PART A

1. CONTEXTUAL ANALYSIS

The global economy showed definite signs of recovery during 2017, growing steadily at 3.8%, up from a meagre 3.1% in 2016. The International Monetary Fund (IMF) estimates that the global economy will continue this upward trend with growth of 3.9% expected in 2018. Advanced economies remain under pressure, however, and are expected to grow at 2.5% in 2018. Developing economies look much brighter with an anticipated growth rate of 4.9% on average, with India and China leading on this front. The Sub-Saharan African economy is set to grow at 3.4% during 2018.

From a South African perspective, the economy remains under pressure with the medium term estimated growth rate adjusted downwards to 1.5% for 2018 and 1.7% for 2019. The economy suffered a significant setback with the threat of a credit ratings downgrade having a definite impact on investor confidence.

In terms of the labour force, the unemployment rate for Q1 of 2018 remains steady at 26, 7%, unchanged from Q4 of 2017. Unemployment increased by 100 000 during this period, but remains in a better state (3.8%) when compared to Q1 of 2017. Of concern is the loss of 28 000 jobs in the agricultural sector from Q4 2017 to Q1 2018.

Although a steady unemployment rate of 26.7% remains largely positive, the unemployment rate is still far off the National Development Plan's (NDP) target of 14% in 2020.

During the 2018 State of the Nation Address, President Cyril Ramaphosa reiterated government's commitment to economic growth that translates into job creation. The following areas were highlighted by the President:

- Economic recovery, growth and transformation
- Job creation, specifically for the youth
- Address unemployment
- Investment in infrastructure
- Realise the economic potential of agriculture
- Accelerate the land distribution programme
- Advancement in Information and Communications Technology (ICT)
- Develop capabilities in areas of science, technology and innovation
- Market access
- The performance of State Owned Entities (SOEs)

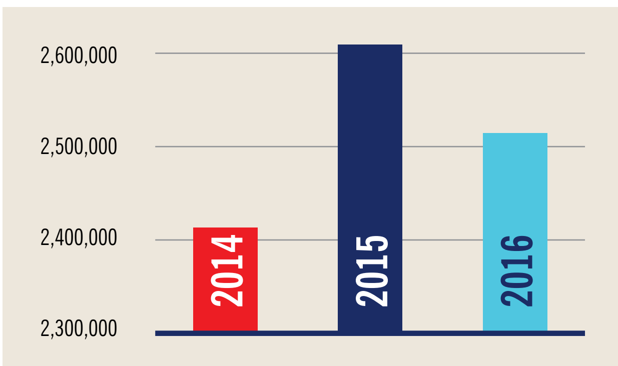
Given the above, it is clear that government regards agriculture as one of the major sectors to drive economic growth within South Africa. With agriculture's contribution to the South African GDP sitting below 3%, there is certainly an opportunity to grow the sector's contribution, especially given the fact that it was around 15% in the 1950s and 10% in the 1960s. Agriculture's ability to create employment is also notable, as 1.5 jobs are created on average for every 1 hectare of fruit planted, with a further job created for every 2 500 cartons packed.

Looking at fruit production specifically, South Africa exports around 60% of all fruit produced, amounting to around 2.7 million tonnes, to 92 countries. Steady growth in this area has been experienced over the past five years, except for 2016 when fruit export volumes were 4% lower than the previous year. Positive growth is, however, visible in the YTD (from January to July 2017) export volumes which reflect 6% growth on 2016 figures and 7% growth on 2015 figures for major export fruit types.

South Africa remains the second largest exporter of citrus globally, exporting just over 1.7 million tonnes of citrus during a normal season.

This is, however, expected to increase significantly over the medium term as new plantings come to fruition and access to new markets is gained. Below (Figure 1) is a graphic depiction of fruit export volumes for the past three years, clearly displaying the trend and the reduction of exports in 2016.

FIGURE 1: EXPORT VOLUMES OVER THE PAST 3 YEARS



Notwithstanding positive growth, the impact of the recent drought remains a huge concern, especially in the Eastern and Western Cape. Rainfall in both these regions are well below par. Dam levels in the Western Cape are 44% down on the previous year and are currently sitting on around 30% of capacity. Should rainfall not normalise soon, deciduous and citrus fruit export volumes from these regions will be under severe threat.

