

**Enhancing the prospects of small scale and informal retailers in fresh produce  
value chains:**

**An examination of the developmental impact of public sector market facilities  
on formal and informal retailers<sup>1</sup> in selected KwaZulu-Natal markets**

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OCTOBER 2008

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<sup>1</sup> This investigation examines both formal and informal retailers within the fresh produce markets because they have both faced the same constraints with regard to bargaining power and support from market management.

## **Abstract**

The aim of the research was to identify the constraints that restrict the development of informal and small formal retailers, and highlight potential opportunities that may assist in strengthening their position within the value chain. It explored the functioning of two municipal-managed static fresh produce markets in KwaZulu-Natal: Durban and Pietermaritzburg.

The investigation revealed that informal and small formal retailers have relatively little impact on the fresh produce value chain and that the structure of static markets is not conducive to these groups because of their lack of capital and inability to buy produce in bulk. Predominant constraints to their economic growth include high cost of transport, high prices of produce and competition with other traders. In addition, police harassment was identified in Durban as one of the dominant constraints, but was not reflected in Pietermaritzburg.

However, opportunities for small and informal retailers to strengthen their position were identified as increasing the market access for retailers, through the provision of transport, informal training workshops, cold storage facilities in the city, the formation of cooperatives and access to micro-credit.

This research argues that attention must be given to enhancing the interests and role of small and informal retailers in governance and operational processes within fresh produce markets. The necessity of the development of social networks (also argued by Meagher 1995) is a critical factor in determining the success of informal and micro enterprises and could contribute to institutional reforms that help address the information and access asymmetries in the fresh produce market environment.

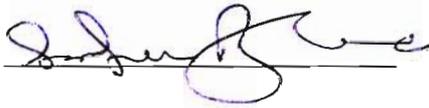
Following the completion of this dissertation, it was distributed along with the appended log frames to the management at the Durban and Pietermaritzburg, market agents and informal retailer groups that participated. It will also be disseminated through the Learning, Monitoring and Research Facility, who funded part of the research, and is hoped that the information will aid

informal retailers and empower those that were involved.

## Declaration

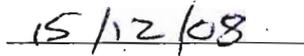
Submitted in fulfilment of the requirements for the degree of Master of Arts, in the Graduate Programme in Development Studies, University of KwaZulu-Natal, Durban, South Africa.

I declare that this dissertation is my own unaided work. All citations, references and borrowed ideas have been duly acknowledged. It is being submitted for the degree of Masters in Development Studies in the Faculty of Humanities, Development and Social Science, University of KwaZulu-Natal, South Africa. None of the present work has been submitted previously for any degree or examination in any other University.



Signature

Andrew Rylance



Date

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## Abbreviations

<b>APAC</b>	Agricultural Producers Agents Council
<b>BEE</b>	Black Economic Empowerment
<b>CBD</b>	Central Business District
<b>DMA</b>	Durban Metropolitan Area
<b>DRB</b>	Durban
<b>DTI</b>	Department of Trade and Industry
<b>FPM</b>	Fresh Produce Market
<b>ILO</b>	International Labour Organisation
<b>NAMC</b>	National Agricultural Marketing Council
<b>PMB</b>	Pietermaritzburg
<b>SEDA</b>	Small Enterprise Development Agency
<b>VAT</b>	Value Added Tax

# 1 Chapter 1: Introduction

## 1.1 Context and outline of research problem:

The objective of the research is to identify the constraints that restrict the development of informal and small formal retailers and highlight potential opportunities that may assist in strengthening their position in the value chain. The research will explore the functioning of two static fresh produce markets in KwaZulu-Natal. In recent years a considerable body of literature has emerged around the concept of “making markets work for the poor” with an interest in understanding how improved access and to, and functioning of, markets can benefit the poor (Asian Development Bank 2005:1). This research identified fixed-location markets and the institutional networks that operate around them as its focus, with a particular interest in how administrative and governance processes at these markets might be reoriented to work better for the poor who interact with them. The term ‘market’ is defined as the specific location that hosts buying-selling interactions in a single physical facility administrated by an institutional framework, rather than the conceptualised structure of a free market system.

Research indicates that the local economic development of fixed-location markets within KwaZulu-Natal has failed to sustain growth and fulfil its developmental potential (Witt 2002:302 in Freund & Padayachee 2002). The principal purpose of the study was to determine the salient features of the value chain in markets within the KwaZulu-Natal area and to identify the opportunities and constraints that might prevent small retailers<sup>2</sup> (both formal and informal) within fresh produce markets from fulfilling their economic potential. However, it was difficult to distinguish between informal and formal retailers as information was not complete, and participants were often not forthcoming regarding their business status. The research investigated fresh produce markets in the Durban Metropolitan Area and Pietermaritzburg. For each of the Municipal-managed fresh produce markets identified, the key activities along the local economic value chain were analyzed to identify whether the industry performance specific to each location

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<sup>2</sup> The research defines small retailers as individuals with formal and informal businesses that buy their produce from the fresh produce markets and then sell it on at other locations.

was conducive to supporting local or regional development imperatives. It provided market stakeholders, including Municipal management and retailers, with an analysis and benchmarking to highlight features of the locations from which the competitiveness of the assessed markets and appropriate measures to improve their economic situation may be derived.

The influence of small retailers within fresh produce is limited due to a variety of factors. These would include their lack of capital to influence prices and because of low capacity to buy in bulk, agents<sup>3</sup> act unfavourably towards them. Witt (2002) asserts that “in a ‘static’ market such as the main bulk market, there is a greater possibility for buyers who control vast amounts of capital, and therefore buying power, to manipulate prices or to monopolise a degree of control over a particular product on a given day” (2002:319 in Freund & Padayachee 2002).

This study initially proposed the following two hypotheses (H1,H2) and their null hypotheses (H10, H20):

- **H<sub>1</sub>** = Organised markets are key institutions which substantially influence the access and nature of participation by small retailers in fresh produce value chains;
- **H<sub>10</sub>** = Organised markets are key institutions that do not substantially influence the access and nature of participation by small retailers in fresh produce value chains.
- **H<sub>2</sub>** = Within fresh produce value chains, organised markets are an appropriate site to contribute to correcting market failures; and
- **H<sub>20</sub>** = Within fresh produce value chains, organised markets are not an appropriate site to contribute to correcting market failures.

It is hoped that the study will provide the analytic input for policy dialogue with government and relevant stakeholders by examining the constraints and challenges that undermine growth of markets assessed in the KwaZulu area. It will outline actionable measures that may catalyse the growth of actors within the fresh produce markets, and present recommendations for minimising constraints that undermine the competitiveness of small retailers. By focusing on constraints for

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<sup>3</sup> In this case agents act as intermediaries between the producers and the retailers that buy the produce and receive commission based on the quantity of produce that they sell.

each activity within the value chain of a market, the study provides insights that complement previous and ongoing work for local economic development, with an orientation to the needs of the urban poor.

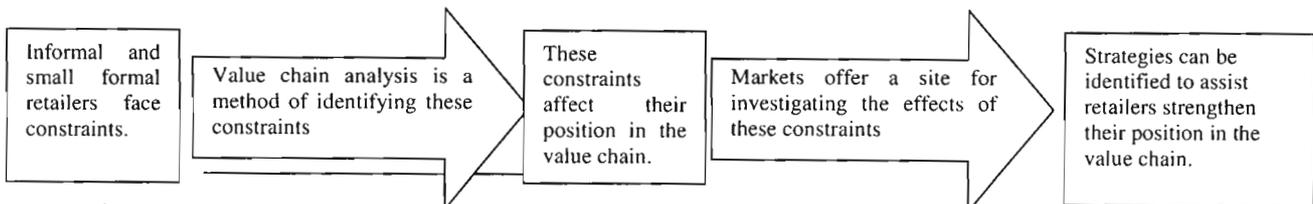
## 1.2 Objectives:

The objectives of the research are to:

1. Enhance public and private awareness and forge consensus on the scope, importance, and impact of constraints in the local economic development of fixed-location municipal fresh produce markets;
2. Identify and prioritize the challenges facing the small retailers access to, and share of the fresh produce sector of the local economy;
3. Assess the governance of the markets' along the value chain in responding to these challenges and opportunities confronting local economic development;
4. Identify potential measures to address these constraints; and
5. Develop precursors that may lead to an advancing in the small retailers' position in the value chain.

Finally, this paper adopts a Logical Framework Analysis<sup>4</sup> to construct recommendations for high priority issues and actions that can be presented to small retailers and management. It will aim to minimize their constraints, solidify their position within the value chain and highlight the developmental opportunities available for both firms and local government.

A logic flow has been constructed below to clarify and illustrate this premise and the procedure for the investigation:



<sup>4</sup> A Logical Framework is “used to develop the overall design of a project, to improve project implementation monitoring, and to strengthen periodic project evaluation”. World Bank. 1999. World Bank Logframe Methodology Handbook.

### **1.3 Research questions:**

The investigation sought to answer the following questions regarding small retailers. The researcher will also approach Municipal management and agents to identify their perceptions of the experiences of small retailers.

1. How are the markets governed and what support structures do the small retailers believe are in place to assist them?
2. What is the impact of small retailers on the value chain of a product?
3. How has the situation of small retailers changed over time?
4. What are the exogenous (external) and endogenous (internal) constraints on small retailers within the market environment?
5. How would the small retailers prioritise these constraints?
6. What developmental opportunities would be required to strengthen the economic position of small retailers within in the value chain?

### **1.4 Justification for Investigation:**

The prevailing objective of the research is to provide evidence to support the interactions between the parties, and identify opportunities that may assist in strengthening small retailers' position in the value chain. Fresh product markets in KwaZulu-Natal form a critical sector that has the potential to enable entrepreneurial growth of small sellers. In Witt's study of the distribution networks in Durban he states that "[a] key reason for choosing fresh produce is that it is the major commodity traded by the 'informal sector' in the DMA [Durban Metropolitan Area], while fruit and vegetables are also those agricultural products that have the most potential for cultivation in the urban environment" (Witt 2002:302 in Freund & Padayachee 2002). However, he warns that "[t]he success of urban agriculture as a development tool has been difficult to assess. Nonetheless, it would appear that urban agriculture has the potential of fulfilling many of the stated development objectives being articulated by the government at all levels and should thus be pursued with great vigour" (Witt 2002:302 in Freund & Padayachee 2002:306).

According to the Department of Agriculture (2005) the South African food retail market was worth R 165 billion (US\$ 27.5 billion) in 2004. The fruit and vegetables retail industry was

estimated to have contributed at least 16% of this food market (Madevu 2007:5). A census in 1997 commissioned by the Durban local authority found that of the 19 301 surveyed street traders operating in the Durban Area, 59% of whom were women, and nearly half of the street traders were reported selling food (Data Research Africa, 1998:12 in Skinner 2008:5). The informal retail of fresh produce is responsible for 30-40% of the turnover at national fresh produce markets (AloeCap 2005:13).

The spreading dominance of supermarkets could be viewed as progressive for livelihoods and food security because supermarkets triggered higher product standards, variety and lower prices (D'Haese & van Huylenbroeck, 2005). On the other hand this expansion was typically at the expense of small local retailers, thus diminishing local entrepreneurship. Researchers have warned that supermarkets could eventually take over the fresh fruit markets as in other food sectors (Madevu et al 2007:6). Therefore, this could lead to increased unemployment of small retailers as a result of increasing dominance by larger corporations.

Durban's Informal Economic Policy (2000) requests that "an investigation [be conducted] of customer use and perceptions of the built markets; [and] an assessment of the contribution of these facilities to the Durban economy" (2000:46). Consequently, this investigation into the position of small market retailers within the value chain is an important area of research that is critical to the economic growth of small market sellers in KwaZulu-Natal. It investigates the performance and experiences of small sellers within fresh produce markets, identify their constraints and developmental opportunities to strengthen their position. This study has the potential to be replicated within markets across South Africa and beyond. The use of value chain analysis and participatory techniques enables the framework of analysis to be adapted to various types of markets.

### **1.5 Definitions of Technical Terms:**

***Informal Retailer:*** The International Labour Organisation defines informal employment as "all economic activities by workers and economic units that are – by law or practice – not covered or insufficiently covered by formal arrangements" (ILO 2002 in Hussmanns 2004:3). Therefore, this investigation considered an informal retailer as one that was not registered with Companies

and Intellectual Property Registration Office of the Department of Trade and Industry (DTI) and also not registered for Value Added Tax (VAT).

**Small Formal Retailer:** Official definitions of micro, small and medium businesses are industry specific. Table 1 below provides definitions for the wholesale trade industry. Considering the difficulty of businesses to divulge their revenue, the research classified a small formal business as one that was registered for tax and had less than 50 full-time employees. In Durban, 48% of the 42 informal and formal businesses surveyed did not want to answer questions on their revenue or weekly spend at the market, whereas in Pietermaritzburg 52% of the 46 surveyed.

**Table 1: Business size definition for wholesale trade: National Small Business Act No. 102, 27 November 1996.**

Wholesale Trade	Total full-time equivalent of paid employees	Less than total annual turnover less than	Total gross asset value (fixed property excluded) less than
Medium	120	R50.00 m	R 8.00 m
Small	50	R25.00 m	R 4.00 m
Very small	10	R 5.00 m	R 0.50 m
Micro	5	R 0.15 m	R 0.10 m

Source: National Small Business Amendment Bill published in the Government Gazette on 27 March 2003.

However, the distinction between formal and informal businesses is not always clear. In Witt's (2000) investigation of informal and formal trade, he defined formal businesses as informal retailers that operated within a formal market, such as the Early Morning market in Durban, because they faced a formal set of controls (rates) and were limited by the operating hours of the market.

**Value Chain:** Kaplinsky and Morris (2000) define the value chain as "the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use" (2000:4). Therefore, a value chain is a sequence of activities through which a product passes. At different stages along the chain, each activity provides some added value to the product.

An illustration of a fresh produce value chain is presented below (Figure 1). This investigation focuses on the final link of retailing. It concentrates on the local rather than the global value chains, as global chains have received increasing attention (see Kaplinsky and Morris 2000; Gereffi 1999; Humphrey and Memedovic 2006), and seeks to strengthen the position of those that occupy the weakest position in the chain.

**Figure 1: Value Chain of Fresh Fruit and Vegetables**

Sector	Links in value chain	Prime source of economic rent			Implications for production activities	
		Past	Present	Future		
Fresh fruit and vegetables	Seed design	Growing	Seed design and new product development	Seed design, new product development	Growing capabilities (climatic specific) are generalised and competition high  Economic rents in intangibles (seed design, growing practices, phyto-sanitary practices, etc).  Battle between retail chains and brand names for shelf dominance	
	↓					
	Growing					
	↓					
	Post-harvest processing		Coordination of value chain efficiency			
↓						
Exporting	Wholesale					
↓						
Retailing		Retail chains				

Source: Pascal-Harris et al (1999) and Humphrey and Oeter (1999), cited in Kaplinsky (2000:20).

## **2 Chapter 2: Literature Review**

In this section the paper examines literature on the informal economy, fresh produce, formal businesses and value chains. It intends to elaborate on the definitions previously identified, display their interconnected relationship and highlight existing research regarding the constraints faced by informal and small formal businesses in South Africa.

### **2.1 Informal economy:**

Keith Hart (1973) originally coined the term 'informal economy' during his investigation of the informal sector in Ghana. His distinction between formal and informal employment was between income opportunities in wage employment and self-employment. "The pattern of everyday economic life for these workers was thus a hand-to-mouth existence characterised by unevenness of expenditures over a pay period, flexibility of consumption units, and the proliferation of credit in all commodities" (Hart 1973:65). Hart (1973) argues that because members of the informal economy are "denied success by the formal opportunity structure, these members of the urban sub-proletarian seek informal means of increasing their incomes" (1973:66). The inability of the market to absorb the labour surplus causes individuals to join the informal economy.

However, Hart (1973) questions whether "the 'reserve army of urban unemployed and underemployed' really constitute a passive, exploited majority...or do their informal economic activities possess some autonomous capacity for generating growth in the incomes of the urban (and rural) poor?" (1973:61). He concludes optimistically that those involved in the informal sector can earn an income that rivals, even exceed, that of a waged formal employee (Hart 1973). "Nevertheless, despite the constraints of entry to informal occupations, the range of opportunities available outside the organised labour market is so wide that few of the 'unemployed' are totally without some form of income, however irregular. By any standards many of them are poor, but then so are large numbers of wage-earners" (Hart 1973:81). Therefore, participating in the informal economy allows one the flexibility to adapt one's business dependant on the present demands of the consumer and provides opportunities for individuals whose lack of skills prevent

them from entering the formal sector, offering income opportunities for the potentially unemployed. “The truly ‘unemployed’ are those that will not accept income opportunities open to them for which they are qualified, and this often means rejecting informal means of making a living” (Hart 1973:83). Hart (1973) maintains that the informal sector provides enough opportunities that unemployment should cease to exist, but only for those that choose not to be involved in the informal economy.

