

Department of Agriculture, Forestry and Fisheries (DAFF)

Agro-processing Strategy

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APPROVED BY DEXCO



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ABBREVIATIONS AND ACRONYMS USED

ARC	Agricultural Research Council
BBBEE	Broad-based black economic empowerment
CASP	Comprehensive Agricultural Support Programme
CSIR	Council for Scientific and Industrial Research
DAFF	Department of Agriculture, Forestry and Fisheries
DoT	Department of Transport
DPE	Department of Public Enterprises
DPRU	Development Policy Research Unit
DST	Department of Science and Technology
the dti	Department of Trade and Industry
FAO	Food and Agriculture Organisation of the United Nations
FPMC	Food Pricing Monitoring Committee
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
IPAP	Industrial Policy Action Plan
ISIC	International Standard Industrial Classification
LIC	Lower income country
LMIC	Lower-middle income country
MAFISA	Micro-Agricultural Finance Institution for South Africa
MTSF	Medium-Term Strategic Framework
NGP	New Growth Path
PPECB	Perishable Products Exports Control Board
PPP	Public-Private Partnership
SME	Small, micro and medium enterprises
TEO	The Enterprise Organisation
UMIC	Upper-middle income country
UNIDO	United Nations Industrial Development Organisation

PREAMBLE

The empirically tested importance and role of agro-processing in catalysing economic activity through backward linkages with the farm/primary and input sectors and forward linkages with downstream industries should not be underestimated. Such economic activity includes, but is not limited to, stimulation of primary agricultural production, creating jobs and improving incomes along the agro-food value chain. The special role that small and medium enterprises (SMEs) play in a developing country setting is also well-documented. This more than justifies a need for a focused approach by government to strategically support agro-processing in general, and SME agro-processing in particular.

This document seeks to articulate how government should intervene to support a thriving SME agro-processing in South Africa, based on the foundation of a smallholder farm sector that performs much better than it currently does. Its implementation should take place in conjunction with that of the Zero Hunger, Smallholder Development programme and the Marketing Strategy of the Department of Agriculture, Forestry and Fisheries (DAFF) if it is to realise its intended objectives. This strategy is written at a crucial time when there is an expressed need for strategic direction as well as better-targeted support for SME agro-processing. It is crafted against the background of the following realities on the ground:

- ✓ There is currently no national agro-processing strategy in place in South Africa. The Industrial Policy Action Plans (IPAPs) are the main documents containing “key action programmes”, including those on agro-processing.
- ✓ Some provinces are in the process of drafting their own provincial agro-processing strategies
- ✓ Despite the lack of ‘strategic direction’ from both national and provincial governments, a host of agro-processing activities, programmes and

projects throughout the country are being implemented by various stakeholders both in and outside government.

It is therefore hoped that this strategy will go a long way towards filling the above-mentioned gaps in both strategy and implementation. It deliberately focuses on SMEs due to the fact that this group of entrepreneurs are currently either underserved or current government support programmes are not geared to their needs. It also deliberately focuses on business-oriented clientele as opposed to those that would typically do value-adding for household food consumption purposes. There are programmes in place, which are directed at the latter type of beneficiary.

DAFF is well-placed to make a meaningful contribution towards development of a class of thriving SME agro-processing businesses that will contribute to the broader national developmental imperatives. Its direct involvement with the farm sector and its grasp of challenges experienced by farmers, especially smallholder farmers, put DAFF in a prime position to be able to develop a strategy that is sensitive to these challenges, while at the same time creating an enabling environment for SME agro-processors to add value to primary produce in a way that will ensure that quantity and quality requirements are met. While DAFF will lead the strategic processes in this regard, it recognises the role that other Departments have played already in providing valuable inputs in this process, notably the dti, the Economic Development Department (EDD), Department of Rural Development and Land Reform (DRDLR) and provincial Departments of Agriculture and Rural Development, Economic Development and its agencies, as well as the Industrial Development Corporation (IDC), the National Agricultural Marketing Council (NAMC) and the Agricultural Research Council (ARC). DAFF also recognises the role that these and other governmental and other non-governmental and social partners will continue to play in the future in the implementation of the interventions outlined in this document.

1. INTRODUCTION AND POLICY CONTEXT

This strategy is being developed against a background characterised by wide-ranging policy and institutional changes in South Africa, sparked by the ushering in of the new government administration in May 2009. At the top of these changes is a re-look at the country's economic policy, which led to the drafting of the New Growth Path (NGP) Framework document. Along with the Industrial Policy Action Plans (IPAPs), the NGP advocates for a fresh approach and a new foundation to economic growth and development, contrary to what has been seen historically.

The solid economic growth experienced especially in the early 2000 was driven by strong consumer demand, which had expanded since 1994. This demand was spurred by, among other factors, a growing middle class and a widening base of social grant beneficiaries, which together enhanced people's purchasing power thereby boosting the contribution of consumers to overall domestic expenditure. Low interest rates and increases in private credit extension enhanced growth in the consumption-driven sectors such as finance and insurance, real estate, transport and storage, and catering and accommodation, where growth rates on 114% were experienced between 1994 and 2010 or 7% annually. In contrast, production-driven sectors such as agriculture, mining, manufacturing, electricity and water, and construction grew at much less than half the pace (38% during the same period, and only 2.4% annually) (Economic Development Department, 2010).

The point of departure for both the IPAPs and the NGP is that such consumption-led growth has proven unsustainable. As an illustration of this fact, even at the peak of recent average annual growth of 5.1% between 2005 and 2007, unemployment *worsened* to a peak of 24.5 in Quarter 3 of 2009, pointing to significant imbalances in the economy. Whatever pre-economic crisis

employment gains were experienced came predominantly from the services sector (wholesale and retail and business services), and such growth is deemed “precarious”. The precarious nature of the services sector employment was demonstrated in large-scale job losses in this sector during the recent economic crisis, as a result of collapse in private credit extension as a consequence of the financial and economic crisis (Economic Development Department, 2010).

The IPAPs and the NGP come amidst a renewed drive and focus on job creation, reducing inequality, and fostering poverty alleviation through restructuring of the economy. The NGP advocates for an economy that performs better in terms of labour absorption as well as composition and rate of growth. It identifies both areas within economic sectors and in cross-cutting activities where employment creation is possible on a large scale through both macro- and micro-economic interventions. It is premised on some of the key departure points of the IPAP 2, and adds a number of interventions in rural development, agriculture, science and technology, education and skills development, labour, mining and beneficiation, tourism, social development and other areas. Its success will be tested by means of four main indicators namely, jobs (number and quality), economic growth (rate, labour intensity and composition), equity (lower income inequality and poverty), and environmental concerns.

One of the sectors identified in both the IPAPs and NGP as potentially capable of creating jobs on a large scale is agro-processing. This is validated by the fact that agro-processing (notably food processing as the largest sub-component thereof) is one of the sectors with the highest employment multipliers in the economy. The NGP forecasts creation of 145 000 jobs in agro-processing by 2020 (IPAP 2 has a more conservative estimate of 66 180 jobs to be created in agro-processing over the next ten years). The central challenge that remains is how the potential that has been identified could be unearthed and how the set targets could be met in practise

This strategy is a contribution towards the broader efforts of the rest of the economic cluster departments in terms of how the agriculture, forestry and fisheries sectors could be supported to achieve the agro-processing job creation and related government priority targets. It is one of the reconfigured Department of Agriculture, Forestry and Fisheries (DAFF)'s first steps in providing a strategic response to the agro-processing related targets set by government.

