4 (SO4):**
  Contribute to the socio-economic transformation of the agricultural sector

In addition, these strategic objectives have also been linked to strategic programmes that will drive the achievement of the organisation’s mission and vision.