A debate exists between neoliberals, who argue that the informal economy is a reaction to the state’s over-regulation, and structuralists, who maintain that the informal economy is a reflection of the state’s inability to absorb the labour surplus. Neoliberal theorists, championed by the International Labour Organisation (ILO), argued that the informal sector is a potential area for independent employment and growth. They assert that the over-intervention of the state has targeted resources around a few businesses and forces the majority to seek alternative forms of income generation outside the “regulatory framework of the formal economy” (Meagher 1995:262). Therefore, neoliberals believe that the informal economy will benefit from “economic deregulation and the provision of necessary infrastructure” (DeSoto 1989:243-244 in Meagher 1995:262). However, the ILO (1972) maintains that constraints will remain, including limited business skills, access to finance, technology and support services (ILO 1972). De Soto (1989) argues that it is the state’s over-regulation that prevents informal workers from elevating themselves from their survivalist status. He provides the illustration of Lima where “if, instead of over-regulating the street vendors, the authorities had removed the obstacles to their activities and made it easier for them to form business organisations and obtain formal credit so they could build more markets, by 1993 all of today’s street vendors would have been off the streets” (1989:240). Consequently, an economy free from national and municipal interference would envisage the economic growth of the informal sector because of fewer legislative constraints.

On the other hand, structuralists, such as Meagher (1995) and Castells and Portes (1989), argue that the development of the informal economy is a reflection of the capitalist economy’s inability to absorb the labour surplus. Furthermore, the exploitative nature of an uncontrolled economy enables formal businesses to take advantage of sub-contracting informal businesses where they

may not need to be concerned with minimum wages, health and safety and contracts (Meagher 1995). The informal sector automatically attracts individuals with “less access to goods and equipment for informal work, as well as less access to social networks through which information on informal opportunities is transmitted (Pahl 1985:398), because the barriers to entry into the formal economy are so high. As a result, the unemployed are absorbed into the informal economy but are restricted to sectors that rarely offer opportunities beyond basic subsistence (Meagher 1995:268).

Nevertheless, beyond the causes of the informal economy, its definition is also problematic. Castells and Portes (1989) assert that the informal economy cannot be contained within one singular definition but it is a “process of income-generation characterised by one central feature: it is unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated” (1989:12). They warn against unregulated conditions as this may have negative effects on the informal worker, consumer and wider society. The worker may be earning under the minimum wage or be exposed to hazards that would otherwise be regulated in a formal business environment. The consumer may purchase items, such as fresh produce, without guarantee of produce quality. Therefore, an unregulated environment may cause market failures and structuralists infer that the role of the state is to correct those market failures.

However, the survival of the informal sector is dependant on more than the degree of the state’s intervention. Hart (1973) maintains that, in Ghana, it is usually dominated by one ethnic group as it assists developing relationships of information, trust and cooperation. “A further differentiating factor is the retailer’s position in the chain of distribution of his chosen commodity; some are carriers, some are middlemen; some buy and sell in bulk, others buy on credit and retail in small quantities; bread-selling retail on a commission basis for bakeries, while some cattle-dealers act mainly as brokers” (Hart 1973:72)

Hart’s (1973) interpretation of the informal sector is reflected in fresh produce markets in Durban, which is dominated by Indian retailers (Interview: Tony Naidoo: DRB Management 13/09/2007), many of whom either buy in bulk and sell small quantities with a mark-up or act as

intermediaries and sell on to other informal workers unable to access the market. Their close family relationships aid information sharing, bulk buying and access to credit.

Consequently, Hart (1973) identifies that the informal economy may not necessarily be the result of failing to attain a wage-job (1973:88) but rather a rational decision that enables the individual the flexibility to alter their occupation dependant on the present demand of the consumer. It is detached from the bureaucratic constraints of the formal sector, such as registration, taxation and audited accounts.

Retailers' incentives to be involved in the informal rather than the formal economy involve a complex trade-off. The ILO's (1972) analysis of employment in Kenya identified strategic differences of characteristics of constraints faced between the informal and the formal economy (Table 2):

**Table 2: Constraints facing informal and formal businesses in Kenya:**

Informal Activities	Formal Activities
Ease of entry	Difficult entry
Reliance on indigenous resources	Frequent reliance on overseas resources
Family ownership of enterprises	Corporate ownership
Small scale of operations	Large scale of operation
Labour-intensive and adapted technologies	Capital-intensive and often imported technologies
Skills acquired outside the formal school system	Formally acquired skills, often expatriate
Unregulated and competitive markets	Protected markets (through tariffs, quotas and trade licences)

Source: ILO 1972: 6.

The role of public institutions in the informal economy is a contested issue. Castells and Portes (1989) argue that although workers in the informal economy are often harassed, the development of the informal sector is controlled by the government and used as a new form of social control. "Governments tolerate or even stimulate informal economic activities as a way to resolve social potential conflicts or even to promote political patronage" (Castells and Portes 1989:12). Therefore, governments facilitate the informal sector as a means to reduce frustrations of high levels of formal unemployment.

In addition, Amis (2004) argues that regulation of the informal economy can have negative consequences and that “it is more likely that actions of city government will damage rather than enhance the position of the informal sector” (2004:152). He maintains that this is predominantly due to inappropriate or repressive legislation. However, this research found that the “informal sector’s ability to protest... determines whether municipal governments are able to implement repressive policies” (Amis 2004:153).

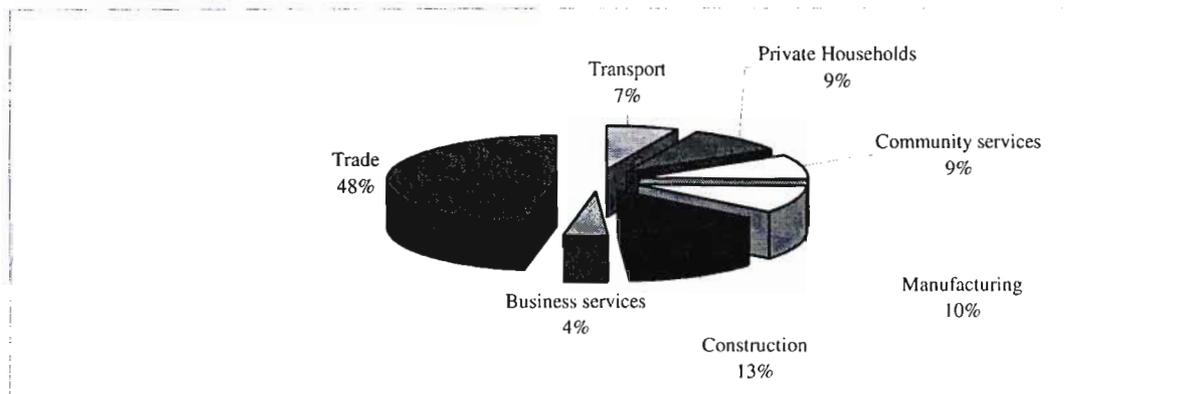
Establishing who is involved in the informal sector is variable as estimates vary greatly, due to the difficulty of collecting accurate data. For example, an individual may be a self-employed retailer one day, but the next day may be without stock to sell and therefore essentially unemployed. WIEGO (Women in Informal Employment: Globalising and Organising) suggests that “informal employment comprises of one-half to three-quarters of non-agricultural employment in developing countries” (Chen 2002:8). Specifically, 72% of the population of sub-Saharan Africa is informally employed, and 84% of these people are women (Chen 2002:8-9). In sum, one may infer that the informal sector is a permanent component of the economies of developing countries and the role of the public sector in its facilitation is a legitimate avenue of investigation.

## **2.2 Informal Trade in South Africa**

President Mbeki, in August 2003, characterised the formal and informal economies in South Africa as a ‘first economy’ and ‘second economy’ respectively. Devey et al (2006) state that although the President does not actually refer to the informal economy, the *ANC Today* newsletter argues that the informal economy is seen to be located within the second economy category (2006:224).

In South Africa, employment in the informal sector increased from 965,000 in October 1997 to 1.9 million in September 2003 (Devey et al 2006:229) and the figure below indicates that nearly half of those enterprises were involved in trade (see Figure 2).

**Figure 2: Percentage of informal enterprises by sector: March 2004**



Source: Devey et al (2006:232) from LFA, March 2004

However, South Africa presents a unique case from other developing countries, because it has high rates of unemployment and yet has a relatively small informal sector. Banerjee et al (2007) argues that maintaining a relatively high reservation wage is partly to blame for the persistently high unemployment. The reservation wage is the minimum level an individual is willing to be paid to perform a particular task. Dependence on one family member to support the household infers that “higher household income reduces the incentive to become employed in the formal sector and increases the incentive to consume more leisure” (Kingdom & Knight 2001:13). On the other hand, research by Cichello et al (2006) argues that the constraints against individuals to become involved in the formal or informal sectors were much more complex. They cited crime as the most prominently perceived hindrance to self-employment but also transport costs, risk of business failure, lack of access to finance, transport costs and community jealousy.

The role of the state in facilitating the entry and subsequent employment in the informal sector has not been adequately addressed by government policy, specifically with regards to financial and skills support. Skinner’s (2005) assessment of support services for the informal economy in Durban found that from just over 500 interviews:

- 14.2% had attempted to obtain a bank loan;
- 4% had been successful;

- 88% of respondents had never received any training or any other assistance; and
- Only 2 enterprise owners had received support from SEDA (Small Enterprise Development Agency).

Skinner (2005) concluded that “the survey demonstrates how national government support programmes have had little or no impact on those working in the informal economy in Durban” (in Devey et al 2006:236).

### **2.3 Informal Trade in Durban**

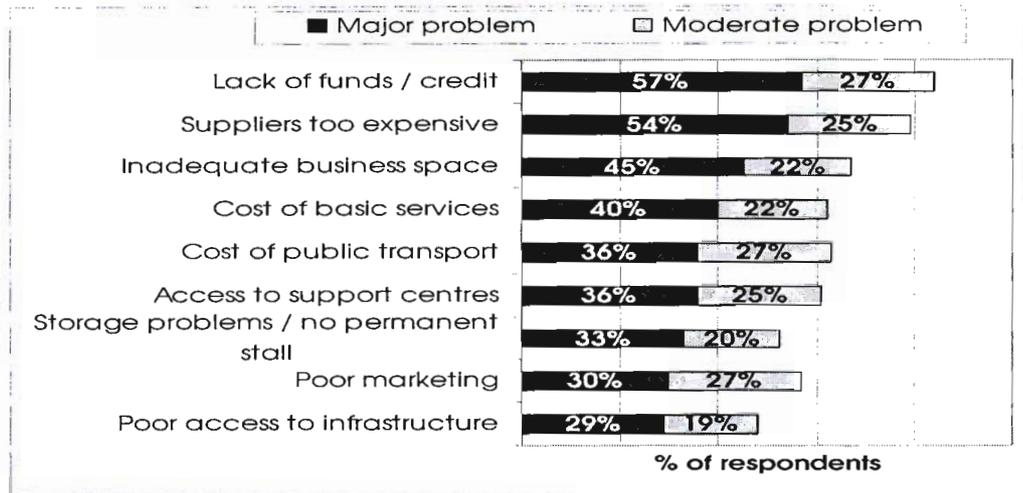
Despite the above, Skinner and Lund (2004) maintain that although the eThekweni Municipality is strained between embracing the informal sector and clearing the streets to attract investment, Durban’s Informal Economy Policy (2000) is considered to be one of the more progressive in the country. It identifies that the informal and formal sectors are not neatly divided but that manufacturing, tourism and trading all have an informal component. It acknowledges that local government has a responsibility to pursue economic development, whilst also promoting pro poor strategies. As a result, it has explicitly integrated the informal sector into the urban planning process.

The Warwick Junction area in Durban provides an illustration of measured state intervention. The area accommodates between 5000 and 8000 retailers, and the area provides attractive and appropriately designed retailer infrastructure as well as services, such as child care facilities and affordable overnight accommodation (Lund and Skinner 2004:6). Nevertheless, problems still exist and in 2007 the Mercury newspaper reported that 500 street retailers were arrested and some beaten by police for demonstrating over the Municipal-imposed permits register outside the city hall (Mercury 27/06/2007). This may corroborate Amis’s (2004) research findings, which stated that if informal workers are able to perform organised protests, municipalities are less likely to implement repressive legislation (2004:153).

Constraints faced by the informal sector are numerous despite the progressive nature of local government. Skinner’s (2005) analysis of the constraints facing the informal sector in Durban identified that lack of credit was the most important, followed by the cost to buy in stock and

availability of adequate space to trade (see Figure 3).

**Figure 3: Constraints facing informal retailers in Durban (Skinner 2005)**



Source: Skinner (2005:45)

## 2.4 Fresh Produce and Small and Informal Retailers

A large proportion of the literature regarding the value chain analysis of fresh produce markets has tended to focus on the experiences of the producers, because they have greater potential for development and connection to international markets (Humphrey 2003; Louw et al 2007; Wang 1999; Witt 2002 in Freund & Padayachee 2002). Data on the performance of small sellers is problematic to collect “as sales are not recorded [and] it is difficult to determine the volume of fresh produce that passes through these agents” (Witt: 2002:317 in Freund & Padayachee 2002). Therefore, there has been relatively little focus by researchers on the impact of small retailers within fresh produce markets. As a result, this provides a justification for an interesting research gap in the literature to be explored.

Research by Mollen (1967 in NAMC 1998:25) listed the general characteristics that affect the distribution of fresh produce in South Africa as the following:

- Transportation and storage as well as grading and packing of fresh produce;
- Agricultural producers need a variety of alternatives for transfer of ownership;

- Middlemen mostly determine price and risk bearing aspects of the channel;
- Different channels apply for institutional demand and ultimately consumer demand;
- Products should be within easy reach of the consumer, which requires a developed retail network and intensive distribution;
- Convenience products lend themselves ideally to self-service marketing. This shifts the burden of the marketing communication process to the retailer and the producer; and
- Self-service requires effective packaging, shelf space and advertising at the point of sale (NAMC 1998:25).

Fresh produce acts as ideal sector for informal trading. There are relatively low barriers to entry as start-up costs often only require stock and some form of structure from which to sell, such as bicycle, table or box. A retailer can consume fresh produce that remains unsold, thus minimising risk and wastage (Witt 2000). Not only does the informal sector provide income earning opportunities for those individuals excluded from the 'formal' labour market but simultaneously, as the lowest stage of food retailing, it will make food accessible to most households.

However, Witt (2000) states that "it is virtually impossible to estimate the quantity and value of fresh produce distributed through the 'informal' economy in the Durban Metropolitan Area (DMA) or even South Africa. Several years ago it was claimed that hawkers (informal retailers) were responsible for twenty-seven per cent of market sales on South Africa's five biggest fresh produce markets" (2000:9). Further interviews by Witt (2000) found that approximately seventy-five per cent of final sales in fresh produce in the DMA was retailed through the 'informal' economy" (2000:10). Specifically, his investigation of informal retailers at the Early Morning Market in Durban found that retailers expressed concerns of storage of produce and security of tenure (Witt 2000).

## **2.5 Small Businesses and fresh produce**

The removal of apartheid has been necessary, but not sufficient, to reverse the high unemployment and low economic growth in South Africa. Unbundling the apartheid legacy has not sufficiently managed to restructure the pre-existing small highly productive modern sector

and large less productive informal sector (Berry et al 2002). Retail chains increasingly dominate South Africa's agro-food chain. M+M Planet Retail (2004) found that the four largest supermarkets (Checkers, Pick n' Pay, Shoprite and Spar group) dominated as much as 96% of the market and was growing (Madevu *et al.* 2007). Therefore, this leaves little room for the informal retailer, which is estimated to generate a monthly turnover of R2.62 million for fresh produce (Stats SA 2002:4). As a consequence, research is required to identify means through which informal and micro enterprises can strengthen their weak position in the value chain.

The fresh produce retail market is constructed with three tiers of bargaining power. Supermarkets dominate the market on the top tier and the agent-retailer sector occupies the secondary tier. The informal sector including small retailers, hawkers trading as well as *spazas* (tuckshops) make up the third tier (Louw *et al* 2004). Informal retailers represent a major force in the fresh produce sector. Louw *et al* (2004) state that fruit and vegetables bought by hawkers at the Tshwane Market represented 27-29% of monthly turnover and up to 50% of total revenue at the Johannesburg market. In addition, KMT Cultural Enterprises conducted a survey of 4705 retailers in Durban in 2003 and found that 60% of retailers reported selling food to sustain a living (Skinner 2008:6). Consequently, the informal sector's role in the sale of fresh produce is an important but often neglected factor in the value chain.

The literature has drawn many conclusions as to the constraints of developing small businesses but there is little consensus. McPherson (1996) suggests that there is a direct correlation between level of education and longevity of small and micro enterprises (SMEs), whilst Riley (1993 cited in Berry et al 2002) identifies that lack of access to finance was the most pressing constraint, as they are unable to receive supplier credit or buyer advances. Consequently, the lack of support structures, or at least the perceived lack, have been highlighted as major constraints to the development of small retailers in South Africa.