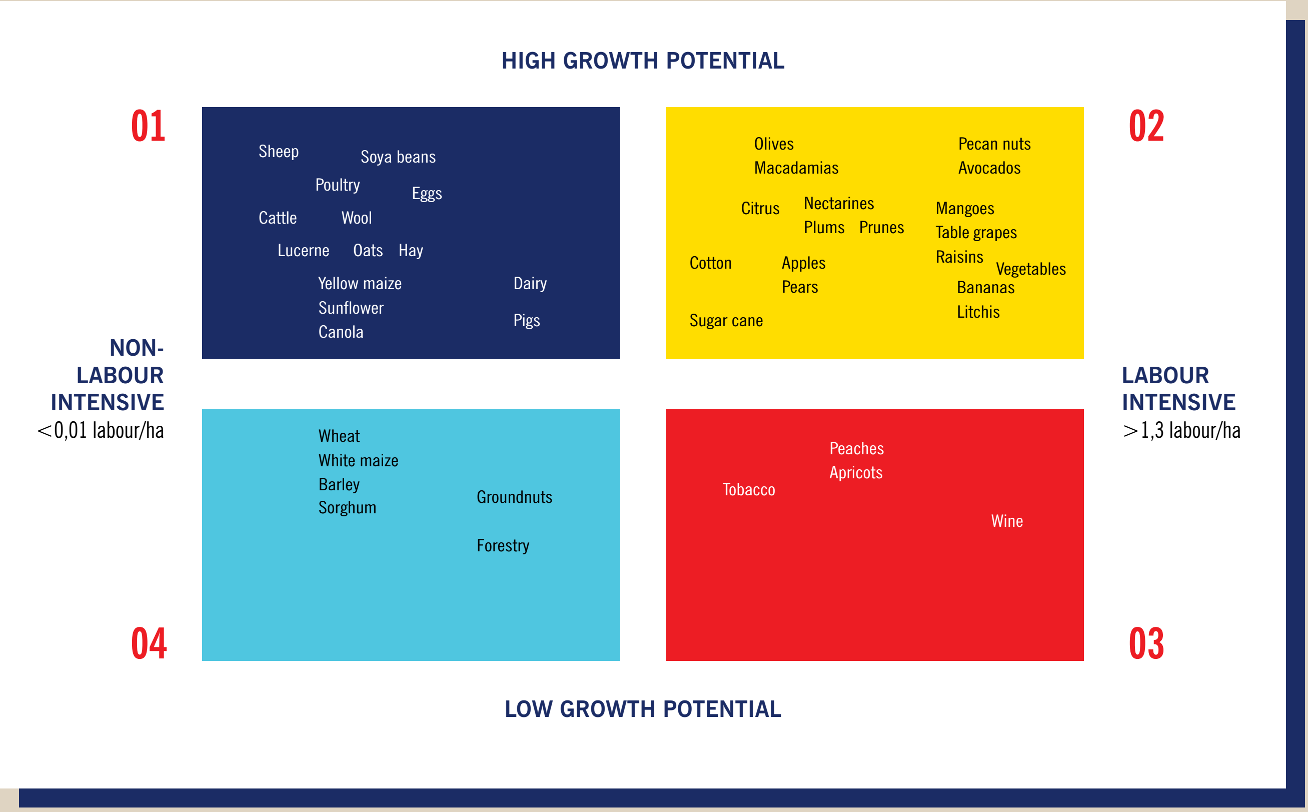
From a market perspective, the European Union (EU), excluding the United Kingdom (UK), remains South Africa's major trading partner, taking about 35% of South African fruit. With the Economic Partnership Agreement (EPA) which came into effect in September 2016, this trend is expected to continue as the EPA provides preferential market access for South African products into the EU. Fruit export volumes to the EU may, however, be impacted by the region's future policy stance on non-tariff barriers including, but not limited to, Citrus Black Spot (CBS) and False Codling Moth (FCM). The volatility of the rand is another factor that may impact exports to the EU. Only looking at 2017, the rand started off relatively strong against major currencies but lost significant ground towards the middle of the year. At its strongest for 2017, the rand traded at R13.43 against the euro and devaluated to R15.93 towards the middle of 2017, a change of 18.3%. Significant fluctuations like these may result in exporters opting for other markets instead of the EU.