The rest of the document is organised as follows: Section 2 provides working definitions of “agro-processing” and related concepts and also outlines the scope and boundaries of the sector. Section 3 outlines and discusses the problem that this strategy needs to respond to¹; Section 4 proposes specific interventions by government and other stakeholders in the implementation of this strategy; Section 5 presents an implementation plan and outlines activities, roles, responsibilities and costing; and Section 6 proposes a monitoring and evaluation plan for the strategy.

2. DEFINITIONS

It is important to first distinguish between two terms that are often confused namely, “processing” and “value addition”. “Processing” entails changing the form of a product, while “value addition” implies addition of value to a product “after which a buyer is willing to pay a price for the product that more than compensates for the cost of the inputs used in the process”. Value can be added to products without changing their physical form, for example cleaning, grading or labeling. To an extent that a product undergoes some process, say grading, then value addition does involve processing, even though the physical form of the products does not change (Staatz, 2010).

¹ For more extensive characterisation of the problem, a separate document is available, which presents a more detailed analysis of the agro-processing industry in South Africa.

The FAO (1997) and Henson and Cranfield (2009) define the agro-processing industry as “a subset of manufacturing that processes raw materials and intermediate products derived from the agricultural sector.” “Agro-processing” therefore refers to “transforming products originating from agriculture, forestry and fisheries². A more specific definition is provided by UNIDO, IFAD and FAO (2008) who define agro-processing as “the processing, preservation and preparation of agricultural production for intermediate and final consumption.” Wilkinson and Rocha (2009) introduce the term “agro-industry”³ and use it in synonymity with “agro-processing”. Their definition is similar to that of UNIDO, IFAD and FAO (2008) except that it adds upstream boundaries namely “post-harvest”.

What do agro-processing activities actually encompass? This question is answered by Wilkinson and Rocha (2009) as follows:

“The agro-processing industry covers a broad area of postharvest activities, comprising artisanal, minimally processed and packaged agricultural raw materials, the industrial and technology-intensive processing of intermediate goods and the fabrication of final products derived from agriculture”

Agro-processing ranges from simple preservation such as sun-drying, for example, and other activities immediately following harvesting, to capital-intensive production of such articles as textiles, pulp and paper (FAO, 1997). The key defining attribute of the agro-processing sector is the perishable nature of the raw materials employed in its processes (Henson and Cranfield, 2009). An additional useful classification of agro-processing, as suggested by FAO (1997), is in terms of upstream and downstream industries, where the former are

² In this strategy document, agro-processing will be taken to encompass transformation of not only agriculture products in a strict sense, but also products originating from forestry and fisheries.

³ This document also adopts the same approach namely, using “agro-processing” and “agro-industry” interchangeably.

engaged in “initial” processing of agricultural activities, for example, grain storage, fruit packaging, grain flour milling, leather tanning, cotton ginning, oil pressing, saw milling and fish canning. The latter would involve further manufacturing of intermediate products made from agricultural products, for example, bread, biscuit and noodle making, textile spinning and weaving, paper production, clothing and footwear manufacturing, and rubber manufacturing.

The wide-ranging nature of agro-processing activities implies a very wide range and heterogeneity of activities, which make classification quite complex. However, the United Nations’ International Standard Industrial Classification (ISIC) has alleviated some of the uncertainty around how to classify agro-processing products by coming up with a standard classification of agro-industry as consisting of:

- i. Food and beverages
- ii. Tobacco products
- iii. Paper and wood products
- iv. Textiles, footwear and apparel
- v. Leather products, and
- vi. Rubber products

The IPAP 2011/12–2013/14 document considers the food production and processing sector (including food processing, beverages, aquaculture, horticulture, and medicinal, aromatics and flavourants) as comprising the “major sub-sector” (the dti, 2011). This is in line with global trends. Traditionally, the food production and processing (food and beverages) (and tobacco) sub-sectors combined, take the largest share of the agro-processing cake in terms of contribution to the Gross Domestic Product (GDP) in both developed and developing countries. The food processing and beverages sub-sectors account for more than half of the formal agro-processing sector in lower-income countries

(LICs) and lower-middle income countries (LMICs) and more than 60% in upper-middle income countries (UMICs) (FAO, 1997; Wilson and Rocha, 2009).

For the purposes of this strategy, the entire range of agro-processing activities, as defined under the ISIC system, is implied when the terms “agro-processing” and “agro-industry” is used. It is also important to note, as will be shown in the next section, that due to this heterogeneity, different agro-processing sub-sectors in South Africa face different types of challenges, which affect one sub-sector, industry, stakeholder (or groups of stakeholders) differently to the next. There are therefore no “one-size-fits-all” solutions. This strategy will therefore not attempt any blanket interventions, but will, as far as it is possible, emphasise a need for tailor-made interventions.

It is important that any intervention takes into account the clientele that will be served by the interventions. Evidence suggests that these target beneficiaries of government interventions tend to be heterogeneous. They can roughly be classified into four broad typologies as follows:

Table 1: Characteristics of different types of processing firms

Characteristics	Artisanal	Semi-artisanal	Semi-industrial	Industrial
Scale	Microenterprise	Small enterprise	Medium enterprise	Large enterprise
Labour	Family or social	Family	Large and moderately specialized	Large and specialized
Products	Traditional products, often with a short shelf life	More or less standardized products, stable shelf life	Diversified products with stable shelf life	Products that meet grades and standards; branded products
Organisation	Informal enterprise. Little or no	Beginning to be organized	Formal; separated functions of	Very modern (Administrative units, divisions)

Characteristics	Artisanal	Semi-artisanal	Semi-industrial	Industrial
	organization (embryonic)		employees; accounting systems	and departments)
Investments	Small to none. Operations are essentially manual	Some machines	Important mechanization	Important and modern
Production	Low level of production	Regular and larger level of production	More mechanized processes	High capacities for production
Types of markets	Local and very targeted	Local distribution	National and subregional distribution	All markets (local, regional, overseas)
Distribution	Short distribution channels; direct sales	Direct sales and/or by intermediaries	Long distribution channels	Long and professional channels
Estimated share of total agro-processing manufacturing*	81%	9%	6%	3%

Source: Adapted from Ilboudo & Kambou (2009), cited in Staatz (2010)

*Indicative figures obtained from Stats SA (2011)

Finally, in line with this strategy's deliberate bias towards SME processors, it is important at this stage to also define what is meant by the term SME. The term encompasses particular types of firms which are mostly labour intensive but remain largely heterogeneous in terms of their organisational and marketing capabilities and technology. They typically operate on an informal basis (although not always), incur high transaction costs and encounter challenges relating to lack of scale (Wilkinson and Rocha, 2009).

3. PROBLEM STATEMENT

South Africa is a net importer of processed agriculture, forestry and fisheries products. This presents an opportunity for the country to explore possibilities to develop the local processing industry to be more significant both in terms of its economic contribution as well as equity and inclusivity of previously marginalised. As the country explores opportunities to grow its agro-food processing industry, it should look at expanding the contribution of marginalised groups and rural areas as well as SMEs. Localisation of processing opportunities is likely to generate spin-off effects in terms of lower distribution costs and therefore more affordable food. A proper understanding of supply-side challenges faced by smallholder farmers will enable better exploration of backward linkages, and therefore multiplier effects in terms of job creation, better rural incomes, and enhanced rural livelihoods. It is crucial that, as downstream processing opportunities are being promoted through upscaled and better-coordinated support to SME agro-processors, a steadily growing base of supply of raw materials in the form of primary produce/commodities is ensured. In other words, a growing agro-processing sector depends on a strong and productive primary sector.