In addition, Orford (2005) reported that 70% of businesses found that poor communication caused a lack of awareness of the options available from the Municipality, such as access to support services or finance. Therefore he proposed that the local government should merely

facilitate the promotion of private development companies that could offer services and advice to small businesses. This neo-liberal line of thinking corresponds with the national economic strategy, arguing that private firms are more efficient than Municipal management, and that their development will become demand-led rather than the previous supply-led under a bureaucracy (Berry et al 2002).

Kesper and Rajaratnam (2002) state that “[f]ormal SMMEs (small, micro and medium enterprises) form an integral part of the South African economy, but their contribution to employment and income generation is relatively low. However, there has been little systematic evidence on how structural factors such as the organisation of inter-industry linkages, spatial location of markets, shortages of skilled labour and insufficient infrastructure affect SMME growth” (2002:15). Therefore, investigation into the constraints facing SMMEs is an important area of research that is fundamental to assisting in employment creation and income generation in South Africa.

Despite the above, the Fresh Produce Markets Act (Act 72 of 1970) signalled a government intervention to promote the marketing of fresh produce markets (Witt 2002 in Freund & Padayachee 2002). The Act and deregulation of agricultural marketing was intended to promote free and open agricultural commodity markets and facilitate access for new black producers. The Black Economic Empowerment in Agriculture program is designed to eliminate the skewed participation and inequity in the agricultural sector. Its goal is to ensure black people’s improved access to productive resources and full participation in the agricultural sector as owners, managers, professionals, skilled employees and consumers. It was launched during July 2004 and is still under negotiation between relevant stakeholders (Bienabe & Vermeulen 2006:4).

## **2.6 Linkages between the formal and the informal**

The formal and informal economies are not as separated as Mbeki’s ‘first’ and ‘second’ economies concept suggests. Witt’s (2000) work on informal fruit and vegetable distribution demonstrates multiple formal-informal linkages. Informal retailers will buy from formal sellers and then re-sell to informal retailers, customers and formal businesses. For example, Skinner and

Valodia (2006) demonstrate the interaction of formal business and the informal sector. “Over 3000 waste collectors supply the 117 waste buy-back centres that the multi-million rand paper company Mondi has established in the country. These centres now accounting for almost 20% of Mondi’s total recovered paper purchases” (The Star 29/05/05 in Skinner and Valodia 2006:4). Therefore, informal enterprises provide vital services to the formal sector and their interaction can produce a mutually-beneficial relationship.

## 2.7 Principle Governing Legislation and policy frameworks

The following section provides information on relevant national and provincial legislation that regulates the functions of Municipalities, agents and informal retailers within fresh produce markets:

- The *South African Constitution* clearly defines markets as part of the responsibility of local authorities.
- *Agricultural Producers Agents Council (APAC) Act* requires that no person shall act as an agent unless he is the valid holder of a Fidelity Fund Certificate<sup>5</sup>. The Agent's income is commission based and paid for by the producer. This commission is not fixed and can be negotiated between the agent and the farmer/supplier. Only agents (and the market director) are allowed to offer a product for sale on the market floor. Sales to wholesalers have to go through the agency process. In other words, no direct sales are allowed.
- *New Municipal Systems Bill*: local authorities are deemed to be service providers that, either on their own or through service providers, provide services to their communities.
- *NO. 102 OF 1996: National Small Business Act, 1996*: defines the categories that determines the sizes of wholesale trade and allied services as:

**Table 3: Definitions of Medium, Small, Very Small and Micro Enterprises**

	No. of employees	Revenue less than	Worth of assets less than
Medium	100	R50.00 m	R 8.00 m
Small	50	R25.00 m	R 4.00 m
Very small	10	R 5.00 m	R 0.50 m
Micro	5	R 0.15 m	R 0.10 m

<sup>5</sup> <http://www.namc.co.za/assets/pdf/published/FreshProduceStudy2.pdf>

- *No. 26 of 2003: National Small Business Amendment Act, 2003*: Each local authority can make relevant bylaws that must be transparent, accessible and public participation before being published in the provincial gazette. The government has a duty to ensure:
  - the development of skills in all aspects of running a business;
  - steps to be taken to create access for small business into value;
  - constraints affecting the viability of the small business;
  - methods to liaise with the small business community;
  - methods to monitor and influence the provision of support.
  
- *Durban's Informal Economy Policy: December 2001*: "A great deal of money flows through the informal economy, and between the formal and informal ends of the economy. In 1998, black householders in the DMA spent more than R500 million in informal sector outlets (street vendors, shebeens, spazas, tuckshops, private persons). Of this about R340 million was spent on food. The policy goal is that all people working in public places will register as small businesses. This is a decisive move away from the existing situation where one procedure gives access to a site in a public space, and another gives permission to operate in a particular sector. Registration (as well as sustained payment of rentals) is the action which gives permission to operate, and which provides access to services and support. People wishing to trade in foodstuffs have to apply to the Licensing Department for a license to trade, in addition to applying to the Informal Trade and Small Business Opportunities branch for a site permit. In terms of the new Health Act, City Health is now required to issue a certificate of acceptability to a person trading in foodstuffs, so a triplicate system operates" (2001:4).

## **2.8 Conclusion**

The literature review has sought to highlight some of the contemporary issues facing informal and small formal businesses as well as fresh produce in South Africa. It has presented the debate between neo-liberal and structuralist schools of thought regarding the informal economy. It maintained that informal retailers make little impact on agro-food chain yet they generate a turnover of R2.62 billion a month for fresh produce (Stats SA 2002:4) and has displayed the

constraints facing fresh produce itself, as well as informal and small formal retailing in South Africa.

Finally, the review of the literature has identified a knowledge gap and sought to complement existing research, therefore demonstrating a justification for the relevance of the research. It has derived that 48% of the informal economy in South Africa is involved in trade (Devey *et al* 2006:232). Skinner (2008:6) identified that 60% of Durban informal retailers in Durban sold food. Furthermore, Witt (2002) argues that there has been relatively little research into the informal retail end of the fresh produce value chain (Witt 2002 in Freund and Padayachee 2002), providing the grounding for this subsequent research.

### **3 Chapter 3: Methodology**

This section provides a justification for the methodological assumptions, data collection tools and techniques of analysis.

#### **3.1 Theoretical Framework:**

The literature has argued that the lack of support mechanisms to businesses and their inability to compete on economies of scale are the predominant constraints facing South African informal and micro enterprises. Therefore, this has informed the utilisation of new institutionalist and social capital frameworks in this investigation through which it analysed the experiences of small sellers within fresh produce markets. New institutionalism combines the notions of market-failure, the absence of a safety net for the poorest, and government-failures, due to their informational asymmetry. Polanyi (in Chang 2003) argues that a pure market economy cannot exist because the state must act to prevent markets from destroying society, as it does not provide a safety net for the small retailers who are unable to compete effectively with firms with greater economies of scale and bargaining power. Consequently, the central role of the state is to rectify these market failures. Chang (1996) argues that “there are ways and means to devise institutional schemes to reduce the costs of state intervention while not foregoing the possible benefits from such intervention” (Chang 1996:45). A new institutionalist grounding enabled the researcher to identify what the needs of the sellers were and whether the support structures were sufficient for their economic growth.

The concept of social capital has been linked by Putnam (1993 cited in Taylor 2000) with effective civic engagement. In his analysis, the norms and networks born out of systematic face-to-face association enable participants to act together more effectively to pursue shared objectives. Engaging with others develops trust and capacity which are essential to the functioning of modern democracy (Taylor 2000:1026). “It is collective action - getting involved in influencing, planning, managing and working in local activities and services - that develops the skills and confidence that are needed if social exclusion is to be effectively tackled” (Taylor

2000:1029). Therefore, this research used participatory methods to include relevant stakeholders in the data collection and decision-making process. The aim of the research was to use these participatory methods to develop traits of cooperation, trust and share information between informal and small formal retailers.

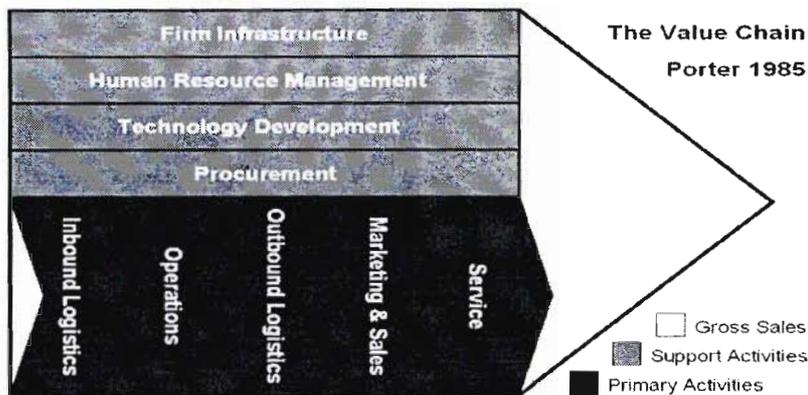
However, social capital is criticised for its intangibility and ambiguity as “it is anything connecting individuals that contributes to the economy on the basis of their individual endowments of non-social capital” (Fine 1999:16). Nevertheless, social capital does provide important contributions for assessing how small retailers can work together to strengthen their position in the value chain. In addition, new institutionalism provides a measure for the role of management in facilitating and promoting the economic growth of small retailers within the market.

### **3.2 Methodology**

Value Chain Analysis was adopted as the methodology to identify to what extent informal and small formal retailers were able to extract value from a product or service. A value chain is a chain of activities through which a product passes (Kaplinsky and Morris 2000). At each stage along the chain each activity it provides some added value to the product. Products pass along activities of the chain and at each activity the product gains some value. Wood (1999 in Gereffi & Kaplinsky 2001) states that value chains are essentially input-output tables and the values can be calculated for each final good sold in each country.

Porter (1985) pioneered the term value chains and provided a foundation for firms to identify inefficiencies, potential competitive advantages, and diversification opportunities (see below Figure 4). However, since Porter, variations of value chains have been developed and applied to assist different sectors and objectives. Gereffi *et al* (2001) warn that value chain analysis overlaps numerous fields and therefore varying terminology is used to describe similar notions. As an illustration, global commodity chains, value chains, value systems, production networks, and value networks are all used to describe the flow of value of a product (2001:2).

**Figure 4: Porter’s Value Chain model: 1985**



Source: adapted Porter (1985)

Nevertheless, Kaplinsky and Morris (2000:11) maintain that value chain analysis plays a key role in understanding the need and scope for systemic competitiveness. It can provide reliable information from which change initiatives can be developed. Furthermore, Kaplinsky (2000) argues that value chain analysis provides useful mapping for public and private policy. Specifically it focuses on the “dynamic shifting of producer rents through the chain, on the processes whereby key actors provide governance to production which occurs on a global basis, value chain analysis provides important insights into the policy challenges confronting both private and public actors” (2000:1).

Gereffi (1999) and Kaplinsky (2000) identify that there are two forms of value chains. One is the producer-driven chain which consists of large, usually transnational, manufacturers who coordinate production networks (including their backward and forward linkages). This is typical of capital and technology-intensive industries such as automobiles, aircraft, computers, semiconductors and heavy machinery (Gereffi 1999:3). The second is the buyer-driven chain where large retailers develop decentralized production networks in other, typically developing, exporting countries (Gereffi 1999:3). Within each of these chains Kaplinsky (2000) argues that the following three elements determine the effectiveness of the chain at adding value:

- **Barriers to entry and rent:** constraints, such as competition, that reduce the likelihood of success.
- **Governance:** the role of actors within each link of the chain and their impact on the

division of value.

- ***Systematic efficiency***: the ability to become more competitive by improving the efficiency of individual links in the chain. (2000:9-14)

This paper investigated buyer-driven local value chains and examined the barriers to entry for informal and small retailers, the impact of other actors in the chain and ways to improve the competitiveness of the retailers.

In addition, value chain analysis provides a useful insight into the complex linkages between the formal and the informal sector. It enables the mapping of product flows, relationships of power and potential opportunities for an actor to strengthen their position in the chain. Kaplinsky and Morris (2000) state, it “allows for an easy uncovering of the dynamic flow of economic, organisational and coercive activities between producers within different sectors even on a global scale” (2000:2). They illustrate that scrap metal collectors in South Africa are linked to global trade as they deliver metal directly to ships for exportation to steel furnaces (Kaplinsky and Morris 2000).

In summary, this investigation drew upon a number of approaches and was adapted to the circumstances of the target fixed location markets. However, it acknowledges that there are a number of ways to utilise value chain thinking but it was beyond the scope of this investigation to apply the methodological frameworks comprehensively but rather selectively choose techniques of analysis. Despite this, it was able to assign broad roles and impacts of stakeholders within the value chain, contributing to empowerment of small retailers and learning through knowledge-sharing, underpinned by the social capital framework. Nevertheless, value chains are important tools because “the mapping [of] the flow of inputs – goods and services – in the production chain allows each firm to determine who else’s behaviour plays an important role in its success” (Kaplinsky & Morris 2000:11).

### **3.3 Methods:**

This investigation utilised a broad range of empirical data collection tools and participatory techniques, such as value chain analysis to map the role of actions, flow of information and constraints to growth.

#### **3.3.1 Value Chain Framework<sup>6</sup>:**

The investigation applied value mapping and in each case analysed the components that constrain growth. The value chain framework is based on the value added to a product that is time, place, and price-specific. The market value chain is mapped by economic organisation, industrial and locational specificity within the parameter of total cost until sale. The study then went further to identify how value was appropriated among the various service providers and suppliers in the market. The investigation used the agents to map the flow of produce forwards along the chain to the end consumer and backwards to the producers, in order to identify all stages of the value chain. The agents were the most appropriate actor position from which to assess the value chain because they have the most interaction with other actors in the chain and hold accurate information regarding costs and processes until sale. The approach emphasizes the supply-side aspects of the markets and also enables the identification of industry-specific constraints; constraints driven by the economic organization and the location specific factors that constrain local economic development. The framework helps set priorities for targeted intervention not only at an industry and location specific level but also more broadly in terms of country-wide policies.

#### **3.3.2 Participatory Methods:**

Participatory research, as described by Robert Chambers (2005), argues that quantitative research does not produce the level of sustenance that is provided from discussion with stakeholders. Developing participatory strategies enables stakeholders to discuss and elaborate on their experiences, using methods that are complementary to their skills. A survey with restrictive answers prevents full utilisation of information and therefore its reliability may become

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<sup>6</sup> This is based on the GTZ. 2005. Value Links Manual. *The Methodology of Value Chain Promotion*. 1<sup>st</sup> Edition.

questionable. Nevertheless, these participatory methods were supplemented by surveys to gain a more substantive understanding of the experiences of small businesses.

Participatory Rural Appraisal practitioners argue that the purpose of research is to “collect information quickly with the participation of community members and to share it so everyone becomes empowered by that information and can participate better in the analysis and decision-making processes” (Bessette 2004:48). Therefore research ought to be used for the benefit of those that it involves rather than merely benefiting the researcher. Bessette (2004) warns that “such a process can be detrimental as researchers and practitioners when they think that they are doing participatory work, when in fact, community members are only ‘being participated’” (Bessette 2004:48), meaning that participants should be treated as subjects, empowered by the research, rather than objects to benefit the research. There is an emphasis on the responsibility of the researcher to act in a way that empowers the community rather than merely facilitating participation. Consequently, the researcher refrained from including their personal judgement but rather the overriding intent of the study was to relay information to both small and informal retailer and the governing municipalities to encourage communication and strengthen the decision-making process, empowering both parties.

### **3.4 Data Collection tools and Sampling:**

#### **3.4.1 Data Collection:**

Data was collected primarily through a random sample of 89 informal and small formal retailers that visit the two markets: Durban and Pietermaritzburg. Durban and Pietermaritzburg were chosen because they are the two largest fresh produce markets in KwaZulu-Natal, in terms of annual turnover of produce, and they provided a useful comparison of constraints facing small retailers in neighbouring cities (see Table 6). However, market officials at both locations were unable to estimate how many informal and small formal traders use the markets.

In practice, random sampling was conducted by approaching every second vehicle and identifying whether the business owner satisfied the definition of a small business, specified in the Small Business Act of 1996 (see Section 2.7). Minibuses transporting informal retailers to

the market were also identified as potential locations to perform interviews and their passengers were surveyed at random. It was difficult to estimate how many informal and small formal retailers access the markets as only information on individuals is collected (Interviews: Frank van der Spuy: Management PMB (19/09/2007) and Tony Naidoo: Management DRB: 13/09/2007). This was the most effective form of sampling as retailers inconsistently visited the market and often did not have a permanent physical location from which to trade at the market. Therefore, identification of specific individuals would have been extremely difficult. Purposive methods were also used within the agents and management to identify those who were involved in the creation of the two identified markets and also the key decision-makers who determine support structures for small retailers. A copy of the questionnaire is appended in Appendix 1.