Asia remains an attractive destination for South African fruit and imports on average 17% of fruit. The potential in the Asian markets cannot be overemphasised, as these markets have the benefit of critical mass. India's economy is expected to continue growing at 7% and although the Chinese economy is reported to slightly decelerate, it is still forecasted to grow at around 6%. South Africa currently has market access for citrus, table grapes and apples to China and is in the process of gaining access for pears. For India, South Africa has market access for plums, apples, table grapes and citrus fruit. Both the Indian and Chinese markets have been identified by South Africa as two of nine strategic markets for future growth and development. These initiatives are essential as the identified fruit types are also very labour intensive, thereby supporting South Africa's quest to create more jobs. Figure 2 below depicts the relationship between major products and their labour intensity.

From a United Kingdom (UK) perspective, the announcement that Great Britain will break ties with the EU (BREXIT) had no significant impact on fruit exported to this region to date. The UK continued to import about 15% of South African fruit, making it the third biggest export destination.

Although 2016 export volumes were significantly reduced due to the drought, year-to-date (January to July 2017) export figures are 2% above that of 2016 and only 1% below 2015 figures, with table grape and stone fruit volumes still to come. It is believed this trend will continue, as the UK is an established market and consumers have become accustomed to South Africa as a reputable supplier of fresh fruit. Although the road ahead with regard to the UK's policy direction on imports from South Africa is not clear yet, opportunities do exist for lobbyists to influence their stance on imports, especially with regard to non-tariff barriers they may consider imposing.

FIGURE 2: PRODUCTS AND LABOUR INTENSITY



On a further positive note, maize exports are recovering well after two years of reduced export volumes. South Africa exports between 1.4 and 1.8 million tonnes of maize on average during a normal year. During 2015 and 2016, maize export volumes have been reduced significantly with less than 1 million tonnes exported over both those years. Due to relatively good rainfall in the northern parts of South Africa, maize export volumes are normalising with over 2 million tonnes (YTD) inspected for the export market in 2017.

With the role of State Owned Entities (SOEs) under review, government's vision is for SOEs to play an even greater role in supporting government to achieve its objectives. This bodes well for the PPECB's strategy of pursuing additional mandates with a strategic fit. To this end, the PPECB was given an additional mandate by the Department of Agriculture, Forestry and Fisheries (DAFF) to manage the citrus export programme to the EU during the 2017 season. In 2018 it was confirmed that the mandate had been extended for the next two years. Thus the functions carried out by the PPECB in the 2017 citrus season will continue until the end of the 2019 citrus season. Albeit temporary, the PPECB was committed to delivering on this mandate with distinction, with the objective of creating confidence in South African systems and ultimately its produce.

Government's Nine-Point Plan highlights investment in ICT infrastructure as one of the areas to support the objective of enhancing economic growth. As a National Public Entity with a decentralised operating model, the PPECB is reliant on stable ICT infrastructure to drive efficiencies and deliver an effective service. The entity will therefore continue with its investment in mobile technology during 2018 by prioritising development within the cold chain value stream. These developments are intended to bring about a faster flow of essential export information, thereby enhancing the competitiveness of the South African export industry through the provision of intelligent information and data trends.

One of the National Development Plan (NDP) and Agriculture Policy Action Plan (APAP) imperatives is the 'realisation of a food trade surplus, with one third produced by small-scale farmers and households'.

The PPECB, as technical experts in the field of perishable exports, will continue to dedicate its expertise to the development of emerging farmers, with a specific focus on Good Agricultural Practices (GAP) and Food Safety, Quality and Cold Chain management directed at the export market. During 2018, the PPECB will seek to increase the number of emerging farmers trained and hopes to expand on the number of collaborative partners and funding sources in order to maximise the impact of these initiatives.

The entity will further remain focused on delivering an efficient service to customers and strengthening relationships with stakeholders locally and abroad. The PPECB will also persist with its strategy of consolidation and seek to place a greater reliance on systems and technology to enhance service delivery over the medium term. The entity further remains committed to delivering services with integrity and professionalism. Given the current economic landscape, the PPECB will pay specific attention to managing and controlling expenditure, without compromising service delivery.

In conclusion, the outlook for South African exports remains positive and holds even greater potential. The next three years will, however, be critical in determining the success of the sector as the following factors may have an impact on the future of South Africa's horticultural trade:

- South African farmer debt is sitting at R160 billion, a near all-time high in real terms;
- Uncertainty with regards to credit downgrades;
- General pressure on the world trading system;
- Low consumer confidence, globally;
- A sense of global protectionism, especially in developed markets;
- Clarity on policy direction of the United States administration with regards to trade;
- The impact of BREXIT; and
- Global political relations.