3.1 THE CORE OF THE PROBLEM

Against the above background, the main over-arching problem addressed by this strategy is the **limited participation of small and medium-scale agro-processing enterprises in agro-food value chains**. The root causes as well as effects of the central problem are illustrated by means of a sketch in Figure 1 below. These are then discussed in more detail in the ensuing narrative. It is not the intention of the analysis of the problem presented below to cover an exhaustive list of “problems” experienced by SME agro-food processors in South Africa. It does, however, present what is believed to be elements of the core problem faced in this sector, and therefore a focal point for interventions

proposed in this strategy. The core of the problem that this strategy deals with is represented by the four highlighted blocks at the centre of Figure 1 below.

At the bottom of the core problem is the limited access to the market by many smallholders as well as limited amount of value addition in rural areas. An extreme, yet common, symptom of lack of market access and value addition is occurrence of post-harvest losses, which could amount to millions of Rands.

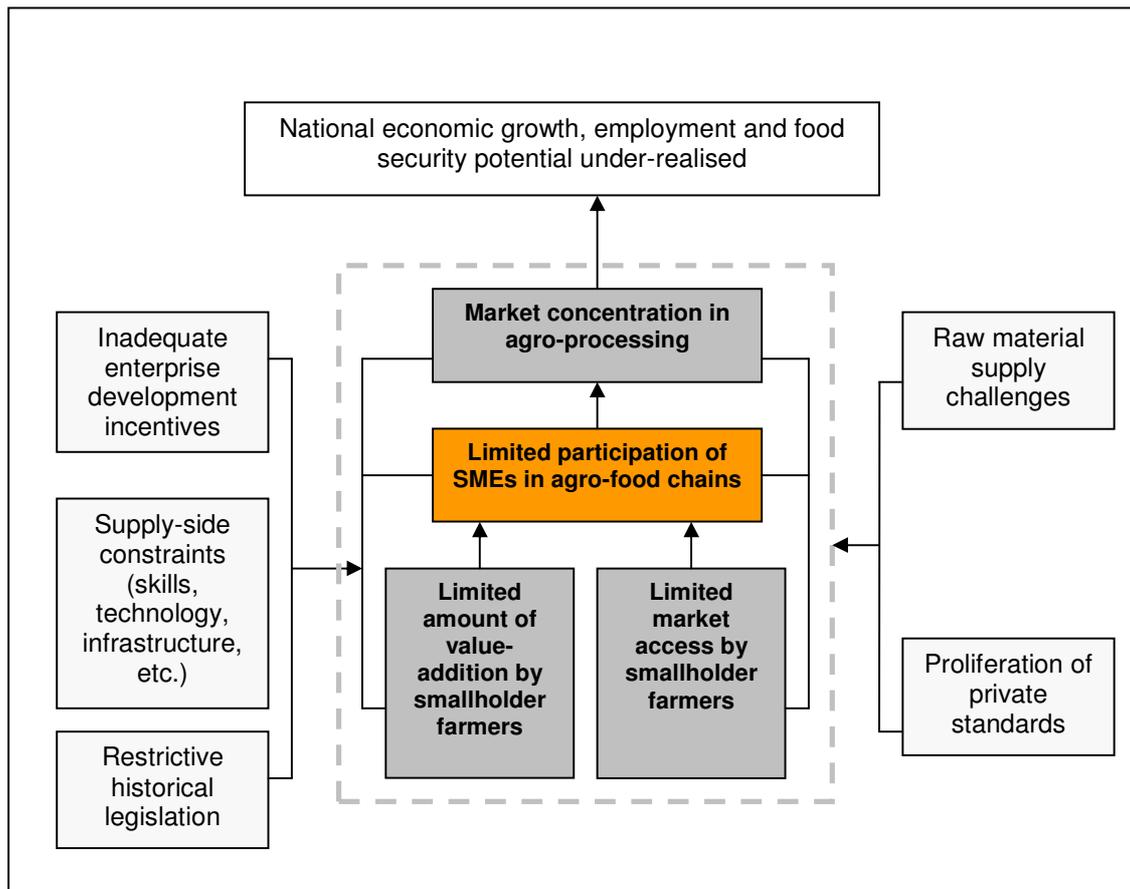


Figure 1: A graphical illustration of the problem statement

3.2 THE CAUSES AND EFFECTS OF THE PROBLEM

The result or effect of lack of market access, combined with limited value addition by smallholders, is a well-documented phenomenon of a high degree of market concentration in agro-processing (other levels of the value chain such as retail

are also highly concentrated, however, for the purposes of this document the focus will be at the processing/value-adding levels of the value chain).

Market concentration is a universal phenomenon, sometimes referred to as agro-industrialisation, associated with a recent structural change in the global food system. The phenomenon, mostly occurring in low to middle-income countries, is manifested first in the domination of supermarkets at the downstream end of the supply chain, which put pressure on upstream food processors to compete for valuable retail shelf space. This has resulted in some cases in mergers and acquisitions in the processing sector as small and medium-scale processors are less able to meet the volumes needed to become listed suppliers.

Associated with the above mentioned phenomenon is the emergence of private grades and standards. As Mather (2005) puts it: “Concerned to ensure that food products on their shelves are safe and meet high quality standards, some supermarket chains have established private grades and standards for commodities produced by food processors and primary producers.” In order to position themselves to meet these standards, firms must invest significantly in plant improvements and other associated expenses. Smaller processors may not possess the resources to make such major investments in their plants.

An investigation undertaken by the Food Pricing Monitoring Committee (FPMC) (2004) noted some concerns around “limited competition” in the South African food value chain. Small food manufacturers specifically raised concerns about significant entry barriers that they were faced with in the context of “unfavourable terms at which they need to trade” with retailers. The FPMC report notes that this situation may lead to greater concentration in the food manufacturing and retail sector. The report further concludes that such concentration “could well act against the Government’s objectives of to promote small-scale business, and it could become a major challenge to Black Economic Empowerment.”

Further evidence of concentration in South Africa's major food value chains is found in a more recent Competition Commission report (Roberts, 2009), which traces the catalyst of concentration back to the advent of market deregulation in South Africa during the mid-1990s. The report studies the wheat, baking and milling, poultry and inputs (fertilizer) sectors. A common trend found across these sectors was that, following market deregulation and abolition of single-channel marketing, many of the formerly state-controlled cooperatives became private companies and underwent horizontal and vertical integration. Some of these are involved in processing. An example in the grain manufacturing industry further illustrates the degree of concentration: There are only four firms controlling 90% of the milling of maize and wheat in South Africa (Pioneer, Tiger Brands, Premier and Ruto/Foodcorp), which are further vertically integrated into the baking activities. On the other hand, the remaining 10% of industry players is constituted by small millers are not vertically integrated.