Finally, each participant signed an informed consent form, which was explained by the researcher prior to each interview. Respondents were hesitant to sign as they many believed it meant they had to pay something or they were in trouble from the authorities. This was overcome by carefully explaining the content of the questions that the research was for personal use for a dissertation. However, this remained the dominant reason for refusals to participate.

**Figure 5: Pictures of informal retailers transporting produce back from Durban FPM**



### **3.4.2 Interviews:**

Individual interviews were conducted with 100% of the principle agents (6 in DRB and 5 in PMB) and 100% of Municipal management staff directly involved with the operations of 2 markets (4 in both DRB and PMB). Semi-structured interviews investigated the respondent's perception of the constraints facing small retailers, what was required to assist their development and what value they add to the chain. The same questionnaire was used as during the surveys with informal and small retailers but was amended to enquire of their perception of the situation facing small retailers that access the markets.

Respondents were given the option to remain anonymous. Where those quoted and referenced without a name requested to utilise this option and are referred to in the text by their actor grouping, such as informal retailer, small formal retailer, agent or management.

### **3.4.3 Focus Groups:**

Focus groups involve meeting relevant stakeholders in an environment that facilitates open discussion of issues. These meetings were conducted within the market premises after the hours of trading between Municipal management, agents and small retailers. Invitations were sent to management and agents at both markets for a time specified by the management as most appropriate, which were then followed-up during interviews. Small retailers were invited during each survey and reconfirmed the morning before the focus group. Table 4 displays that 15 people participated in the Durban focus group out of the 53 invited and only 4 participated in the Pietermaritzburg focus from the 55 invited. The low turnout can be justified by retailers as the pressure to be constantly pursuing incoming generating activities. However, management and agents agreed the time and availability for the workshop.

**Table 4: Overview of actors attendance at focus groups**

Actor	Durban	Piefermaritzburg
Management	4	3
Agents	5	1
Informal retailers	2	0
Small formal retailers	4	0

Discussions were broadly based on an agenda prepared beforehand, but questions were open-ended and encouraged elaboration and full member involvement. It facilitated experience-sharing, corroboration of constraints, debate over their prioritisation and opportunities that they believed would assist in their future development. Finally, in the course of their discussions, they were asked whether they incurred any constraints, and to write them down on cards supplied by the researcher.

Results were presented by each sub-group and discussed. Participants were then asked to present their cards and prioritise their five greatest constraints by individually rating them from 1 to 5. 1 was their greatest and 5 was their least severe of the five constraints. Finally, based on the business strategies discussed and the identified constraints participants were asked to discuss in different groups (to change the dynamics) to highlight potential opportunities to increase their profits and add value to the fresh produce chain. Findings are presented and discussed in Section 4.9.1.

### **3.5 Techniques of Analysis:**

The collected information was categorised, constraints prioritised, amalgamated in a value chain analysis, and highlighted their impact on the value chain and the interconnectivity of exogenous and endogenous factors. This was compared with the responses given by the Municipal market management and the data of business performance. Finally, the recommendations and log frames were constructed and discussed between interested stakeholders during a secondary feedback workshop. The aim of the workshop was to encourage discussion between stakeholders to act as a catalyst for positive communication to promote further collaboration. It complemented the

surveys and interviews by corroborating previous information and provided a deeper understanding of the problems faced within the market environment. In addition, the presentation was distributed to highlight the issues addressed and views expressed. Furthermore, copies of the research were made available to both the management and market sellers.

### **3.6 Pilot Questionnaire:**

The questionnaire was piloted with three participants who gave their feedback, and was then critiqued by the respective management teams. Their input was extremely helpful and as a result alterations were made and a questionnaire was produced that accurately addressed the concerns of small buyers using terminology that was understandable. This formed part of the participatory process to involve relevant stakeholders through experience and knowledge-sharing.

## 4 Chapter 4: Results and Findings

This chapter will aim to answer the following research questions previously posed in Section 1.3:

1. How are the markets governed and what support structures do the small retailers believe are in place to assist them?
2. What is the impact of small retailers on the value chain of a product?
3. How has the situation of small retailers changed over time?
4. What are the exogenous and endogenous constraints on small retailers within the market environment?
5. How would small retailers prioritise these constraints?
6. What developmental opportunities would be required to strengthen the economic position of small retailers within in the value chain<sup>7</sup>?

The chapter displays the findings from the data collection and interviews conducted within Durban and Pietermaritzburg FPMs between September and October 2007. The research within the Durban FPM consisted of 53 interviews, and 55 interviews at Pietermaritzburg FPM. A breakdown of the respondent types is displayed in Table 5. Methods of investigation included empirical data collection, questionnaires, semi-structured interviews and focus groups.

**Table 5: Respondent types at Durban and Pietermaritzburg FPMs**

Actor	Durban	Pietermaritzburg
Informal Retailers	31	38
Small Formal Retailers	12	8
Agents	6	5
Management	4	4
Refusals	25	16

The first section provides an overview of the governance of the market and the roles and interactions of actors within it. It examines the dynamics behind market transactions and areas

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<sup>7</sup> As an illustration, this may include collaborating with market to get health care or other forms of social security in place to provide a safety net in case they are sick or injured. These could help a firm function on a sustainable basis

where informal and small formal retailers are hindered. The second section addresses the perceived constraints and potential opportunities of informal and small retailers, whereas the third section displays the views of the market agents and management.

## **4.1 Background to Fresh Produce Markets:**

### **4.1.1 Durban Fresh Produce Market**

Organised fresh produce trading in Durban was originally located in the Market House and was opened on New Year's Day in 1876. Trading at the Market House continued until a new building was completed in July 1901 opposite the central town railway station. Due to the constraints of population growth and increased demand for fresh produce, the market was relocated to Warwick Avenue on the 3rd January 1940 (eThekweni Municipality n.d.).

From 1956/57 agents were introduced to the market and allowed to auction produce on behalf of producers or farmers. By 1973 the sale of produce by auction was discontinued and agents are now given floor space and sell produce, for a commission, to buyers, on behalf of the farmers.

Traffic congestion in the Warwick Avenue area and limited space to expand the market led to the market's relocation to its present site in Clairwood in 1975. The site is situated approximately 9km from the central business district.

### **4.1.2 Pietermaritzburg Fresh Produce Market**

The Pietermaritzburg Msunduzi fresh produce market (FPM) is located approximately 10km outside of the Pietermaritzburg central business district (CBD). The market is just off the major N2 highway, which improves access for individuals buying from the market. The present management have limited authority to instigate change as there were problems of corruption with the previous management team (Interview: Julie Dyer: PMB Management: 17/09/2007). As a consequence, there are tight controls on the present management's use of resources.

### 4.1.3 Turnovers of the two FPMs

Since 1991-2 Durban has maintained its position as the fourth-largest National Fresh Produce market in the country, dominating 9-10% of the market, whereas the Pietermaritzburg FPM is the 8<sup>th</sup> largest national FPM and has an average 3-4% share of the fresh produce marketplace annually (see Table 6). However, between 2003 and 2005, both FPMs have experienced a reduction in their revenue.

**Table 6: Revenue generated with National FPMs**

Market	1991/1992		1998		2003/2004		2004/2005	
	Rand Value	%	Rand Value	%	Rand Value	%	Rand Value	%
Johannesburg	R 507,881,847	30	N/A	31.7	1,854,771,465	34	1,799,224,781	33
Cape Town	R 266,676,155	16	N/A	13.3	740,006,876	14	696,464,642	13
Tshwane (Pretoria)	R 257,356,150	15	N/A	15.5	883,636,298	16	881,939,499	16
Durban	R 165,513,559	10	N/A	9.7	533,627,687	10	504,346,080	9
Springs	R 68,404,076	4	N/A	4.9	240,309,769	4	229,174,363	4
Port Elizabeth	R 64,729,433	4	N/A	3.3	151,857,569	3	150,899,716	3
East London	R 64,447,430	4	N/A	3.7	153,901,103	3	152,343,356	3
Pietermaritzburg	R 64,415,087	4	N/A	3.7	181,679,843	3	179,641,127	3
Bloemfontein	R 59,127,735	4	N/A	N/A	165,183,661	3	162,878,633	3
Klerksdorp	R 55,139,638	3	N/A	N/A	179,509,214	3	152,040,887	3

Source: adapted from Department of Agriculture: National Turnover Statistics. [www.nda.agric.za](http://www.nda.agric.za)

Furthermore, potatoes are the most widely sold commodity in terms of turnover (see Table 7).

**Table 7: National Turnover of fresh produce from 2001-2005**

	2001/2002	2002/2003	2003/2004	2004/2005
Fruit	20.8%	17.4%	19.7%	20.6%
Bananas	9.5%	7.6%	8.5%	9.2%
Vegetables	23.6%	22.3%	22.3%	23.5%
Potatoes	32.7%	40.3%	36.0%	33.0%
Tomatoes	13.5%	12.3%	13.5%	13.7%

Source: adapted from Department of Agriculture: National Turnover Statistics. [www.nda.agric.za](http://www.nda.agric.za)

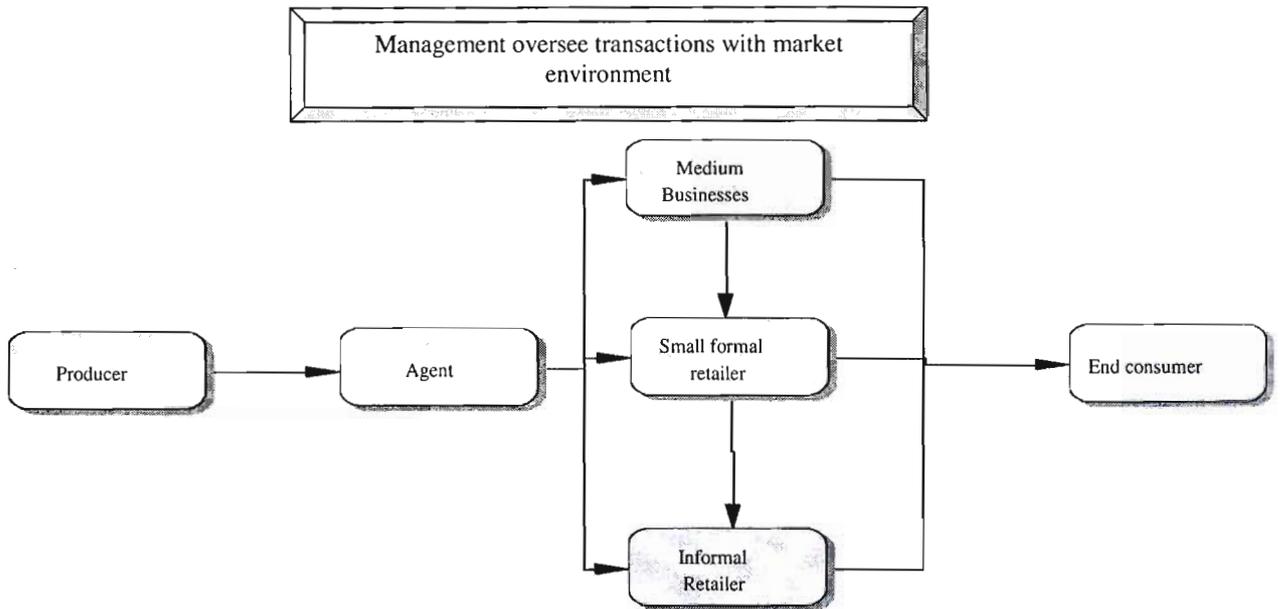
Market officials estimate that approximately 40% of sales from the Durban FPM end up for sale in the Early Morning Market, in Durban, and are therefore an important contributor in the

'informal' economy. Furthermore, between 65% and 80% of the fresh produce sold by the 'informal' economy in Durban occurs in the Durban Metropolitan Market (Witt 2000). Therefore, fresh produce provides a vital role in the economic development of informal trade in KwaZulu-Natal.

#### **4.2 Governance of the markets and support structures**

Transactions within the FPMs are overseen by the Municipal management. Produce is transported to the market by the producer, which is then stored by an agent in preparation for the next day's trading. An agent sells to a medium or large business, small or micro business or an informal retailer. However, medium businesses are increasingly by-passing the market environment and buying directly from the producer. Medium businesses, such as supermarkets, may buy from agents or directly from the producers. Small buyers or platform retailers, buy from the agents and either sell to the end consumer or to informal retailers. A value map displaying the flow of fresh produce between actors is presented below in Figure 6.

**Figure 6: Value Map of the flow of fresh produce between actors:**

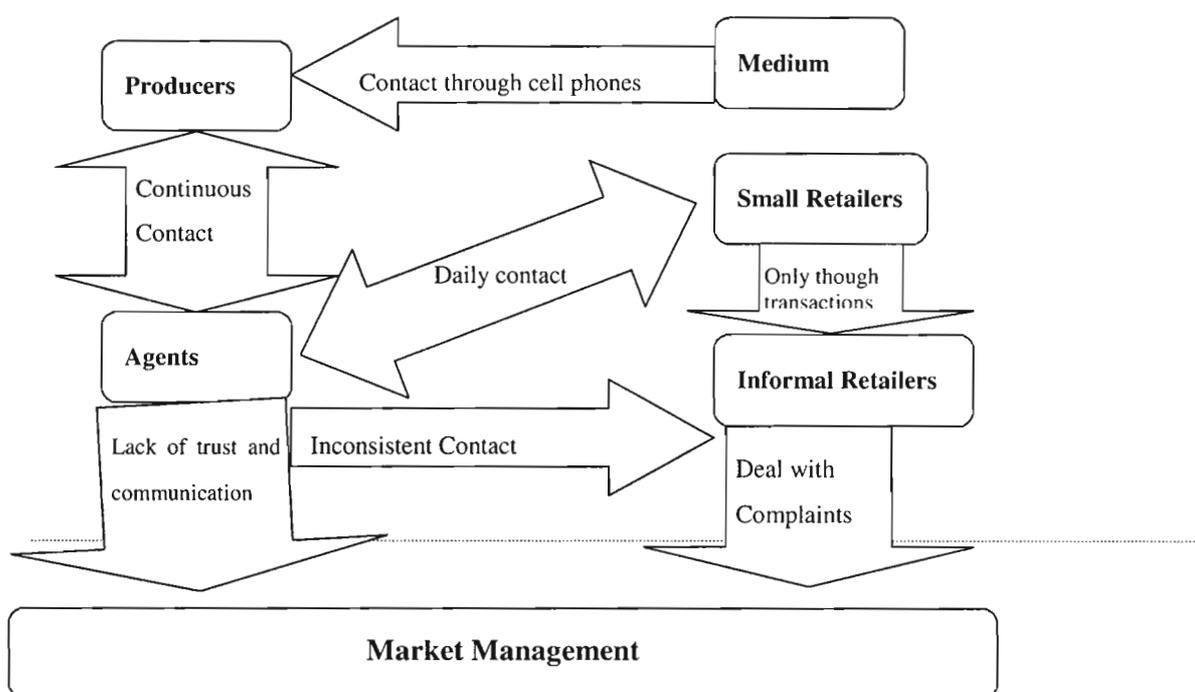


Definitions of the relevant actors in the chain are described below:

- **Producer:** an individual or company that grows produce with the prospect to sell the produce as food.
- **Agent:** An intermediary that sells produce on behalf of the producer and receives 6-7% commission on total sales.
- **Management:** Municipality department responsible for overseeing the transactions and maintenance of the facility. They receive 5% commission on total sales for this service.
- **Medium businesses:** Firms which generate between R25 million and R50 million annually and employee between 50 and 100 staff.
- **Small formal retailers:** Firms which are formally registered for tax but generate less than R25 million and employee less than 50 staff.
- **Informal retailers:** Individuals which are not registered for tax and have do not trade from a fixed building location. This does not exclude fixed stall locations.
- **End consumer:** The individual or group that finally consume the product.

The transferral of knowledge and information to support decision-making all relevant stakeholders is illustrated in Figure 7. The diagram indicates that information sharing between producers, big buyers and agents is regular and strengthens mutually-beneficial relationships. Informal retailers are in the weakest position and have little opportunity for support from management, small formal retailers and agents

**Figure 7: Flow of Knowledge and Information between actors in Value Chain**



### 4.3 Functioning of Fresh Produce Markets:

The operating functions of the Durban and Pietermaritzburg FPMs are virtually identical as both are managed by their respective municipalities and operate the same methods of financial transactions. The market is designed to act as a facilitator of transactions between agents and the buyers. Agents operate as intermediaries for producers and sell their produce on their behalf. The Durban Fresh Produce Market currently has six agents operating, all of which have their specific designated area from which they trade. Their areas are again sub-divided for each product. As a result, buyers move between trading areas comparing and negotiating prices.

