

# Product-level Analyses in SADC: Implications for Regional Value Chains

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# Methodology

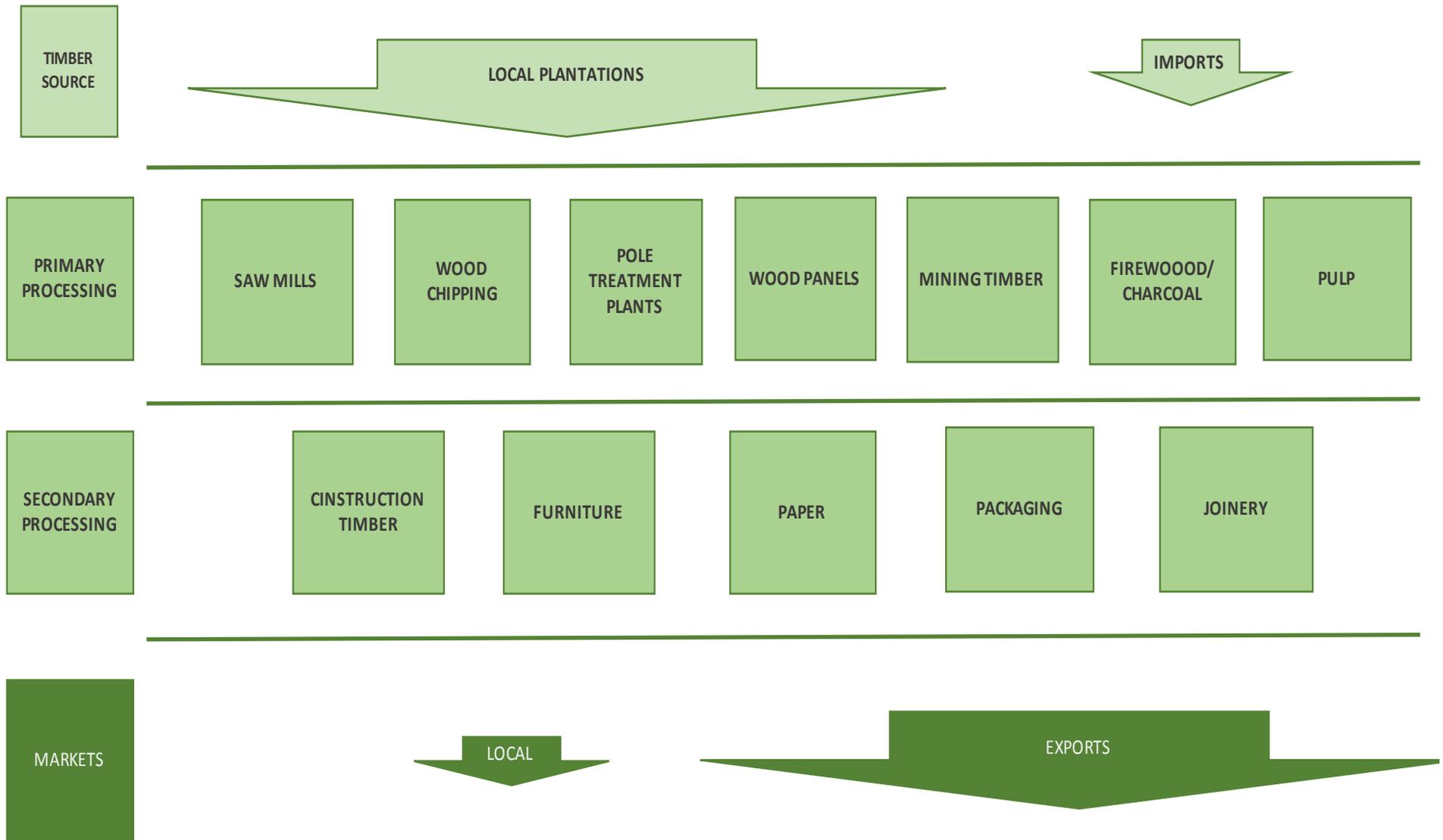
- ▶ An evidence-based approach is adopted based on the compilation of industry data from existing and new sources
- ▶ Regional value chain analysis is focused on answering the following questions:
  - How is the value chain organized?
  - How does it function?
  - Who are the main actors?
  - What are the key institutions and forms of coordination?
  - How “well” is the chain performing, in terms of coordination, competitiveness and intra-regional trade?
  - **Where are the opportunities to (1) “relocate” parts of the chain amongst the countries and (2) to enhance existing intra-regional activities?**

# Methodology

- ▶ To answer these questions, the research on RVCs undertake the following approach:
  - Scope in detail the profile and key drivers of the sector in each country
  - Identify the key value chain drivers
  - Assess the level of value chain integration
  - Identify the presence and role of lead firms
  - Identify areas for greater regional collaboration (in both direct and support chain activities)
  - Identify areas of duplication across chains
  - Critically assess the role of the broader institutional environment in facilitating or hindering more effective chain performance and regional collaboration

# Case study on the Forestry Regional Value Chain in Southern Africa: South Africa, Mozambique and Tanzania

# Forestry Value Chain Schematic



# Forestry in the SADC Region

- ▶ SADC accounts for 9% of the world's forests (FAO, 2013)  
A large part of this is located in **Angola, Malawi, Tanzania, the DRC, Zimbabwe and Zambia**
- ▶ **South Africa** has only 2% of the SADC's forest area, the country leads the region in the production of forest products
- ▶ **Tanzania & Mozambique** are the second and third countries (*after South Africa*) producing most of the forestry products in the region