An aspect, which the Competition Commission has investigated in great detail, are incidences of anti-competitive practices, where it was found that the four major firms dominating the milling of wheat and maize and the production of bread and maize meal had been colluding to set prices (ibid). A notable outcome of these practices was found in the bread industry whereby, while wheat prices generally fluctuate due to the internationally traded nature of the commodity, bread prices have constantly been on a steady upward trajectory and margins widened between 2000 and 2009 (ibid). The Competition Commission report quoted here (ibid) reaches the same conclusions as the FPMC report regarding the negative impact of concentration on competition and entrance of small and medium-sized processors in the food value chain.

According to Mather (2005), concentration itself has been identified as a consequence of two main factors namely, historical agricultural marketing legislation, and the technological barriers to entry, which are inherent in food processing. The Agricultural Marketing Act (Act 37 of 1937) empowered control

boards to issue food processing licenses in a restrictive manner. The milk industry seems to have been the most affected by implementation of licensing restrictions, which has led to a situation where a handful of very large milk processors were able to create regional monopolies on both procurement and supply of milk. Chabane, *et al.* (2008) note that in many provinces there is a single processing company dominating the procurement of milk.

As part of its Manufacturing Surveys 2005 and 2008, Stats SA has collected data on concentration ratios in the manufacturing industry. An analysis of concentration ratios in the agro-industry is presented below to illustrate the point made in the above paragraph. Concentration ratios (CR) measure the extent of market control of the largest firms in an industry. The most common ratios are the CR₄ and CR₈, which refer to the four and eight largest firms respectively. In this ensuing analysis, the CR₄, CR₅, CR₁₀ and CR₂₀ are measured in terms of both income and book value of sales of selected sectors and sub-sectors of the agro-industry in 2005 and 2008. According to Figure 2 below, dairy products had the highest CR₄ in 2005, which means that dairy manufacturing was the most concentrated of all the selected agro-industrial sectors/sub-sectors, with a CR₄ (in terms of income) of virtually 0.7. Put in another way, the four largest dairy processing companies contributed almost 70% of all income earned in the dairy manufacturing sector in 2005, while the ten largest dairy processors contributed 81% in the same year. Meat, fish, vegetable and related manufacturing was the least concentrated food sub-sector in terms of income in 2005.

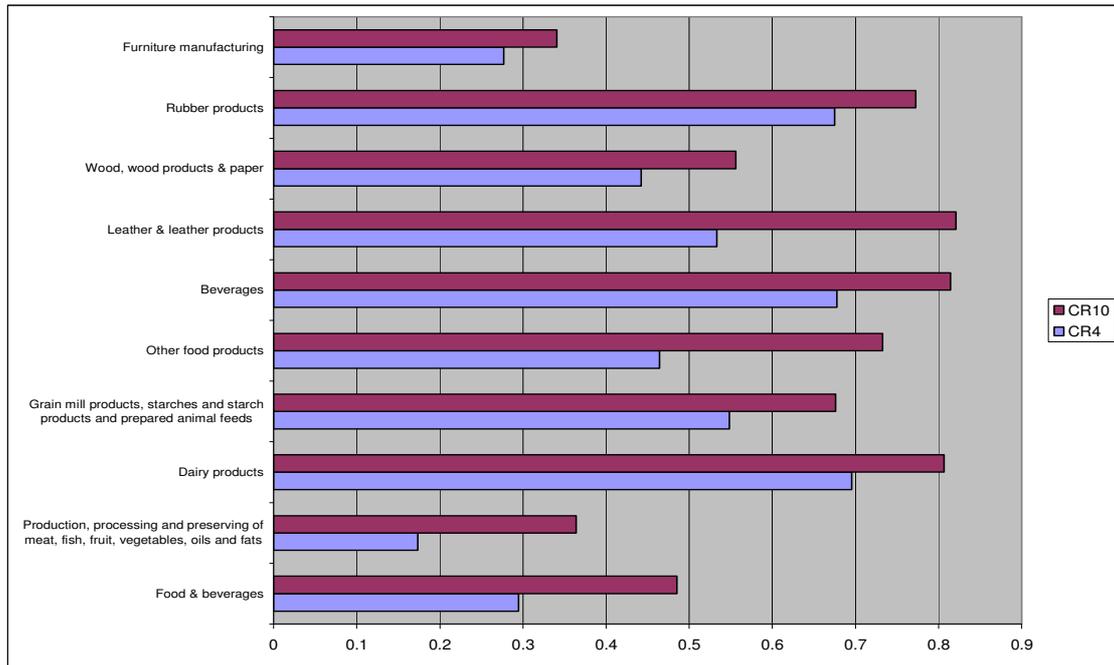


Figure 2: Concentration ratios (CR₄, and CR₁₀) in terms of income in selected agro-industrial sectors and sub-sectors in 2005

When measuring CR in terms of the book value of assets of the largest companies, dairy products manufacturing remained the most concentrated sub-sector among the selected agro-industrial sectors in 2005. Figure 3 below shows that the book value of assets of the four largest dairy products manufacturing companies amounted to 83% of the total assets book value in dairy products manufacturing in 2005. Concentration in the dairy products sub-sector intensifies further when it is measured in terms of CR₁₀: The ten largest dairy products companies controlled 90% of all assets in terms of book value in 2005.

The beverages and rubber products manufacturing also tended to generally have high CRs in 2005, after dairy products manufacturing. Manufacturing of meat, fish, vegetables and related products were again the least concentrated sub-sector in terms of the book value of assets of the four largest companies (CR₄). At only 0.43, the CR₁₀ in this sub-sector was the second-smallest in 2005 (furniture manufacturing had the smallest CR₁₀ at 0.41).

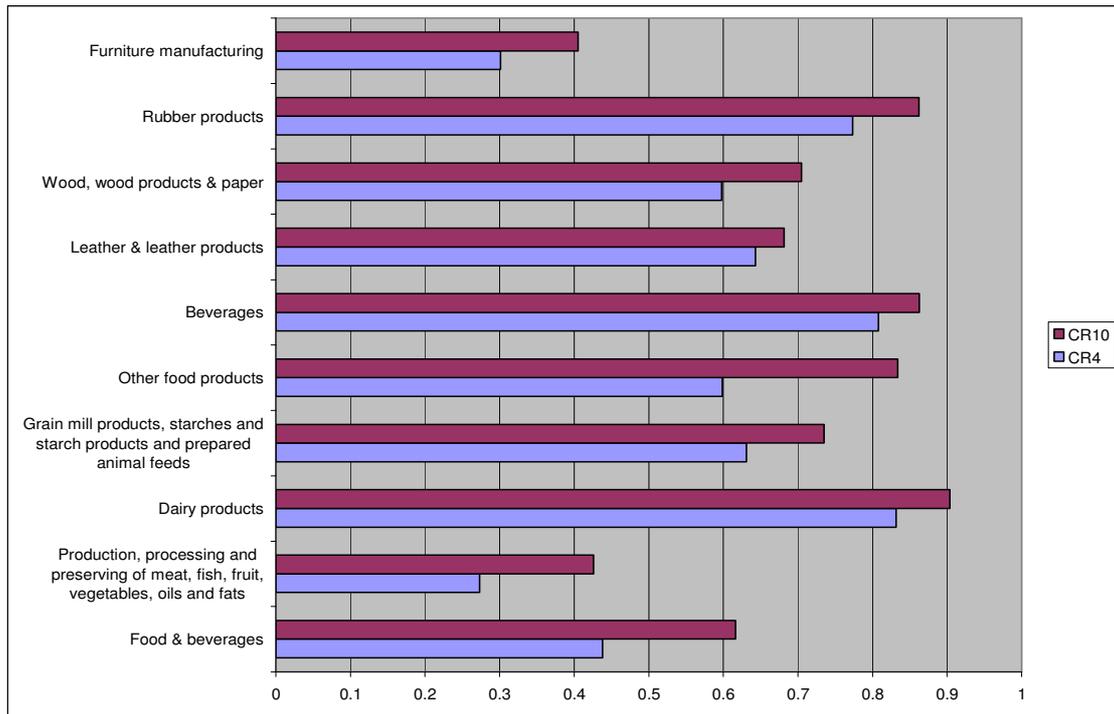


Figure 3: Concentration ratios (CR₄, and CR₁₀) in terms of book value of assets in selected agro-industrial sectors and sub-sectors in 2005