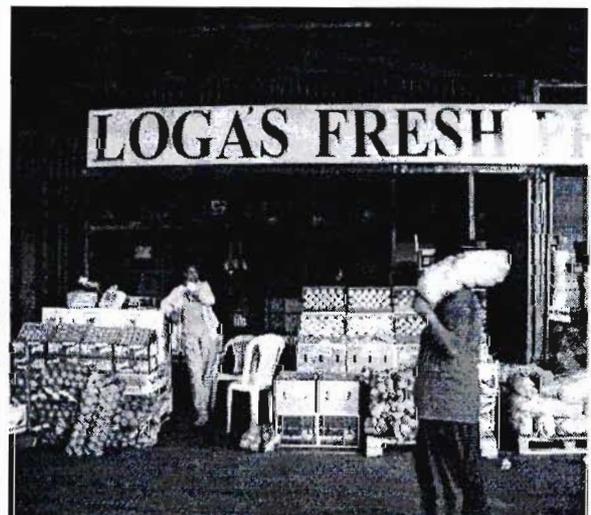
Agents receive a commission of 7% from the sales of all produce, deducted from the revenue generated for the producer. Potatoes and onions are an exception, which have a rate of 6% due to the increased quantity that they sell. Agents are able to be flexible with the size of their commissions to a limited degree, and often use it as a strategy for retaining existing or attracting new producers. Therefore, there are incentives for agents not just to sell for the highest price but also to sell quantity and increase their turnover of stock. This is due to the perishable nature of fresh produce. Therefore, a quick sale is vital for the survival of an agent, minimising the opportunity cost of wastage.

The allocated space for agents is decided at a meeting held by the management of each market annually. The spaces are determined by the average growth of each retailer. If a specific agent grows or declines by more than 3% of sales revenue then their floor space is altered. As an illustration, if one agent has -5% growth in one year and a competing agent has a positive 5% growth then, 5% of the space moves to the control of the expanding agent. This is not done on total volume sold but rather on their percentages of sales revenue, allowing agents that have lost space one year to recoup it the next. An example of the trading area is illustrated below in Figure 8:

**Figure 8: Trading area of Durban FPM for Agents**



**Figure 9: Outside area for platform traders at Durban FPM**



Municipal management oversee transactions and maintain the market facilities, providing services such as cleaning, cold rooms, banana ripening rooms and secure methods of payment. They receive a 5% commission of the total monetary value of sales during the day's trading. This commission is fixed and has remained static since its inception. Consequently, it is also in the interests of the management to provide an efficient environment that encourages an increased quantity of sales, as this leads to an increase in revenue for the respective municipalities.

The method of making financial transactions is unique to market environments. A buyer arrives at the market to purchase produce but before they begin, they must register as a buyer and credit their account with cash. The cost of registration and processing of the card is R11.50, which must be paid immediately by the buyer. They then receive a card which acts as a bank card and contains their account balance. To purchase from an agent they agree upon a price, which is negotiated between the buyer and agent. The agent then scans the buyer's card and the agreed amount is then debited from the buyer's account. Once the buyer's account is empty then they are unable to purchase any more produce and must re-credit their account. The role of the Municipal management is to ensure that producer is protected, agents and management receive their correct commissions and there is no theft of stock (Interview: Andre Young: DRB Management: 10/09/2007).

However, specifically in Durban, those that do not wish to purchase a card are able to pay for produce in cash from platform retailers, located within the Fresh Produce Market (see Figure 9). These platform retailers buy in bulk from agents, using the card system, and sell to the smaller buyers and informal retailers. They add a mark-up on the product and informal retailers can purchase produce using cash rather than the card system. As a result, any benefits that the card system brings in terms of controlling produce and flow of money is counteracted by the role of the platform retailers.

The value that the platform retailers add to the process is that the buyers can buy smaller quantities and use cash for the transaction. However, with every tier that is added into the chain

the less value is passed on. “They (platform retailers) do not actually add value to a product because they buy the product, move it outside and add R2-3 a [bag]” (Interview: John Bell and Co: Agent: 12/09/2007). Consequently, those at the bottom of the chain are the small and informal retailers, whose only option is often to buy in small quantities. They often do not want to use the card system, and therefore have to pay higher prices for the same produce, which further limits the value they can add to the process. “The shorter you make the chain the more value you keep within the chain” (Interview: RSA: Agent: 11/09/2007).

#### **4.3.1 Pricing Structures:**

The fresh produce market provides a fluid environment for supply and demand pricing structures. The perishable nature of produce creates incentives for agents to maintain a constant turnover of stock and reduces the incentives to artificially inflate prices. Prices are predominantly higher at the beginning of the day’s trading than at the end, because agents are trying to sell stock and reduce their amount of wastage. If they are unable to sell surplus stock it will remain in storage, for another twelve hours before the next opportunity for it to be sold. As its quality deteriorates so too does the price for which it can be sold, and hence, lower commissions of both agents and management.

By contrast, there is the incentive for the buyers to purchase produce later on in the day for lower prices but they face a trade-off of having lower quality of product remaining. Therefore, the buyers may pay higher prices at the beginning of the day, but have a greater selection and higher quality.

In addition, the quantity of the produce on the floor and the current demand for that product determines the price. In a competitive environment the price is also determined by the prices offered by the other agents. As an illustration, if an agent drops his prices on oranges the others many follow suit or risk not selling their stock. Furthermore, the perishable nature of the specific product is also a consideration in setting the price. For example, agents are more inclined to reduce their price on soft fruits than they would for potatoes, which have a longer shelf life.

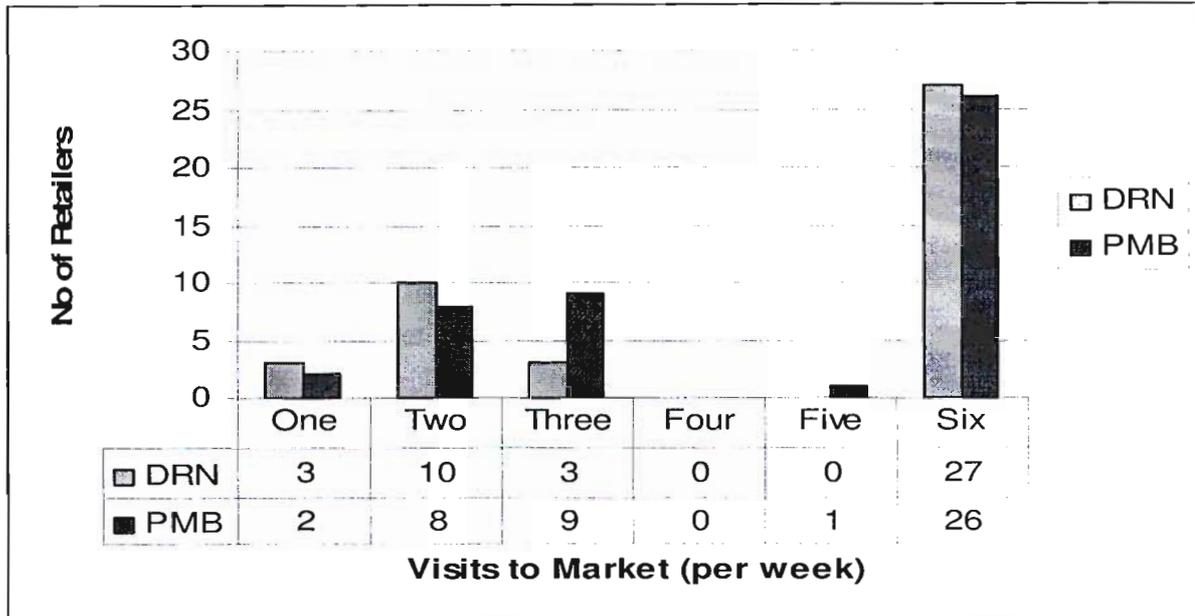
Buying produce in bulk is the overriding method for buyers to reduce the unit cost of buying produce. Agents are more inclined to reduce the cost a pocket of potatoes by R1 if the buyer wants to buy a pallet, containing two hundred pockets. Conversely, larger buyers have the power to drive down the unit price by threatening not to buy from the agent and purchasing from one of their competitors. Agents have an incentive to reduce their prices to attempt to retain the loyalty of the larger buyers. Therefore, this method favours the larger buyers that can buy in bulk and negatively impacts on the bargaining power of the small or informal retailer that wants to buy just one pocket.

The relationship between the buyer and the agent is also a determining factor in the agreed price. Salesmen identified that they are likely to offer a lower price to a buyer that they know will be loyal and buy from them on a regular basis. Again this adversely affects the informal retailer who is unlikely to come to the market daily, from either the central business district or neighbouring rural communities because of the high costs of transport.

#### **4.4 Frequency of small retailers at fresh produce markets**

The frequency of informal and small retailers visiting FPMs in Durban and Pietermaritzburg are displayed in Figure 10. Results from questionnaires performed with informal and small retailers at Durban FPM displayed that 63% of retailers interviewed visited the market every day that it operated (all except Sundays). This high proportion is reflected by 68% of retailers questioned in Pietermaritzburg. No retailers in Durban and only one in Pietermaritzburg visited the market either four or five days per week (see Figure 10).

Figure 10: Frequency of retailer visit to the market per week: Durban (n=43) and Pietermaritzburg (n=46)



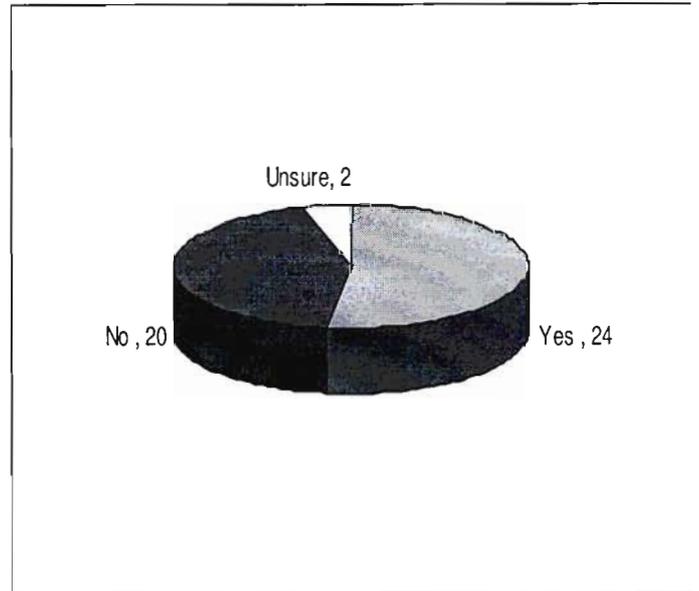
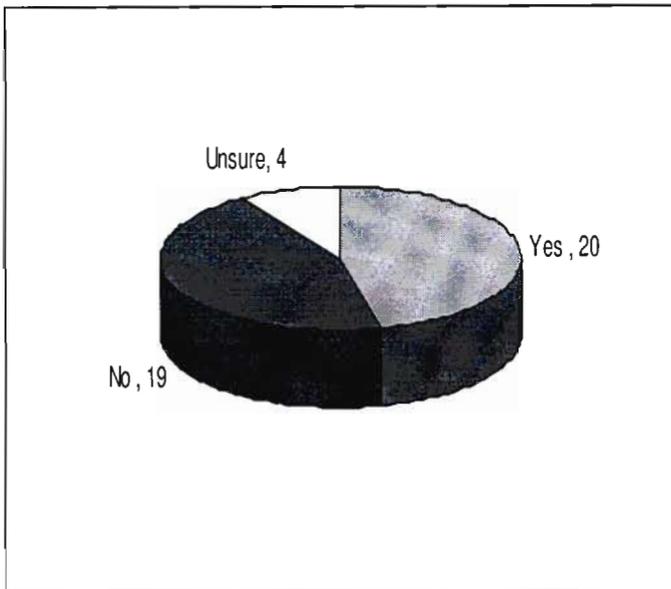
The perishable nature of the fresh produce meant that retailers were often unable to visit the market just once a week. Conversely, the relatively high transport costs and location of the market meant that not all retailers were able to afford to access the market every day. Issues surrounding the cost of transport are addressed further in Section 5.2.5.

It is worth noting that the majority of respondents did not have a regular routine of visiting the market. There were a number of factors that affected how regularly they would return to the markets. Factors cited by respondents were: high transport costs, police confiscating stock, theft, inability to sell previous stock to purchase more stock, and the current high prices at the market. These constraints will be analysed in the following chapter.

## 4.5 Impact of small retailers on the value chain of a product

Figure 11: Ability to Negotiate Prices with Agents in Durban FPM (n=43)

Figure 12: Ability to Negotiate Prices with Agents in Pietermaritzburg FPM (n=46)



Contrary to the initial hypothesis, the majority of respondents, 46.5% in Durban (Figure 11) and 65% in Pietermaritzburg (Figure 12), believed that they were able to negotiate prices with agents. Respondents highlighted their ability to buy in bulk as the primary reason and their relationship with the respective agent as the secondary determinant in their ability to purchase goods at a lower price. Those that were unable to negotiate prices argued that they could not afford to buy enough to gain discounts and also cited discrimination because agents did not view them as “important”<sup>8</sup>. There was a positive correlation between retailers that believed they were unable to negotiate prices and their low levels of spend per week. The data collected corroborates this but is not conclusive because many traders, especially those that were unable to negotiate prices

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<sup>8</sup> Interview: Informal retailer in Durban FPM: Questionnaire: 11 (13/09/07)

did not have an average weekly spend but rather their purchasing were dependant on that particular day's prices.

#### 4.6 Exogenous and Endogenous Constraints faced by Informal and Small Retailers

The constraints faced by small retailers varied greatly between Durban (Figure 13) and Pietermaritzburg (Figure 14), except the high prices of fresh produce, shelter and competition with other small retailers which were similar. Police harassment was a dominant constraint in Durban but was not given the same weight in Pietermaritzburg. Interestingly, the lack of transport to and from the market was not highlighted as a constraint during surveys but was a perceived to be a predominant constraint in the interviews and workshops.

Figure 13: Constraints faced by Informal and Small Retailers at Durban FPM Figure (n=43)

Figure 14: Constraints faced by Informal and Small Retailers at Pietermaritzburg FPM (n=46)

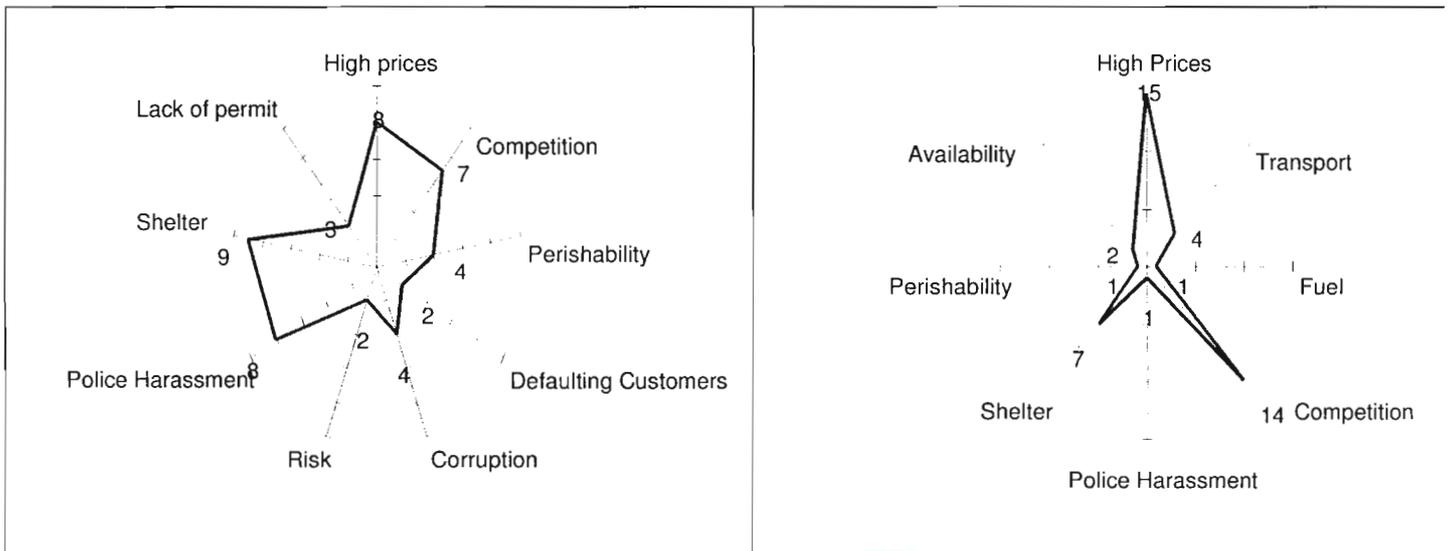
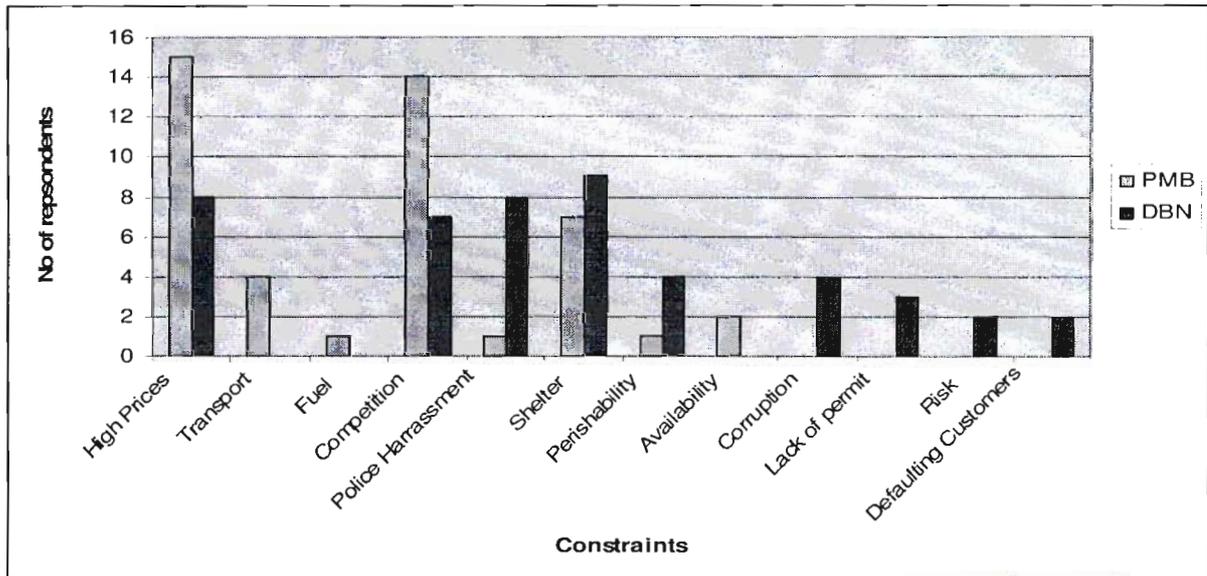


Figure 15 provides a comparison of Figure 13 and Figure 14, illustrating that high prices (26% of respondents), competition (26%), shelter (18%), police harassment (10%) transport (5%) were, comparatively, the most important perceived constraints facing informal and small formal retailers in Durban and Pietermaritzburg, yet there was a wider dispersion of issues facing

retailers in Pietermaritzburg than Durban.