# Plantations

South Africa	Mozambique	Tanzania
<ul style="list-style-type: none"><li>•State and Privately owned</li><li>•High level of vertical integration</li><li>•Plantation owners also primary or secondary processors (Sappi, Mondi)</li></ul>	<ul style="list-style-type: none"><li>•State Owned</li><li>•State grants rights for occupation and use</li><li>•Ownership formal lease (50 years) granted by the state</li><li>•Simple Licenses are only available to nationals who have local community approval</li></ul>	<ul style="list-style-type: none"><li>•All land owed by state</li><li>•State largest plantation owner in Tanzania,</li><li>•Although most harvesting is done by private companies, under a harvesting permit system.</li><li>•16 active government plantations in Tanzania</li><li>•A few foreign companies have gained access to land to develop new plantations, through taking over existing state-owned plantations</li></ul>

# Forestry in South Africa

- ▶ SA has the **most developed** forestry value chains of the three countries.
- ▶ There are well developed **primary and secondary processing sectors**, and the sector is a **net exporter**.
- ▶ **Almost all wood is from plantations** (hardwood is the biggest share), and there is **very little trade in unprocessed wood**.
- ▶ **The leading forestry sector is pulp**, particularly dissolving pulp from **Sappi** - The main constraint on this sector is supply of inputs.
- ▶ There is a **well-established timber products market**, but sawmill technology is old, and much of the sector is under-capitalised.
- ▶ The wooden furniture sector is struggling with **rising costs and difficulty accessing skills**.

# Forestry in Mozambique

- ▶ Forestry VCs in Mozambique are underdeveloped, and most activity is around **unprocessed or minimally processed timber**.
- ▶ The **plantation sector is very small**, and most forestry is based on natural forests.
- ▶ **Illegal logging and exports** are probably very high.
- ▶ **Manufacturing activity is low**, and most requirements for processed wood products are met through imports.
- ▶ This is currently changing - there has been significant foreign investment (and commitment to invest) in the plantation sector.
- ▶ The bulk (although not all) of the plantation output is destined for export pulp.

# Forestry in Tanzania

- ▶ Tanzania has significant natural forests, but a relatively small plantation sector, which is dominated by softwood.
- ▶ There is a small timber manufacturing sector, and one pulp and paper mill identified.
- ▶ Sawmilling is dominated by SMEs using relatively old technology.
- ▶ There are also plans to expand the plantation sector in Tanzania, but more for wood processing to pulp.
- ▶ Demand for wood and wood products from Tanzania is supported by the general shortage of wood in East Africa, together with local demand for electricity poles and other wood processing.

# Key Findings

- ▶ Most parts of the forestry sector are **spatially bound** to a great degree by *logistics and infrastructure*
- ▶ It is **neither feasible nor desirable** in most cases to have a high degree of spatial separation among the various components of many *timber value chains*
- ▶ The only real exceptions are with respect to **high value processed items**, such as furniture or certain joinery items, or textiles (from dissolving pulp)
- ▶ It is **not feasible to transport unprocessed wood** from Tanzania to SA sawmills or pulp mills

## Key Findings (2)

- ▶ This means that a regional value chain is only feasible when higher value products are being produced and suitable logistics are in place
- ▶ In addition, there are **several opportunities in the peripheral/support** areas around the main value chains
- ▶ Many of the opportunities are around the forecast of the *development of regional centres of economic activity* over the next twenty years

## Key Findings (3)

- ▶ The SADC region is likely to become a significant site of **pulp production, led by Mozambique** (assuming short-term political/economic risk can be addressed)
- ▶ It makes sense for that industry (which will primarily be producing for export) to be **located in proximity to the deep water Indian Ocean ports** along the east coast of Mozambique and South Africa
- ▶ The development of secondary processing of pulp offers the opportunity of considerable *employment generation*

## Key Findings (4)

- ▶ There is significant potential for a **regional timber processing hub, located in Tanzania**, to take advantage of demand in East Africa
- ▶ In terms of wooden furniture, there are **opportunities across the region**, particularly in respect of *high-end furniture*, made possible by a combination of access to both *affordable wood and labour* (Tanzania), relatively *improved skills in manufacturing* (Mozambique), *preferential trade access* (via Tanzania) and *management skills* (South Africa)

# Key Findings (5)

- ▶ There are **clear challenges around logistics and skills** across the regional forestry sector that need to be addressed
  - *These are most pronounced in Tanzania and Mozambique*
- ▶ There are serious problems with access to accurate and up-to-date information on the forestry sector in the region
  - *Better info is a key factor that will support more effective policy making*
- ▶ Better **revenue collection systems** will provide the funds that are required for a broad-based and *inclusive development of the regional forestry value chains*

# Policy Implications

- ▶ A number of potentially very useful regional policy initiatives could support the growth of the regional forestry sector. The study identified these as the following:
- ▶ Establishing a *regional forestry stakeholder forum* to facilitate dialogue and co-operation, and to share knowledge and information with domestic industries
- ▶ Establishing a *regional forestry data initiative*
- ▶ Establishing a *regional forestry sector skills development initiative*
- ▶ Developing a *regional community participation strategy*
- ▶ Developing a *regional forest certification initiative* (with particular reference to natural forests under community jurisdiction)
- ▶ Establishing a *regional capital and capacity development fund* focused specifically on *increasing access to capital and skills by the small businesses* in the forestry sector

# Policy Implications

- ▶ A number of initiatives are already underway in the forestry sector in South Africa, Mozambique and Tanzania - However, for companies in the forestry sector to capitalise on the trends identified in the study, the following issues need to be considered:
  - Plantation expansion
  - Access to suitable finance for small growers
  - Research and development
  - Skills in the furniture sector

# Trade and Industrial Policy Strategies

Supporting policy development  
through research and dialogue

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