In 2008, Stats SA released information on CR₅, CR₁₀ and CR₂₀ in the manufacturing industry as part of its Manufacturing Survey 2008. Results of an analysis of these figures are presented in Figure 4 below. The CRs are measured in terms of income. The figures show that in terms of CR₅, the three most concentrated sectors/sub-sectors in 2008 in descending order were beverages, dairy and rubber products sectors. In terms of CR₁₀ the beverages sector was the most concentrated sector, followed by grain milling and dairy products manufacturing. Beverages and dairy products were tied as the most concentrated sectors in terms with a CR₂₀ of 0.9 each in 2008, followed by grain milling and rubber product manufacturing.

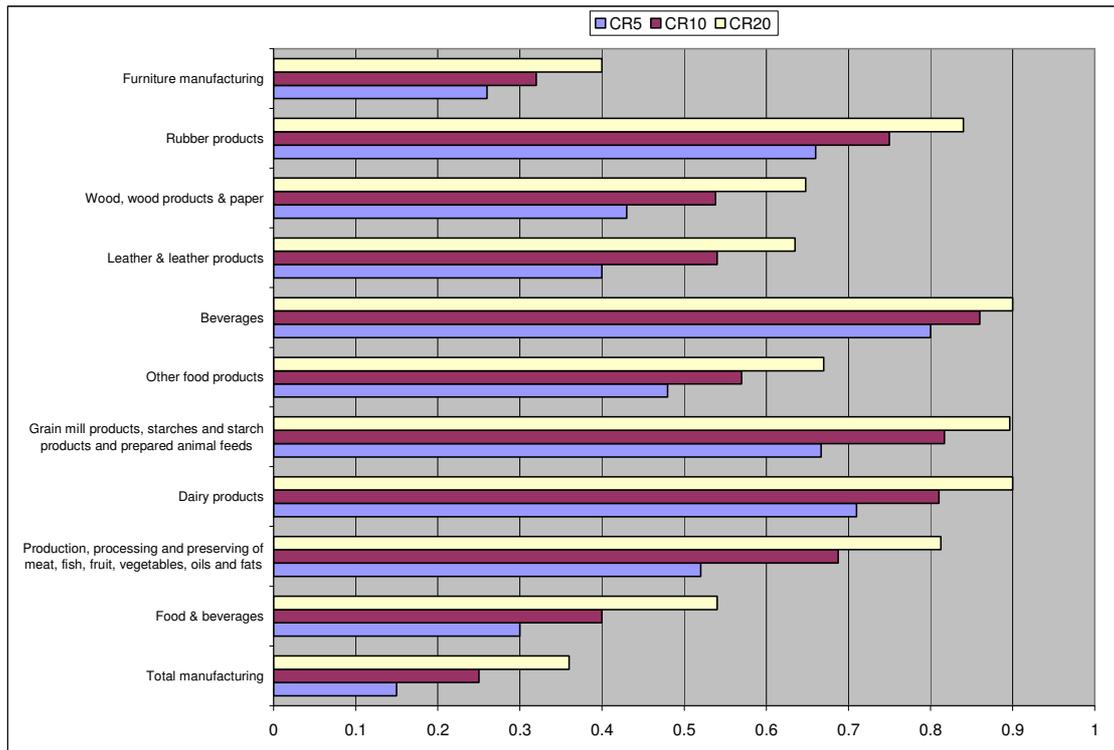


Figure 4: Concentration ratios (CR₅, CR₁₀ and CR₂₀) in terms of income in selected agro-industrial sectors and sub-sectors in 2008

Figures 2 to 4 above identified certain food sectors/sub-sectors that demonstrate high levels of concentration namely, dairy, beverages and grain milling. When expanding the analysis into other agro-industries, rubber products sector also has particularly high concentration ratios. This analysis will assist in terms of targeting of interventions for support of SMEs in agro-processing.

In cases where protectionist legislation did not play a significant role in causing high concentration in the food processing sector, notably poultry and some fruit and vegetable processing, technological barriers had much more of a role to play (Mather 2005). Added to technological barriers are raw material supply challenges. Due to the concentrated nature of the food processing sector it is often difficult to secure appropriate volumes that match SME capacity. It is also generally difficult for SME processors to match their demand for raw materials

with raw material supplies from farmers whose products often depend on a number of factors beyond their control (e.g. weather, diseases, etc.) (ibid).

Another important phenomenon experienced by smallholder farmers, which is a direct result of market access challenges, is that of post-harvest losses. Many smallholders are often not able to store or market their produce after harvest, resulting in tonnes of on-field wastage. This is due to certain structural supply-side constraints that smallholders often face, which are embodied in high transaction costs (Delgado, 1999).

Finally, a recent study conducted among millers and bakers in South Africa (Louw, *et al.*, 2011) found that inadequate infrastructure and limited incentives hindered development of SME processors. Respondents in this study expressed frustration over the length of time it took to access certain government grants, for example, where in some cases where grants were approved it took up to several years before funds were made available.

4. VISION, OBJECTIVES AND UNDERLYING PRINCIPLES

Having identified some of the key factors behind limited participation of SME agro-processors in the value chain, this section focuses on strategic interventions that government should put in place. The previous section looked at what is believed to be the most binding constraints for a more inclusive agro-food value chain, keeping in mind that government's main role in the economy is to create an enabling environment for business to thrive. As will be demonstrated in the implementation plan in the latter sections of this document, government will have to work in partnership with the private sector players, who bring in complementary skills and competencies. It is therefore the vision of the Department of Agriculture, Forestry and Fisheries (DAFF), that through this strategy, a class of thriving, rural-based entrepreneurial SME agro-processors will be created, who will make a significant contribution to the country's imperatives of job creation, poverty alleviation and food security.

In support of the above-mentioned vision, the **mission** promoted by this strategy is therefore **to support 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**. DAFF's interventions in support of the above-stated vision and mission will be in line with the government's MTSF outcomes, notably outcomes 4 ("Decent employment through inclusive growth") and 7 ("Vibrant, equitable and sustainable rural communities and food security for all"), and indirectly in line with outcome 10 ("Protected and enhanced environmental assets and natural resources").

- i. **Strategic Intervention 1:** Contribute towards and to facilitate access to public incentives and support packages to stimulate entrepreneurship by SME agro-processors;

- ii. **Strategic Intervention 2:** Contribute towards and facilitate investment in infrastructure to enable establishment and growth of value adding businesses;
- iii. **Strategic Intervention 3:** Facilitate value-chain linkages to ensure, among other things, that agriculture, forestry and fisheries commodities find a market, while at the same time ensuring reliable supply for SME agro-processors;
- iv. **Strategic Intervention 4:** Support technical and managerial training of SME entrepreneurs;
- v. **Strategic Intervention 5:** Facilitate access to appropriate technologies to enable productive activities by SMEs; and
- vi. **Strategic Intervention 6:** Facilitate access for SME agro-processors to business development services such as legal, accounting and related services.