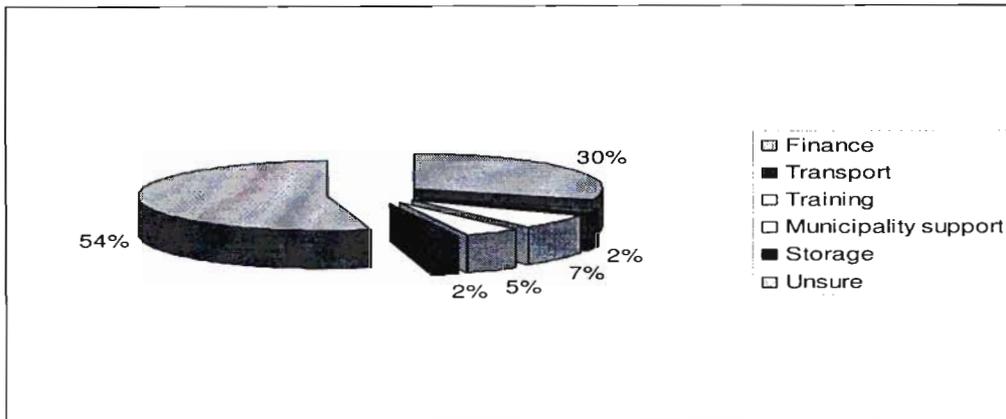
**Figure 15: Comparative Analysis of Constraints facing Retailers in Durban and PMB Fresh Produce Markets**



#### **4.7 Opportunities required to strengthen the position of Informal and Small Retailers**

The respective figures from Durban (Figure 16) and Pietermaritzburg (Figure 17) show that although respondents identified that there were factors that were constraining their development the vast majority did not know what could be done to amend them. This could in part be due to lack of awareness of support services available to them. This will be further analysed in the following chapter.

**Figure 16: Opportunities to strengthen the position of Informal and Small Formal Retailers: Durban FPM (n=43)**



**Figure 17: Opportunities to strengthen the position of Informal and Small Formal Retailers: Pietermaritzburg FPM (n=46)**

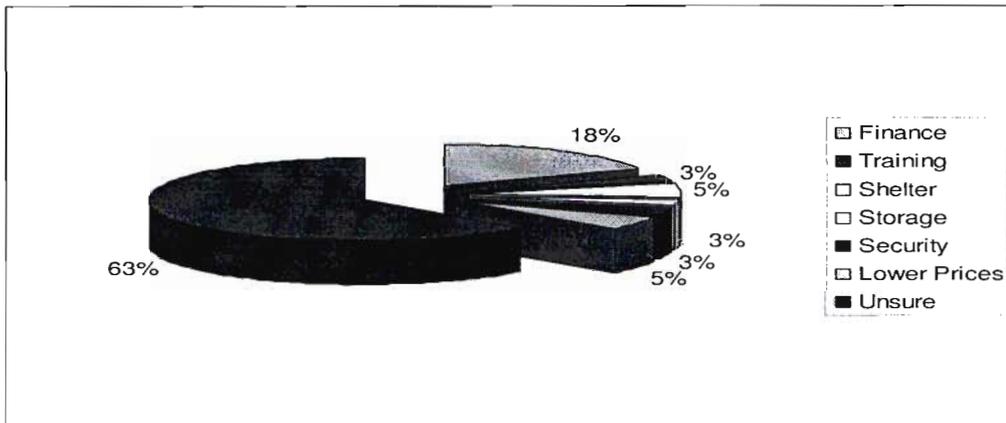


Figure 16 and Figure 17 illustrate that the vast majority of respondents from both sites (54% in Durban and 63% in Pietermaritzburg) were unsure what opportunities were available to enable them to strengthen their position in the value chain or increase the revenue of their business. However, finance, such as credit, training, shelter and storage were all identified as possible opportunities. The following chapter will analyse the causes and effects of these constraints further.

#### **4.8 Limitations to findings:**

The participatory techniques used during workshops aimed to empower participants, by enabling them to share their experiences and express their perceptions of what problems they faced and what was required to assist in their development. However, attaining detailed financial information from retailers that do not keep accounts caused disparities in the quantitative data (see Witt 2000). A high proportion of retailers were unaware of their weekly spend in the market (48% in Durban and 52% in Pietermaritzburg) and also knew that certain factors were constraining them but were unable to identify those specific factors. Nevertheless, this in itself provides interesting information regarding business awareness and will be addressed in the following chapter.

#### **4.9 Perceptions of constraints from Interviews with Agents and Management:**

Interviews with the management and agents identified that the relative high price and the small retailer's inability to purchase in bulk was perceived to be their dominant constraint (Figure 18). In addition, agents and management highlighted the affect that police harassment had on their ability to purchase, especially in Durban. Police harassment included the confiscation of stock without proper investigation, consumption of confiscated stock by police, and physical intimidation. Finally, the high cost of transport was perceived as a major constraint, which was not identified during the questionnaires with the small retailers.

Figure 18: Perceived constraints to small retailers as reviewed during interviews with agents and management staff of the Durban and Pietermaritzburg FPMs.

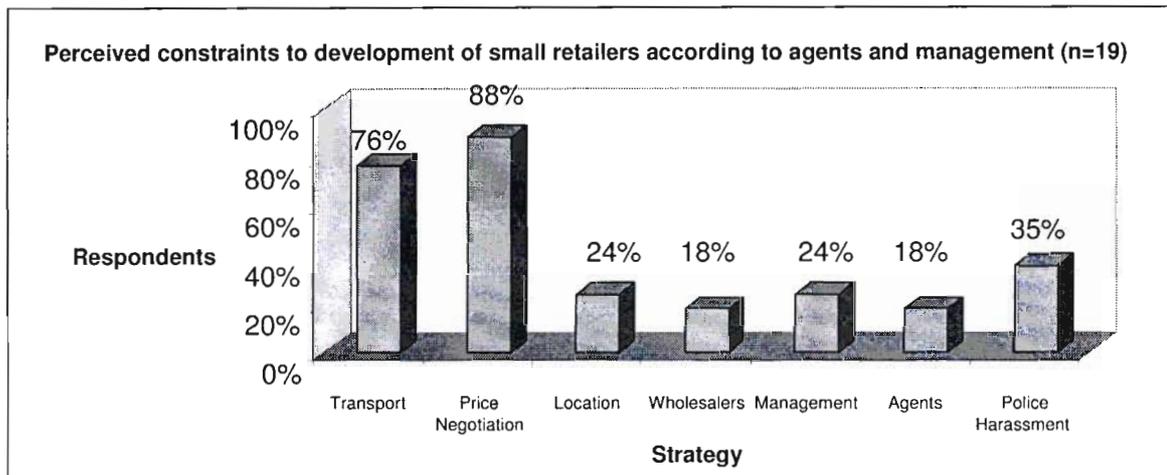
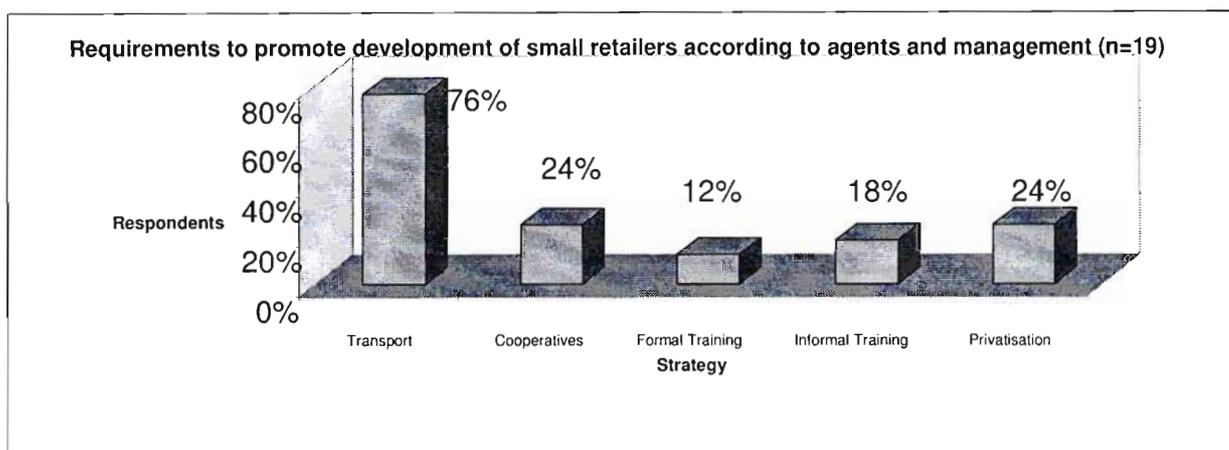


Figure 19 shows that 76% of agents and management referred to the development of a transport system or improved transport links as a developmental opportunity at the markets. The development of formal training programmes were championed by management staff whereas the agents favoured informal information-sharing (18%) as a more effective method of increasing the knowledge base of small retailers. Finally, the formalisation of cooperatives (24%) was strongly recommended by management staff and the privatisation of the market (24%) was noted by the agents. The feasibility of these opportunities will be examined further in the following chapter.

**Figure 19: Perceived opportunities for small retailers as reviewed during interviews with agents and management staff of the Durban and Pietermaritzburg FPMs.**



#### **4.9.1 Prioritisation of constraints:**

The sample size at the workshops was not large enough to be able run any statistically significant data analysis, due to the relatively low turnouts at the focus groups. 53 respondents were invited to participate in the Durban focus group and 55 were invited in Pietermaritzburg. However, 15 interviewees participated in the Durban focus group and only 4 interviewees participated in the Pietermaritzburg focus group. Section 3.4.3 provides a brief explanation of this low turnout. Nevertheless, the findings can be used to identify areas where there was consensus between participants.

Participants were asked to agree upon a list of constraints that they perceived to be facing informal and small formal retailers. They were then asked to prioritise which five were the most significant, with 1 having the greatest significance on the development of their business, 2 the second greatest and so on until 5 displayed the least significant out of their five chosen. The results are displayed below in Table 8.

**Table 8: Comparative Prioritisation of constraints<sup>9</sup> perceived by management and agents**

	1=Most		2		3		4		5=Least		Frequency:
	DRB	PMB	DRB	PMB	DRB	PMB	DRB	PMB	DRB	PMB	
Location of market	1	1	4	1	4	0	5	0	0	0	16
Bulk Buying	4	0	1	1	3	1	0	1	0	0	11
Cost of transport	3	0	2	0	4	2	1	1	1	1	15
Weather / shelter	0	0	0	0	0	0	0	1	0	0	1
Poor maintenance of storage facility	0	0	0	0	0	0	3	0	1	0	4
Storage for balance of stock	0	0	0	1	3	1	1	1	1	1	9
Perishable	0	0	0	0	0	0	0	0	5	0	5
Facility: trading area	6	0	2	0	2	0	0	0	1	0	11
Lack of co-ordination	0	0	0	0	0	0	1	0	3	0	4
Police Intimidation	0	0	0	1	0	0	0	0	0	1	2
Permits	0	3	0	0	0	0	0	0	0	0	3
Trading Hours	0	0	0	0	0	0	1	0	0	0	1
Trust between buyers	0	0	0	1	0	0	0	1	0	0	2

Based on the preceding table the following points can be inferred:

- The location of the market and the high cost of transport were consistently believed to be constraints to the development of businesses. They had the two highest frequencies out of the constraints and 14 out of 15 Durban participants identified it as a constraint and 11 identified the cost of transport as a constraint in Durban and all 4 participants in Pietermaritzburg. However, there was not consensus on how much of a constraint the location of the market is to informal and small retailers.
- Police intimidation was not identified as a constraint in the Pietermaritzburg FPM focus group but 7 out of 10 agents and management from Durban FPM highlighted police harassment as a problem during individual interviews.
- Shelter was not identified as a constraint in the focus group whereas 9 retailers in Durban and 7 in Pietermaritzburg noted that this was a constraint to their business during surveys.

<sup>9</sup> Prioritisation of constraints: 1 = most important, 2 = 2<sup>nd</sup> most important, 3 = 3<sup>rd</sup> most important, 4 = 4<sup>th</sup> most important 5 = least important

- Permits were identified by 3 out of 4 of the participating Pietermaritzburg agents and management but no Pietermaritzburg retailers identified this as a constraint; rather it was identified by 3 Durban retailers.

The ambiguity of these terms makes it difficult to draw clear conclusions but does allow for causal relationships to be constructed. The fact that many of these constraints overlap means that they are interrelated with each other and therefore a constraint cannot be minimised without addressing other constraints simultaneously.

#### **4.9.2 Limitations to the focus groups**

The focus groups were constrained by the following limitations:

- The timing and location of the focus groups meant that there were few informal and small retailers present, but was identified as the location where most stakeholders would be present. However, retailers were unable to remain at the FPM after trading to participate but rather had to return to their point of trading to pursue income generating activities;
- Low turnout at Pietermaritzburg, although all management and agents confirmed their attendance, meant that the focus group findings at the Pietermaritzburg focus group cannot be presented as representative of all the agents and management; and finally,
- Although participants were asked to formulate their own priorities of constraints they were under some peer pressure and both management teams were outspoken in terms of their opinions of the problems facing informal and small retailers.

#### **4.10 Conclusions:**

The research findings have sought to answer the previously posed research questions. It has been derived that presently informal and small formal businesses have relatively little impact on the value chain and the main constraints of this are the high prices of produce and the high levels of competition. The ability to overcome these constraints is based on the ability of the retailer to buy in bulk, which will also increase the information-sharing and relationships with agents. However, specifically within Durban police harassment constricts the spending and business development of informal traders. This view was not reflected in Pietermaritzburg.

Finally, finance, training and training were all identified by stakeholders as potential means to increase their bargaining power and strengthen their position in the chain. All of these findings will be analysed further in the following section.

## 5 Chapter 5: Analysis

This section of the paper will analyse underlying causes for the constraints facing informal and small formal retailers using data discussed in the previous chapter, value chain analysis and information from recorded interviews and focus groups. It will examine the interconnected relationship between the constraints and identify potential opportunities for retailers to strengthen their position in the chain. Log frames have been developed and attached in Appendix 2.

### 5.1 Value chain of constraints regarding fresh produce

The research indicated that each actor within the chain faces some form of constraints. Figure 20 illustrates the constraints faced by each actor involved in the chain, taken from interviews with various stakeholders, and

Figure 21 specifically displays the constraints that informal and small formal retailers face at each stage: from purchase of fresh produce from the market to resale of their stock. From the value chain it can be suggested that there are numerous constraints to their development, but the final step is one of the greatest concerns. Irrespective of what value added services the retailer can offer, if they sell in an area of the CBD that does not attract customers with high levels of disposable income then their profit margins per unit are automatically restricted. Therefore, in order to increase their share of the final product price they must reduce the associated costs that increase the overall cost of the product.