2. VISION, MISSION, VALUES

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

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

This mission is further underpinned by the PPECB VALUES of:

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 proactively assume responsibility for all our deliverables and areas of influence. This is done by creating and maintaining an environment which fosters guidance and empowerment of the 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 enables 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.

3. LEGISLATIVE AND POLICY MANDATES

The PPECB is mainly governed 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 (FBOs) exporting perishable produce of plant origin.

During 2016 the PPECB was also mandated by DAFF to handle all operational activities relating to the Risk Management System (RMS) for citrus exports to the EU. Following the successful completion of this year-long project DAFF extended the mandate by an additional two years.

Both the PPEC Act and the APS Act are currently under review.

During the year under review, the PPEC Bill was considered by the National Economic Development and Labour Council (NEDLAC). On 16 March 2018 the Bill was approved by the Economic Sector Employment and Infrastructure Development (ESEID) Cluster for presentation to Cabinet, which will hopefully take place in 2018.

MANDATES

Informed by the National Growth Path (NGP) and the National Development Plan (NDP), the Medium Term Strategic Framework (MTSF) places great emphasis on, among other priorities, smallholder farmer development and rural employment.

As subject matter experts for the inspection for 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 that will promote and facilitate achievement of these objectives and has further introduced programmes directing organisational resources accordingly.

4. SITUATIONAL ANALYSIS

4.1 EXPENDITURE FRAMEWORK

The 2018/19 PPECB budget is informed by four main drivers: the delivery of statutory services, the execution of the Board-approved strategic plan; the mitigation of the main risk areas in the PPECB's service delivery priorities and moving towards electronic export certification.

To respond to the current volatile global environment PPECB management continues to focus on building a change agile and resilient organisation that is able to respond quickly to negative environmental shifts, whether political, economic or social, in its strategic framework and plan.

The spending focus over the medium term will be on continued service delivery without compromising the integrity of product quality. The PPECB will also prioritise its continued contribution towards social responsibility by building capacity and assisting smallholder farmers, as well as focusing on establishing a professional and well-trained staff complement that can add value to the perishable export industry.

Expenditure Trends

Between 2014/15 and 2017/18, total expenditure grew by 8.1%, from R261.7 million to R330.6 million. The increases reside in employment, travel and accommodation costs, all of which increased annually in excess of CPI, coupled with continued pressure to increase staff resources to ensure compliance with DAFF's mandate.

From 2018/19, expenditure is set to increase for the next five years by an average annual rate of 8.5% to R523.1 million in 2022/23. It is assumed that the activity base used in 2018/19 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% due to the introduction of mobile technology in the PPECB's business as well as accelerated expenditure in the implementation of the ERP system. Depreciation is based on an annual CAPEX replacement in technology of R12 million per year and written off over a five-year period.

Revenue trends

It is assumed that total income will increase by 9% from R390 million in 2018/19 to R548 million in 2022/23. This 9% increase is based on an initial 6% inflationary adjustment to levies but then increased to 7% in the last three years. A 2.5% growth rate in product volumes is expected.

The volume growth on statutory services projects citrus fruit inspected volumes increasing 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 marginally reduce due to shortfalls in the first two years. Interest rates are expected to remain firm over the medium term.