These strategic interventions are expanded on below.

4.1 FACILITATE ACCESS TO INCENTIVES AND SUPPORT PACKAGES

The paramount intervention that DAFF will introduce through this strategy is creation of a support programme for agro-processing at the core of which would be a dedicated “SME agro-processing incentive fund”. Existing funding programmes within DAFF (e.g. CASP and MAFISA), in conflict with stated objectives, have historically been biased towards supporting primary production, and those outside DAFF (such as those within the dti) have tended to be inadequate for SMEs. The Enterprise Organisation (TEO) of the dti have a wide range of incentives packages aimed at supporting growth of the manufacturing industry at large. Some of these incentive programmes support manufacturing of agriculture, forestry and fisheries products. There is, however, certain gaps that remain to be filled since these incentives programmes tend to exclude smaller

and medium-sized enterprises due to administrative burden. DAFF, through this strategy will create tailor-made incentives packages aimed at meeting the needs of small and medium-sized agro-processing enterprises.

While there is quite a number of business (and in particular SME business) incentives and support programmes in South Africa, there is still doubt as to, first, the level of awareness by the intended beneficiaries of the incentives, second, the degree of access to the incentives, and third, the effectiveness of the incentives. It therefore becomes important, in the context of DAFF's strategic imperatives, to facilitate access to both the existing as well as more tailor-made support measures for SMEs.

4.2 FACILITATE ACCESS TO INFRASTRUCTURE

The most basic role for government in an open economy is to provide societal institutions such as laws that define property rights, enforce contracts, and resolve disputes (Christy *et al.*, 2009). These are referred to as “basic enablers”. South Africa was ranked 34th out of 183 countries included in the World Bank’s “Doing Business Survey 2011” (World Bank, 2011), placing it among the countries in which it is relatively easier to do business. This ranking is on account good performance in indicators such as the quality of contract enforcement institutions and the strength of property rights. It is also widely accepted that South Africa has a sound macroeconomic environment (Bagus, 1999; Vickers, 2002), with all the basic macroeconomic fundamentals firmly in place.

It is therefore not on presence of basic enablers that South Africa lacks. It is rather on uneven distribution of economic infrastructure. Investment in infrastructure is at the core of creating an enabling environment for stimulating agro-processing entrepreneurship. Although DAFF is not the custodian of many of the basic infrastructure items (roads, electricity, water, technology, etc.), it is in

DAFF's interest to assist in facilitating investment in the areas where there is need or shortage, so that SME business will be enabled. In this regard, DAFF will work with such departments as Transport (DoT), Public Enterprises (DPE), Public Works (DPW), Water Affairs (DWA), and Cooperative Governance (DCoG).

4.3 PROMOTE VALUE CHAIN LINKAGES

There is a need to adopt a value chain approach in the provision of government support. Support to primary producers must be linked to downstream opportunities in agro-processing. DAFF has various programmes to support primary producers. However, some of these programmes have a narrow focus on production, with very little or no support directed to activities beyond the farm gate. In future, it will become important to ensure a deliberate balance between interventions and investments at upstream levels of the value chain with those at downstream levels. One of the instruments that could be used in ensuring that support towards various value chains is dealt with in a balanced manner is that of value chain round tables, a concept that will be piloted by DAFF soon. Value chain round tables provide a platform for value chain role players to articulate and discuss issues that require intervention by government and its stakeholders in the non-government sector throughout the value chain.

4.4 SUPPORT TECHNICAL AND MANAGERIAL TRAINING

The difficulty of competing and surviving in a rapidly globalised environment requires SMEs to be skilled in all aspects of doing business including managerial and technical know-how. DAFF will support training programmes to SME agro-processors as part of its interventions.

4.5 FACILITATE ACCESS TO APPROPRIATE TECHNOLOGY

Evidence suggests that SME processors use rudimentary technologies in their business activities, which hampers their performance and competitiveness. Access to the latest and appropriate processing technologies becomes crucial for SME development. As part of the implementation of this strategy, DAFF will facilitate provision an institutional framework to enable better access to technology-related support services to SME agro-processors. DAFF will collaborate with, among others, the Department of Science and Technology (DST), Agricultural Research Council (ARC), and Council for Scientific and Industrial Research (CSIR) in the provision access to technology for agro-processors.

4.6 FACILITATE ACCESS TO BUSINESS DEVELOPMENT SERVICES

To run a successful business, there are certain services and skills that are essential for an entrepreneur. These include financial management, accounting, marketing management, economics, law, certification and other technical expertise. For business at start-up stage, these may not be readily available or accessible. DAFF will facilitate access to these services by SMEs, along with facilitating access to training and mentoring opportunities for SME entrepreneur to obtain the requisite skills.

The following underlying principles will guide the implementation of the above objectives:

- i. **Holistic:** Interventions towards the sector will be holistic, taking into account linkages that agro-processing has with the rest of the value chain. This will enable provision of a “value chain” of services and support to clients.
- ii. **Tiered:** Interventions will be sensitive and therefore tailored to the different levels of development at which different enterprises are. Because of DAFF’s proximity to farmers, a deliberate bias will be towards supporting primary processing at farm level and beyond the farm gate.
- iii. **Partnerships:** DAFF and its government partners’ intervention will be limited to the role of creating an enabling environment. To ensure a full and complete menu of support, government will operate in partnerships with other non-governmental partners in Public-Private Partnerships (PPPs). In the short to medium-term, however, it will be expected that government will play a much more central role in the establishment and growth of the SME agro-processing due to its inherent state of underdevelopment.
- iv. **Viability:** Government intervention, in partnerships with other stakeholders, will be directed at economically viable businesses. However, in line with the principle of taking a tiered approach, the focus on viability will not negate the need to support activities aimed at ensuring food security at farm and household levels.
- v. **Impact:** Government has set certain targets mainly with regard to job creation, economic growth and reduction of inequality. Government support in agro-processing projects will ensure that such support results in a wider impact in terms of those targets.

- vi. **Equity:** A deliberate target for agro-processing support interventions will be the designated groups according to the broad-based black economic empowerment (BBBEE) provisions.

5. INTERVENTION MODELS

This section outlines *how* DAFF will intervene to implement the stated objective of supporting entry and growth of locally and globally competitive small and medium-scale agro-processors in the agriculture, forestry and fisheries value chains. Various models will be considered in the implementation of DAFF's supportive interventions, and some of these are discussed below. It is important to stress that while DAFF interventions will be aimed at supporting development and growth of agro-processing enterprises, the starting point is to ensure reliable and sustainable quantity as well as acceptable quality feedstock from primary production. The implementation of this strategy will therefore have to be aligned properly with the implementation of the Smallholder Development Plan, the Zero Hunger Plan, the Small Scale Fisheries Policy as well as the Small-Scale Forestry strategy.