Figure 20: General constraints expressed by actors with the fresh produce value chain

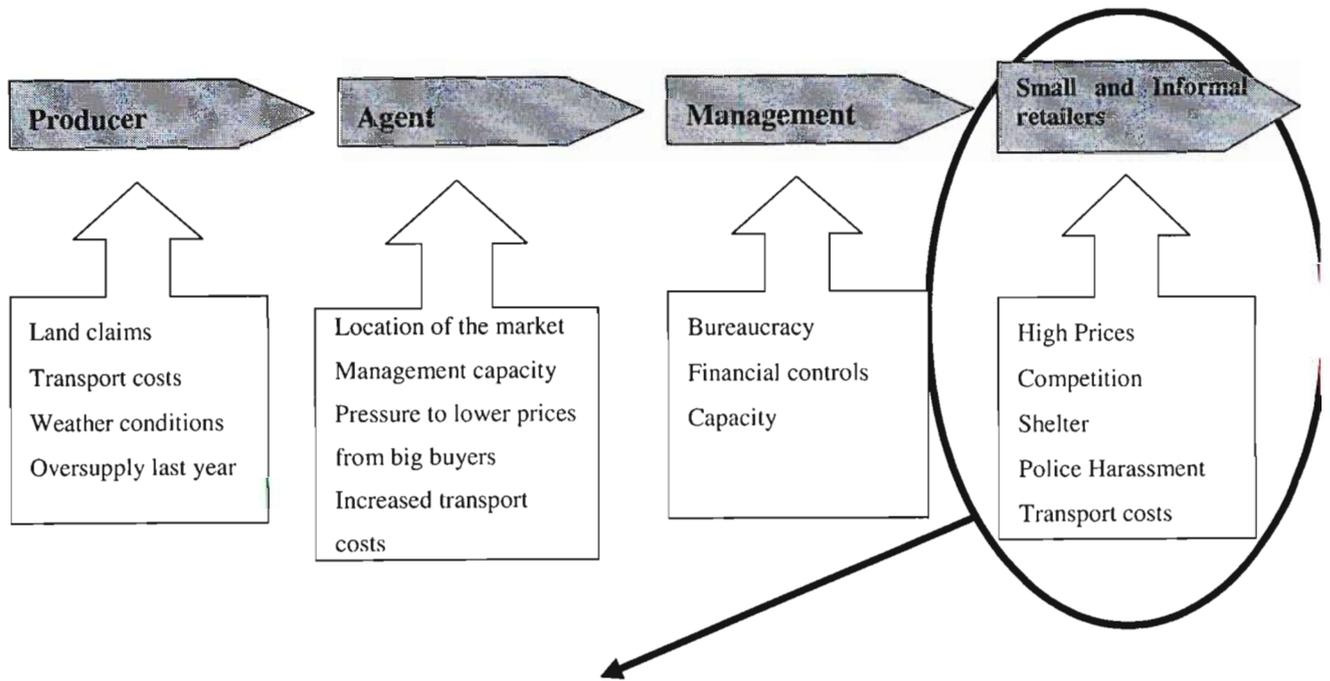


Figure 21: Constraints faced at each stage of purchase to resale by informal and small formal retailers

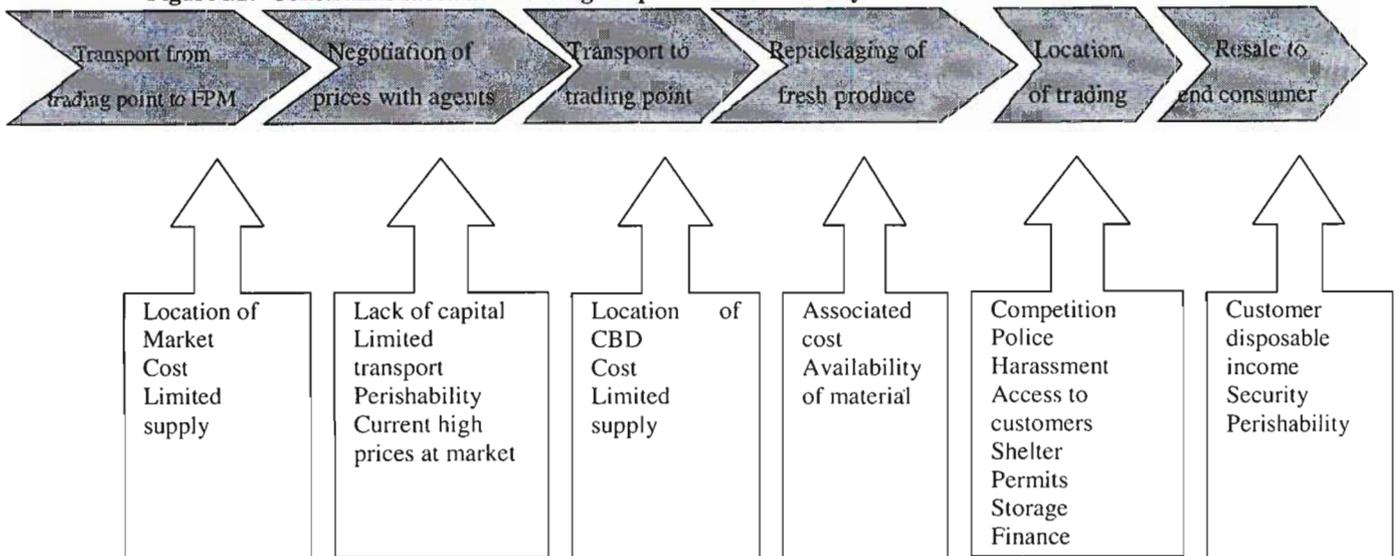


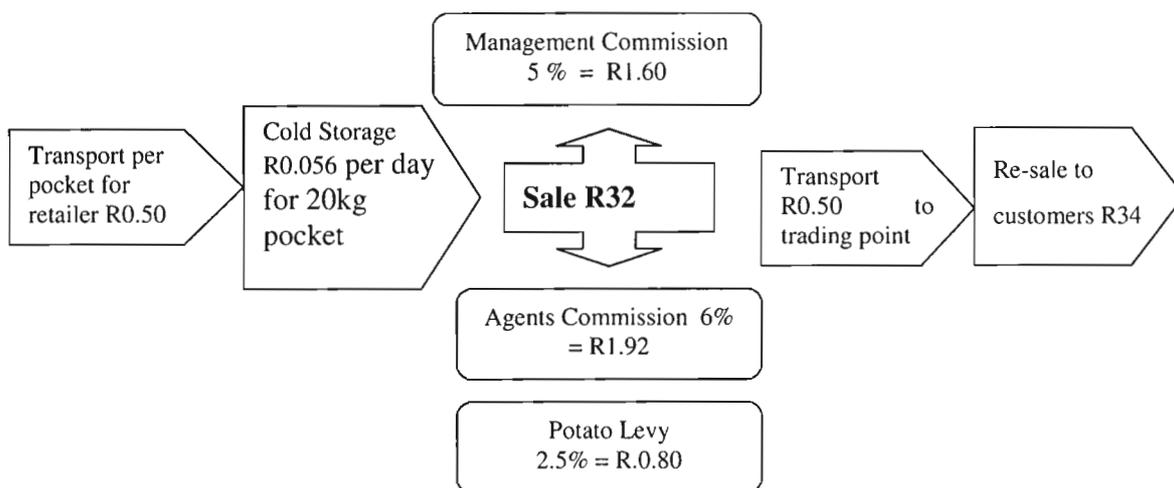
Figure 22 illustrates the pricing constraints placed on informal and small formal retailers with the market environment. The value chain tracks the incurred costs for a small retailer without personal transport to purchase and resell a 20 kg pocket of washed potatoes. This product was chosen to analyse because it is the most abundantly sold product within the market (see Table 7). The information was collated during focus groups with agents, retailers and management to establish the specific costs associated with a particular product. The agreed market price for a 20kg pocket of washed potatoes was R32 on 16/09/07 in Durban. The producer received R25.42 after costs and commissions are deducted. The calculation has been broken down below in Table 9:

**Table 9: The associated costs incurred by producers for 20kg pocket of potatoes**

<b>R32</b>	<b>Price sold at Durban FPM</b>
R2.20	Transport per pocket from producer to market
R0.056	Cold storage overnight before sale
R1.60	Management 5% Commission
R1.92	Agent 6% Commission
R.80	Potato levy 2.5% (paid to Potato Industry Development Trust)
<b>R25.42</b>	<b>Final price to producer</b>

Participants in the focus groups estimated that per pocket it cost an informal retailer R0.50 each way on transport by minibus from the CBD to FPM. In addition, a R32 pocket of potatoes retailers estimated that they would be able to resell it for an average of R34 within the CBD (see Figure 22). Therefore, retailers were unable to generate a significant profit from the sale of potatoes.

**Figure 22: Value chain of purchasing a 20kg pocket of washed potatoes<sup>10</sup> for a small retailer using minibus transport from the CBD.**



Consequently, retailers who were without transport stated they would no longer sell potatoes because of the low mark-up, and the size and weight of produce restricts them from carrying more profitable items. Therefore, there has been a change by retailers from selling potatoes to selling more profitable items such as fruits, such as apples and oranges. This is a difficult trade-off as there is a dilemma between the profit margins of products versus their perishability. A number of respondents identified that they would only purchase perishable items if they could guarantee their re-sale within the day of trading.

<sup>10</sup> The prices were determined through a consultative process with agents, management, informal and small formal retailers. Averages were taken and applied to the price of a 20kg pocket of washed potatoes on 15/09/2007 in Durban FPM.

## **5.2 Exogenous and endogenous constraints**

The following sub-section assesses the causes and effects of the constraints identified in the previous chapter:

### **5.2.1 Location and access:**

The Durban and Pietermaritzburg FPMs are both located outside of the CBDs and are not located on direct public transport routes. 24% of agents and management identified that the markets are inappropriately placed for retailers who are unable to afford their own means of transport. “It is incorrectly situated. It is too far from the CBD and many have to take taxis or even bicycles. We estimate that 60% of the hawker trade does not come to Pietermaritzburg market but [traders] rather buy from the wholesalers in town” (Interview: Peter and Co: Agent: 17/09/2007). Therefore, by not making it easier for retailers without their own transport to access the market, the agents and (by association) the Municipality both lose revenue. Although it may be argued that increasing access may have unintended consequences of hindering the existing businesses using the market, as it opens up to more competition, it will benefit those which are unable to finance their own transport and therefore assist those in a weaker position.

Furthermore, Durban agents have identified the same constraint. “The market is in a poor location to supply the city. It is not well-suited to get the small buyers and therefore a location within the city is a much more viable location, in terms of generating sales” (Interview: John Bell and Co: Agent: 13/09/2007). However, the eThekweni website states that “The site was selected for its proximity to the then railway administration and major road transport routes. The site is situated about 9 km from the City centre and is sufficiently remote to avoid being affected by traffic congestion, yet close enough to the commercial centers to service them”<sup>11</sup>. Nevertheless the research argues that it is neither convenient nor located on major public transport routes.

Although the surveys did not identify the location of the market as a constraint, it was associated with the high costs of transport to and from the market, and the inability of retailers to sell their

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<sup>11</sup> <http://www.durban.gov.za/durban/services/departments/market/overview> (12/02/08)

produce at a profit because of the costs incurred when purchasing their stock.

### **5.2.2 High prices:**

Issues surrounding the prices of produce in the market were evident throughout the research. It was the most frequently cited constraint in both markets by retailers, which was linked to retailers' inability to negotiate prices with agents. It was obvious that current prices were high in comparison to six months ago (Interview: RSA Agents: 11/09/2007). This may have been as a consequence of seasonality and the recent bad weather during the winter. "They (prices) are so high at the moment because of the lack of supply this year. Last year there was an over-supply and many [producers] went out of business" (Interview: G W Poole: Agent: 17/09/2007). However, many participants reported that prices seemed to have grown steeply since 1999. Retailers were concerned that if there was not a reduction in prices then they would be unable to compete with the medium businesses and would have to find alternative employment.

In addition, the cost of produce in the Pietermaritzburg and Durban FPMs is relatively more expensive when compared to the same product in Johannesburg, because of the increased transport costs. It was estimated that it takes 3 days for a farmer to transport his produce from the Transvaal or Eastern Cape to KwaZulu-Natal, whereas it only takes 1.5 days to reach Johannesburg (Interview: Wenpro: Agent: 12/09/2007). As a result, agents estimate that there is an added R1-2 per pocket compared to Johannesburg (Interview: Peter and Co: Agent: 17/09/2007). Subsequently, if the cost of fuel continues to increase the agents envisage that producers will prefer to supply Johannesburg (Interview: John Bell and Co: Agent: 13/09/2007).

### **5.2.3 Bulk Buying:**

The ability of the buyers to attain a discount on produce from the agents is predominantly dependant on their ability to buy in bulk. 88% of agents and management highlighted a retailer's inability to buy in bulk as a constraint to the profits of their business. Considering that small and informal retailers are unable to buy or transport large quantities of produce, they are often adversely affected by the pricing mechanism. The management teams admit that "the market is

not conducive to the small buyer” (Interview: Andre Young: Management DRB: 10/09/2007).

Retailers complained that medium businesses receive higher quality produce, and when small and informal retailers arrive at the market there is less stock and they are forced to pay higher prices for lower quality produce. Minibuses often arrive at the market by 8 am when the market has already been in operation for two hours. As there is less stock available and a growth in demand by 8am, the prices subsequently rise. Nevertheless, agents have identified this problem and RSA Agents have begun to take the cell phone numbers of their regular small buyers and send out bulk text messages (SMSs) notifying them of what stock they have available. “Certainly some of my... salesmen will be tasked with getting together a list early in the morning [of what is available], sending a quick SMS on a bulk SMS system” (Interview: RSA Agents: Agent: 10/09/2007). Small buyers can then book stock and this will be held for a short period for them. To protect the agents, those that book and do not come to pay and collect the produce are withdrawn from the list receiving the SMSs. There was concern from the small retailers that agents provide preferential treatment to larger retailers by reserving higher qualities of produce because the agents want to retain their custom.

In addition, relationships play a role on what price retailers receive from agents. Although this is a form of favouritism it is a mutually-beneficial relationship. If the buyer displays loyalty to an agent then that agent is more inclined to offer a price reduction because he is discounting present sales for guaranteed future sales.

Despite the above, management teams at both markets argued that although the practices of the agents are nurturing the informal buyers, this is not reflected by the salesmen, who are employed by the agents to sell to buyers. Salesmen are more short-sighted and use “the smaller buyers to boost their sales” (Interview: Mervyn Joseph: 18/09.2007). The bulk buyers can negotiate a lower price and therefore the salesmen try to boost their prices to smaller buyers to increase their average individual sales.

#### **5.2.4 Police Harassment:**

Police harassment was reported as the most common constraint (along with high prices of produce) to the development and growth of small and informal retailers in the Durban CBD (see Figure 13). However, in Pietermaritzburg this was not the case, and the vast majority of the participants did not mention police harassment as a constraint at all. Many participants in Durban argued that it was a policy of the “[eThekweni] Municipality to clear up the streets so that tourists don’t see us” (Interview: Informal retailer: Durban: 11/09/2007), displaying Durban as a clean and safe environment to visit. “The council have begun a strategy of cleaning up the streets and confiscating the produce of those trading without licences. There is a conflict between the informal retailers and the council” (Interview: RSA Agents: 10/09/2007). Management at the Durban FPM are aware of the problems and admitted that “the police are a problem” (Interview: Tony Naidoo: DRB Management: 13/09/2007).

However, management highlighted that it is only those that are trading without permits that get targeted. An estimated 80% of informal retailers that use the market without a permit because there are less permits than informal retailers available (Interview: RSA Agents: Agent: 10/09/2007), the management did not believe that the market was an appropriate location to help licensed retailers as “it is another department that deals with the licensing” (Interview: Tony Naidoo: DRB Management: 13/09/2007).

Pietermaritzburg, on the other hand, is not such a prominent tourist destination and therefore the police may not have such a strong mandate from the Municipality to make sure informal retailers are in specific area. There are also less informal retailers in Pietermaritzburg and therefore may be less of a problem.

Participants in Pietermaritzburg confirmed that the reaction of the police towards them was fair and that the police would only move them on if they were trading outside a formal shop and preventing customers from entering that particular shop. However, in Durban respondents expressed fears were that if the police noticed an informal retailer, with a licence or without, they would immediately confiscate their stock and allow only allow the retailer to collect their stock

once it had perished days later.

Agents within the Durban FPM identified that the market feels the affect each time there is a police purge of informal retailers that are trading without licences. Retailers are wary about purchasing more produce in fear of it being confiscated, and also have to generate additional revenue from other sources before they can purchase more stock. This results in a reduction in sales for the agents and consequentially less commission for the Municipality.