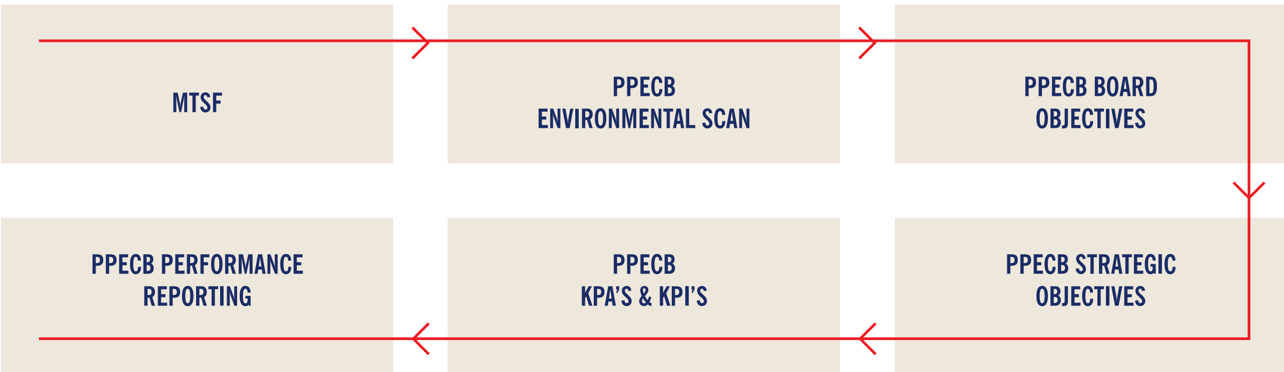
Personnel Information

The period ending 2022/23 is informed by the two major objectives, namely fulfilment of the mandate from government and execution of the strategic plan approved by the Board. Over the past decade the PPECB became increasingly under-resourced to meet these objectives. The period ending 2022/23 will continue to address human resource constraints to ensure that the PPECB meets its mandate and strategic goals. Employment cost of R252 million in 2018/19 is set to increase to R347 million over the next five years, which is an average of 8%. Salaries, including promotions, are adjusted by an average of 6% per annum and growth in employment is 2%. The PPECB is a service-oriented entity and as such 66% of total expenditure consists of personnel costs. The vacancy rate is kept at 4% of total staff over the five-year period.

PERISHABLE PRODUCTS EXPORT CONTROL BOARD MTEF FOR THE PERIOD ENDING MARCH 2022

	AUDITED OUTCOME			REVISED ESTIMATE	AVERAGE GROWTH RATE %	AS % OF TOTAL %
R thousand	2014/15	2015/16	2016/17	2017/18	2014/15	2017/18
Revenue						
Sale of goods and services	246,082	278,741	290,934	340,269	11.53%	97.84%
Interest received	5,404	6,816	6,920	6,920	9.22%	1.99%
Transfers received	600	600	600	600	0.00%	0.17%
Total revenue	252,086	286,157	298,454	347,789	11.45%	100.00%
Expenses						
Compensation of employees	176,688	185,815	191,018	228,508	9.20%	69.11%
Goods and services	81,512	94,822	100,408	95,387	5.74%	28.85%
Depreciation	3,565	3,814	5,168	6,706	24.08%	2.03%
Interest paid	10	12	12	20	28.89%	0.01%
Total expenses	261,775	284,463	296,606	330,621	8.13%	100.00%
Surplus/(Deficit)	-9,689	1,694	1,848	17,167		

4.2 ORGANISATIONAL PLANNING PROCESS



4.3 MONITORING AND EVALUATION

The PPECB monitors and evaluates its performance against pre-determined objectives listed per sub-programme. Although progress against stated targets is reported quarterly, monthly divisional discussions in terms of performance progress are held. Organisational performance reports are escalated to executive meetings, whereafter they get approved by the Accounting Authority (PPECB Board), before submission to the Executive Authority.

Great emphasis is placed on evidence-based monitoring, which gets 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 CEO.

	MEDIUM-TERM ESTIMATE					AVERAGE GROWTH RATE %	AS % OF TOTAL %
	2018/19	2019/20	2020/21	2021/22	2022/23	2018/19 - 2022/23	
	381,973	416,351	462,150	512,986	538,635	9.00%	98.15%
	7,010	7,534	8,174	8,869	9,312	7.37%	1.74%
	600	510	510	510	510	-3.75%	0.11%
	389,583	424,395	470,834	522,365	548,458	9.40%	100.00%
	252,523	270,411	297,452	327,197	347,483	8.22%	66.42%
	116,104	126,186	141,328	158,288	166,202	9.42%	31.77%
	6,997	6,985	8,245	8,987	9,436	7.97%	1.80%
	15	15	16	18	19	6.03%	0.00%
	376,639	403,597	447,041	494,490	523,141	8.58%	100.00%
	12,944	20,798	23,793	27,875	25,317		

5. 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

These strategic objectives have further been linked to strategic programmes that will drive the achievement of the organisation's mission and vision.

BELOW IS A TABULAR ILLUSTRATION OF THE RESPECTIVE PROGRAMMES LINKED TO THE ORGANISATIONAL STRATEGIC OBJECTIVES:

STRATEGIC OBJECTIVES (SO)	PROGRAMMES
(S01) Enhance the credibility of the South African export certificate	Programmes 1, 2, 3 and 4
(S02) Support the export competitiveness of South Africa's perishable products industries	Programmes 3 and 4
(S03) Strengthen the PPECB's capacity to provide a professional suite of services for its customers	Programmes 1, 2
(S04) Contribute to the socio-economic transformation of the agricultural sector	Programme 4