5.1 SUPPORTING A CLUSTER APPROACH

Based on production potential of various commodities around the country, a holistic approach that is not limited to just supporting primary production, but also aimed at providing support for basic small and medium-scale value addition and further processing of primary produce will be adopted. A cluster approach will be supported whereby a cluster of small and medium-sized enterprises in a region or area will be the focus of government and public-private partnership support interventions. The idea would be to put in place a three to five-year action plan for each cluster with an aim to exit after such a period, assuming that a strong cluster self-governance system would have been established. Clusters would

then be allowed to grow and evolve. Some clusters have, in other countries, even evolved into fully-fledged cooperatives, which would be an ideal situation for the South African scenario where small and medium-size cooperatives have otherwise not performed well historically.

5.2 PROMOTING INCUBATORS

Business incubators are programs designed to support the successful development of entrepreneurial companies through an array of business support resources and services, developed and orchestrated by incubator management and offered both in the incubator and through its network of contacts. Incubators could provide services such as assistance with business basics, networking activities, marketing assistance, connectivity, accounting/financial services, finance, and regulatory compliance, among others. It has been proven that successful completion of a business incubation programme increases the likelihood that a start-up company will stay in business for the long term.

This model is gaining popularity in South Africa as one with significant potential to develop entrepreneurs in manufacturing. It would also be considered as a vehicle to support development of small and medium-scale agro-processing entrepreneurs in terms of this strategy. There are cases of successful incubators in various agricultural industries, which government and its various agencies continue to support. These cases will provide valuable lessons for an incubator model as part of implementation of this strategy.

5.3 SUPPORTING NICHE PRODUCTS FOR EXPORTS

The dti supports a number of agro-processing sub-sectors through their various programmes. However, certain “smaller” sectors have traditionally been left out. Some of these are potentially high-value sectors with an export potential in

certain niche markets. Investigations would have to be undertaken to identify such products or sectors in order to inform interventions aimed at building and supporting value chain development and exports in these sectors.

6. IMPLEMENTATION PLAN

The implementation plan for the DAFF's agro-processing strategy is illustrated in the following "objective tree" diagram (Figure 5), which is explained in more detail below.

Figure 5 brings together all the different components of the strategy. At the bottom of the figure is an "SME agro-processing incentive fund". This fund will aim to fill the gaps left by other public sector incentives (for example those within the dti). The fund will be augmented through efforts from private sector partners through public-private partnerships. It will be focused on supporting various models such as cluster development, incubators, creation of tailor-made support packages for SMEs as well as support for niche export products.

As illustrated in Figure 5, the implementation of the intervention models will depend on the implementation of the broader interventions: investment in infrastructure, provision of training, appropriate technologies and business development services, and promotion of linkages with farmers (smallholders in particular).

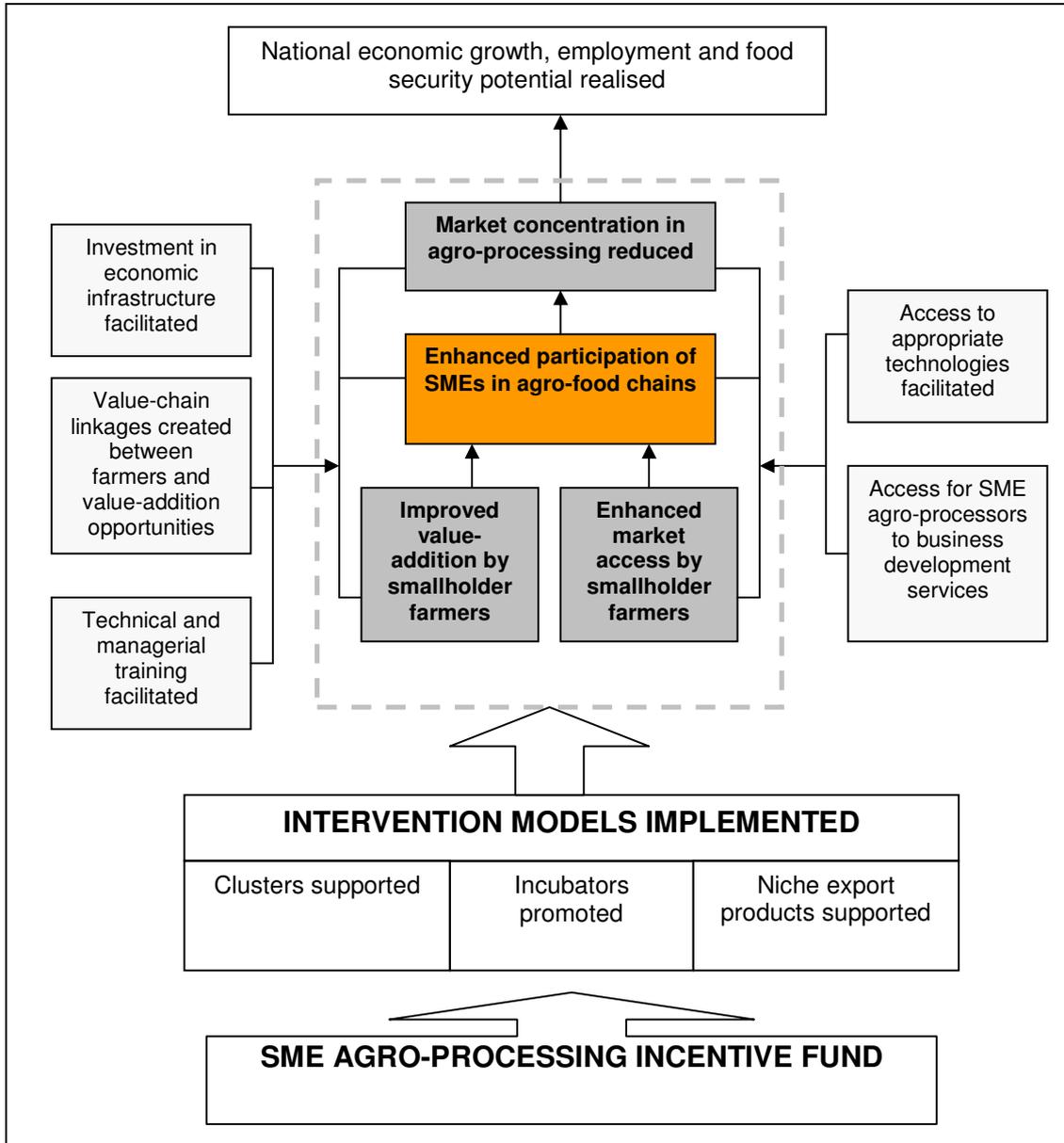


Figure 5: Implementation plan for the agro-processing strategy

7. ROLES AND RESPONSIBILITIES

7.1 THE ROLE OF DAFF

“DAFF” includes the national department of agriculture, forestry and fisheries as well as its parastatals including NAMC, ARC and PPECB. As indicated in the preamble to this document, DAFF has a central role to play in providing strategic direction to all its stakeholders in terms of taking SME agro-processing to the next level. Not only is there a gap in strategy, there is also a glaring lack of coordination of interventions in SME agro-processing in the country. This apparent gap has been identified by DAFF in collaboration with key government stakeholders notably the dti and provincial economic development departments and their agencies, as well as provincial agriculture and rural development departments. In view of these shortcomings, DAFF perceives its role as follows:

- 1. Drafting of a strategic document that outlines a vision for SME agro-processing for South Africa:** This is the role that DAFF is currently pursuing through drafting of this document.
- 2. Promulgation of a national and provincial platform for agro-processing support:** Based on the vision as outlined in this document DAFF should take a lead in providing provincial departments and agencies with a platform and resource pool to enable them to properly play their part in shaping the implementation of the strategy to suit local conditions. This will require:
 - ✓ Close collaboration of government departments from a single platform – without boundaries with the core focus of identification, implementation, and M&E of such enterprises
 - ✓ All activities with respect to agro-processing to be channelled through this platform

- ✓ Development of a localized database of agro-processing enterprises that is regularly updated and where status and progress is monitored

3. Development of a model for agro-processing support: The dti has the mandate with respect to agro-processing but this mandate appears to be reserved mainly to incentives through rebates and reserved for industrial scale processing. This needs to be addressed by DAFF to fill this vacuum in light of the value that SMEs can play in job creation and broad based empowerment. The following areas would need attention in this regard:

- ✓ Focus and tailor make support specifically for SME agro-processing
- ✓ Ensure that support is available and delivered locally rather than through a national office or framework. Very high levels of accountability and M&E will, however, be required to successfully deliver on this
- ✓ Determine elements of support, such as funding, incentives, training, development of linkages, partnership development, access to support
- ✓ Support can be for three types of agro-processing enterprises and provision should be made for this given the uniqueness of each of these
 - Start-up enterprises
 - Current enterprises seeking up-scaling
 - Collapsed enterprises seeking revival – if feasible

4. Develop a protocol for agro-processing business development in areas such as feasibility assessment, business models, funding model, financial plan, marketing plan, operational plan, human resources plan, raw material procurement plan, plan to access support, training, business development services (legal, accounting, etc).

5. DAFF to play a leading advocacy role for SME agro-processing to bring it onto the radar of interested institutions and where circumstance allow to become the contact point for SME agro-processing

- ✓ Government
- ✓ Parastatals
- ✓ Private sector
- ✓ Donors & NGO's

6. Information sharing

- ✓ Current opportunities for stakeholders to become involved
- ✓ Current market opportunities for SME agro-processing units
- ✓ Case studies
- ✓ Best practices
- ✓ Research

7. Research (in collaboration with ARC and other relevant institutions)

- ✓ Technical research relevant to SME agro-processing
- ✓ Broad and localized research
- ✓ Institutional

8. Direct intervention in quick win projects

9. Monitoring merger and acquisition activity jointly with the Competition Commission and EDD, to ensure that such activity is not detrimental to competition in agro-processing, and to entry of SME agro-processors.

7.2 THE ROLE OF OTHER STAKEHOLDERS

The DTI: DAFF has been engaging with the dti with a view to seeking an understanding of what roles the two government departments should play in promoting and supporting agro-processing in the country. It has emerged that DTI's sphere of involvement is limited to established, larger-scale, industrial-type enterprises, since its incentives packages are not tailor-made for SMEs and start-ups. It has therefore been agreed in principle that the dti will work with DAFF to set up a more focused support package for SME agro-processors. This will not necessarily involve new resources; it may simply be a matter of re-directing some of the existing packages to the needs of SMEs.

Other national government departments: DAFF, through the government cluster system, will work with other national departments to promote this strategy into a central guiding document for SME agro-processing support in the country. Other national government departments have a role to play in contributing to the resourcing of a central SME agro-processing fund. Other roles include supporting the implementation of the strategy by providing services that departments have comparative advantage in, for example, the Department of Science and Technology (DST) specializes in creation and provision of technology for business development, among others.

Provincial departments: This would include both the provincial departments of economic affairs/development as well as agriculture and rural development, which are already involved in a number of agro-processing activities. Some of these departments are in the process of crafting their own agro-processing strategies to guide their activities. DAFF has undertaken provincial visits to seek input into the agro-processing strategy, and in the process, identified mechanisms for collaboration with provincial departments, some of which have economic development agencies that manage certain activities. The starting point would be for those departments that are busy with their strategies, to align these strategies with this document. Secondly, those that have not started with their strategic processes, to do so as soon as possible, while also taking cue from and aligning with this document. Thirdly, provinces are implementers of programmes and projects, and it is expected that they will play a central role in the implementation of this strategy.

Non-governmental partners: It is expected that this strategy will be implemented through public-private partnerships, which would include communities, government and its social partners, donors as well as universities. Each of these stakeholders has a unique role to play by bringing in their special expertise based on their areas of comparative advantage.

8. MONITORING AND EVALUATION

A proper monitoring and evaluation plan of government programmes is a central role that central government should fulfill. DAFF, through its Planning, Policy, Monitoring and Evaluation (PPME) programme, has put systems in place to monitor departmental performance. The monitoring and evaluation framework presented below will be an input to the bigger DAFF system. It is presented in Table 2 below.

The framework has one overarching goal of enhanced participation of SME agro-processors in agro-food chains. To fulfill this long-term goal, DAFF will put in place an agro-processing SME support programme with three outputs, all related to the three possible models that will be implanted as an outflow of this strategy. These models are: cluster development, incubator creation and promotion of niche export products.

Table 2: The monitoring and evaluation LOGFRAME

Narrative summary	Verifiable Indicators (OVIs)	Means of Verification	Assumptions & Risks
Long Term Goal or Outcome			
To enhanced participation of SME agro-processors in agro-food chains	<ul style="list-style-type: none"> ▪ Increased numbers of SME agro-processors ▪ Increased contribution of SME agro-processors to the GDP and employment 	<ul style="list-style-type: none"> ▪ National statistics 	<ul style="list-style-type: none"> ▪ Availability of baseline statistics ▪ Availability of resources to implement framework ▪ Support by relevant stakeholders
Purpose/ Objective			
To put in place an agro-processing SME support programme	<ul style="list-style-type: none"> ▪ Costed business plan developed ▪ SME agro-processing incentives fund created ▪ Incentives packages developed 	<ul style="list-style-type: none"> ▪ Business plan document ▪ DAFF budget document ▪ Incentives brochures 	<ul style="list-style-type: none"> ▪ Availability of resources ▪ Support by relevant stakeholders
Output 1: Agro-processing clusters developed across all provinces	<ul style="list-style-type: none"> ▪ Number of clusters developed ▪ Demographic information on cluster participants ▪ Economic profile of clusters (employment, income, output, etc) 	<ul style="list-style-type: none"> ▪ Various documents and records ▪ Surveys ▪ Financial statements 	<ul style="list-style-type: none"> ▪ Support by relevant stakeholders ▪ Availability of resources ▪ Overlaps with other similar programmes within government

Narrative summary	Verifiable Indicators (OVIs)	Means of Verification	Assumptions & Risks
<p>Output 2: Agro-processing incubators developed</p>	<ul style="list-style-type: none"> ▪ Number of incubators developed ▪ Demographic information on incubator beneficiaries ▪ Economic profile of incubators 	<ul style="list-style-type: none"> ▪ Various documents and records ▪ Surveys ▪ Financial statements 	<ul style="list-style-type: none"> ▪ Support by relevant stakeholders ▪ Availability of resources ▪ Overlaps with other similar programmes within government
<p>Output 3: Niche products support programme implemented</p>	<ul style="list-style-type: none"> ▪ Number of exporters supported ▪ Demographic information on beneficiaries ▪ Economic profile of export businesses and beneficiaries 	<ul style="list-style-type: none"> ▪ Various documents and records ▪ Surveys ▪ Financial statements 	<ul style="list-style-type: none"> ▪ Support by relevant stakeholders ▪ Availability of resources ▪ Overlaps with other similar programmes within government

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