### **5.2.5 Transport**

76% of agents and management identified high cost of transport and a lack of public transport routes to the markets as a major constraint to retailers without their own vehicle. At Pietermaritzburg FPM the cost to take a minibus to and from PMB town is R30 and each minibus estimates that it can get 5 people in with their produce. Retailers first arrive at the market at 7.15 am and continue arriving until 9 am. Informal retailers admit that they usually have enough customers, but that this is not always the case and one cannot predict when they are going to be busy. Few mini bus taxis service the route from town to the market because it is currently not a financially viable route, which was confirmed by taxi drivers at DRB and PMB FPMs. A mini bus taxi can accommodate up to 24 passengers, but with produce it usually accounts for half this amount. Furthermore, on a typical route a mini bus taxi has a high turnover of customers as individuals get on and off at different spots. However, servicing the Fresh Produce Market means that they will remain until the CBD. Taxi drives noted that if they changed the cost to counteract this, their customers would not be able to afford the service.

Witt's (2000) assessment of informal retailers of the Early Morning market in Durban stated that "retailers purchasing directly from the Clairwood Market may make use of designated 'carters' and other vans and trucks that are available for the transportation of fresh produce....Yet vehicles are also hired by street retailers to transport fresh produce from the Clairwood Market to sites in the CBD (R15) and the Umbilo-Clairwood area (R10)" (Witt 2000:7). The high costs associated with transport means that small retailers have developed a trade of purchasing produce from the FPM and selling it to informal retailers, with a mark-up, who will then resell it to their customers.

Often the informal retailers incur the same cost but without having to travel to and from the market.

### **5.2.6 Competition:**

Competition was identified by 16% retailers in Durban and 30% in Pietermaritzburg as a constraint to their profit generation. A number of respondents argued that there are limited areas around the CBD where they can trade, such as Warwick Junction, the Early Morning market or Victoria Street market. As there are a number of them selling the same produce within close proximity of their competition, their customers can easily compare and negotiate prices. As a result, many retailers find it difficult to add a mark-up to produce because their competitor will undercut them.

The constraint was not so great in Pietermaritzburg mainly due to fewer informal retailers and the police's leniency towards informal retailers. However, both groups cited that being unable to offer added-value services, such as pre-prepared fruit salads or packaged produce, were problematic because of the lack of disposable income of their customer base. Respondents expressed a desire to access areas of the city where more affluent individuals purchase their produce.

## **5.3 Opportunities to strengthen the position of informal and small formal retailers in the value chain:**

Based on the research and interviews with various stakeholders, four opportunities were identified as viable strategies that reduced the associated costs of fresh produce and strengthened their position in the value chain. These opportunities were developed into strategies, in consultation with agents, management and retailers at both markets. A full examination of these strategies have been developed into log frames that are attached in Appendix 2.

### **5.3.1 Transport for Retailers:**

76% of agents and management identified that improving the transport situation for retailers without a vehicle as a major opportunity that would boost the monetary growth of both the

retailers, agents and management. “If you could make transport more accessible to get to the market, then you would see a lot more retailers coming here and that’s what this market’s lacking is feet” (Interview: RSA Agents: Agent: 10/09/2007). There is a general consensus within both markets that if access was improved then this would increase the profits of informal retailers, agents and management. If the costs are reduced for retailers, they will buy more, which boosts sales for producers and increases the commissions for both agents and management. As a result, it is in the interests of all relevant stakeholders to reduce the constraints of transport and increase the number of retailers that visit the markets. Minimizing the costs incurred by the consumer would increase the propensity to spend of retailers.

Agents and management agreed that a transport system should depart from the central informal area, such as taxi ranks in town at 5.30 am and deliver retailers directly to the market in both DRB and PMB. The return service should then enable retailers to get back to their stalls before 8 am to begin trading.

PMB Management identified the opportunity to develop a transport system that would increase their incentives to utilise the market by reducing their costs of transport, currently estimated at R20-30 a day for retailers with a private vehicle. There is an opportunity for the market to work with the Small Business Support Unit in Pietermaritzburg to identify a black empowerment business that could tender for the contract. The market could then assist in the procurement of a bus from the Municipal engineering department and subsidise the initial start-up costs.

This would be advantageous to the market because it would increase retailers into the market, increase commissions for both the agents and the management, whilst also provide advertising for the market and the Municipality. This is a worthwhile option that deserves serious consideration. This strategy will be further analysed in the following section.

### **5.3.2 Training Course and Manual:**

Both management teams identified the potential for a manual and training course to be developed to empower small and informal retailers, but there was a lack of consensus whether the training

should be formal (12%) or informal (18%) (see Figure 19). The Durban FPM is currently discussing the potential of developing a training manual with the Small Enterprise Development Agency (SEDA). According to Andre Young (DRB Management) the course would include the following modules:

- Principles of starting and developing a business
- Basic financial skills
- Produce handling
- Cold storage requirements

On the other hand, agents have expressed their concern of a formally developed course and its applicability to a predominantly illiterate trading group. Agents argue that experience is critical to understanding the market and further maintain that neither the management nor SEDA understand the operations of the market enough to deliver such a course. “They (informal retailers) have the experience and learn by trail and error. However, the management is not the entity that can provide the training because they do not know enough about the pricing structure or how supply and demand interact” (Interview: Wenpro: Agent: 12/09/2007).

Therefore, providing informal information opportunities to the retailers may provide the most effective solutions that do not require written literature and is delivered by those with the most experience: the agents. A course outline could be developed with specific objectives to be achieved and methods of teaching but the content ought to be delivered informally within the market space, during the hours of trading, to improve its chances of success.

### **5.3.3 Cold storage in city:**

Unsecured storage space places limitations on the value of the products to be sold, and high value products are at greater risk. In the CBD storage space may be in the form of containers, city-owned and/or privately-owned facilities. “Many of the city-owned premises are leased out to individuals under certain conditions thus providing additional employment opportunities. Rentals for street retailers vary depending on the quantity of space required, although figures of R7 a

week to R15 a month appear to be common” (Witt 2000:16).

The respective management teams highlighted the high climate temperatures within Durban and Pietermaritzburg as a major factor that prevents retailers from maximizing their sales. The perishable nature of the produce means that it needs to be sold within a certain timeframe. As the quality of the product diminishes so does the price for which it can be sold. Therefore, increasing the shelf life of the product is critical to enabling retailers to get the most for their produce.

The need for shelter and the perishable nature of fresh produce were both identified as constraints in the questionnaires with small and informal retailers. As a result the management teams identified the needs for cold storage facilities, run by the municipality, for retailers to store their produce overnight. This would provide safe facilities that eliminated the need for them to transport their produce home with them and potential stock theft.

#### **5.3.4 Cooperatives:**

Informal organically-evolved cooperatives are present at both sites. The Cooperatives Act, 2005 (Act 14 of 2005) applies the International Cooperative Alliance’s definition of a cooperative as ‘an autonomous association of persons united voluntarily to meet their common economic and social needs and aspirations through a jointly owned and democratically controlled enterprise organized and operated on co-operative principles’ (Government Gazette 2005: Vol.482). 24% of the agents and management identified cooperatives as a means for retailers with little capital to negotiate prices to increasing their purchasing power. Bonds of trust have developed between retailers, and agents are already viewing a growing trend and increased bargaining power. They view this is a predominantly positive trade-off. Although it enables informal retailers to negotiate lower prices, this would only be about R1-2 difference per pocket. They manage to sell extra produce, increasing their commission, and reducing the quantity of wastage at the end of each trading day.

Agents at both sites have seen an increase in groups of informal retailers pooling their resources and approaching salesmen as a collective to negotiate a price. “They will go around asking the

price, then have a meeting before making a final decision...Usually the one who can speak better [English]...and they buy four, five, six pallets” (Interview: Wenpro: Agent: 12/09/2007).

Furthermore, this has been especially prominent amongst foreign informal retailers from Zimbabwe, Mozambique, Nigeria and the Democratic Republic of Congo. Push factors, such as discrimination from domestic informal retailers, have caused many foreign informal groups to form cooperatives and as a result have increased their bargaining power. These fears have been realised during the xenophobic attacks of May and June 2008 in South Africa, where foreigners have been blamed for taking South African jobs and crime (Tshabalala & Dibetle 2008:4). The growth of foreign retailers within the market was explicitly referred to by management of the Pietermaritzburg FPM as a threat to other retailers, rather than a potential example to follow.

However, there are concerns over trust between retailers when purchases are made. The card system does not allow retailers to retain their money up until the point of transaction. A cooperative must decide whose account their money will be deposited before the card is used to purchase the produce. If the account holder decides that after the money is deposited there is little the others can do because accounts are in the card owner’s name.

### **5.3.5 Finance:**

Access to finance was highlighted as a potential possibility for informal and small formal retailers in Durban (30%) and Pietermaritzburg (18%) to grow their businesses. This was linked with the current high prices on the market and also a desire to purchase their own vehicle because of the high costs and restrictive nature of minibuses. Management teams at both markets maintain that they are unable to offer financial credit to retailers and agents agree that offering credit would create problems with regards to repayment and interest. These are areas which are outside of the experience of the parties interviewed.

Skinner’s (2005) assessment of informal retailers in Durban corroborates the findings that there is little access to finance for informal and small retailers. She found that from a survey of 500 only 71 had attempted to obtain a loan, and of that only 20 had successfully received one.

## **5.4 Conclusion**

The preceding analysis investigated a number of constraints facing informal and small formal retailers and highlighted the opportunities available for their economic enhancement. Informal retailers face threats from police and potential confiscation of stock; both small and informal retailers cannot compete with wholesalers and larger buyers in terms of price because they are unable to buy in bulk; and, remain marginalised from financial institutions, public sector support and market governance.

However, two critical points have been exposed by the research. Primarily, the current high prices on the markets reduce the ability of those with limited capital, such as informal traders, to gain savings by buying in bulk. The increasing prices of stock adversely affect their scope for claiming profit margins as they pay close to the resale price. Secondly, their inability to buy large quantities reduced their bargaining power and access to market information, illustrated in Figure 6. The purchasing power of the retailer generally determined the relationship with agents and management, as well as negotiating prices, accessing produce information and reserving superior quality produce. Therefore, the research demonstrates that markets do not function in a manner that is conducive to the informal and small formal retailer, but rather access and information asymmetries further marginalise their development.

## 6 Chapter 6: Discussion

To determine how informal and small formal retailers within the fresh produce industry can enhance the prospects of their businesses it was necessary to determine the current constraints and opportunities that face retailers in KwaZulu-Natal. Using the background research and interviews with informal retailers, small formal retailers, market agents and Municipal management it was possible to suggest strategies to minimise negative impacts and strengthen the position of small retailers within the value chain. This section discusses whether the investigation has appropriately addressed the research questions and contributions it offers to the literature on informal retailers and value chain analysis. It also highlights the limitations of the findings, implications for practitioners and interesting areas for further research.

### 6.1 Investigated Hypotheses

This study proposed the following two hypotheses (H1,H2) and their null hypotheses (H0):

- **H<sub>1</sub>** = Organised markets are key institutions which substantially influence the access and nature of participation by small retailers in fresh produce value chains;
- **H<sub>10</sub>** = Organised markets are key institutions that do not substantially influence the access and nature of participation by small retailers in fresh produce value chains.
- **H<sub>2</sub>** = Within fresh produce value chains, organised markets are an appropriate site to contribute to correcting market failures;
- **H<sub>20</sub>** = Within fresh produce value chains, organised markets are not an appropriate site to contribute to correcting market failures.

The research satisfied the first hypothesis (H<sub>1</sub>) that markets influence a small retailer's access and influence their position within the value chain because of their inability to buy in bulk and negotiate lower prices, due to lack of capital. However, the research did not satisfy the second hypothesis (H<sub>2</sub>) but rather accepted its null hypothesis (H<sub>20</sub>). It concluded that, at present, organised markets were not correcting market failures.

This research provides an important contribution to the informal and small enterprise literature in

South Africa. The findings are positioned within a knowledge gap between the work of Skinner (2005) and Witt (2000). As detailed in Chapter Two, Skinner's (2005) focus has mainly addressed the rights of public space for trading and institutional commitment of local government to a development agenda. Witt (2000), on the other hand, organised around the supply of fresh produce to formal and informal retailers, assessing how this impacted on the power of various actors. However, in a context of a large proportion where trade is in fresh produce and much is procured (directly or indirectly) through fresh produce markets, this research presents some interesting findings. It demonstrates how the municipal fresh produce markets, as contemporary institutions, influence the distribution of benefits from participating in the value chain, with a particular focus on micro, often informal, retailers.

Skinner (2005) argues that the lack of institutional support and business space, legitimised by public sector regulators, are the priorities for developing informal trade, whereas Witt (2000) states that the development of physical infrastructure to accommodate the growing informal sector is critical to its survival. However, this research argues that over and above the measures proposed by Skinner (2005) and Witt (2000), attention must be given to enhancing the interests and role of small and informal retailers in governance and operational processes in fresh produce markets. The necessity of the development of social networks (also argued by Meagher 1995) is a critical factor in determining the success of informal and micro enterprises and could contribute to institutional reforms and help address the information and access asymmetries previously identified. Access to information and developing relationships with actors along the chain enables the attainment of quality, cost-effective produce, its efficient transport to point of sale and its resale to customers, reducing wastage and increasing profits. Linking informal and small formal retailers to producers, agents, support services and Municipalities develops their range of business choices, allows them to develop relationships, establish partnerships and increases their potential to survive and compete against larger firms.

Valodia *et al* (2005) argue that there is an urgent need for employment policy to encourage "research aimed at identifying areas for growth in informal employment and the policies needed to realise this potential" (2005:26). The following sections provide a deeper discussion of the

points raised above with an orientation towards identifying some important departure points for dealing with specific constraints and opportunities.

### **6.1.1 Governance of markets and available support structures**

The markets are controlled or governed on a commission-basis which is monitored by the Municipal management. A full explanation of the market dynamics is presented in Section 4.2. Rakowski (1994) highlights the debate between structuralists, believing that the state should provide support services to small enterprises, and Neo-liberals, who argue that any intervention is inefficient and therefore deregulation and privatisation of any state-run enterprise is essential to economic growth. The research has demonstrated that the flow of knowledge, information and support, displayed in Figure 7, is unequally diverted away from small enterprises because their lack of inability to buy in bulk. However, there is no evidence to suggest that the removal of state involvement would contribute anything other than exacerbate the existing situation. Therefore, it supports neither the neo-liberal nor the structuralist position, but instead argues that state intervention does not presently benefit micro enterprises, although it does regulate the further exploitation in a pure market economy.

Skinner's (2005) assessment of 500 informal retailers in Durban found that 88% of respondents had not received any form of training or assistance. This corresponds with the views of interviewed retailers who many expressed a need for training and were unaware of what support services were available.

### **6.1.2 Impact of small retailers on the fresh produce value chain**

Figure 22 illustrates the limited impact that informal and small formal retailers have on the value chain. They are further restricted by a number of constraints at each stage: from buying their stock at the market to resale to customers in the CBD or surrounding rural areas. However, Kaplinsky (2000) argues that despite the constraints of small businesses with regards to fresh produce "the lion's share of rewards...continue to be realized in the marketing end of the chain"

(2000:22). Therefore, although small and informal retailers may not be able presently to capture the lion's share it is encouraging that there is potential to add value.

### **6.1.3 Change of situation over time**

The research did not provide a thorough understanding of how informal and small formal retailers' position has changed over time. The findings concurs with Witt's (2002) statement that data collection with informal retailers is problematic "as sales are not recorded [and] it is difficult to determine the volume of fresh produce that passes through these agents" (Witt: 2002:317 in Freund & Padayachee 2002). Whilst both fresh produce markets collect detailed information on the quantities and prices of produce sold, there is no way to determine who it was bought by without having access to detailed financial records. Retailers found it difficult to predict their weekly spend at the market, as it was almost entirely dependant on the daily market prices. The one general trend was that retailers have spent less over the last five years because prices in the markets have displayed a constant increase. This view of retailers was corroborated by interviews with agents and management. This was due to an oversupply of produce last year and numerous producers closing; increased land claims have made farmers more risk adverse to reinvesting their money in the land; increases in extreme environmental conditions and the increased transport costs for producers to move their stock to the markets (Interview: John Bell and Co: Agent: 13/09/2007).

In addition, the research was conducted against a background of increased food prices in both FPMs and therefore would have had an impact on the barriers to entry for new and existing retailers. However, this study did not focus on this issue specifically and therefore will not develop this idea further.

Furthermore, developing a spatial plan of where retailers operated and sold produce was difficult as many had numerous trading areas; their frequency dependant on consumer demand. Retailers, except those with permits in the CBD, frequently changed locations and there were a number of 'backie retailers' that would sell their produce in rural areas from the back of their vehicle.

#### **6.1.4 Exogenous and endogenous constraints facing small retailers**

The investigation displayed that there were numerous exogenous (external) constraints, such as high prices of goods, high densities of competition, lack of shelter and police harassment. This corresponds with Skinner's (2005) research into the constraints facing approximately 500 informal retailers in Durban. She discovered that 54% of retailers found that the high cost of supplies as a major problem and that inadequate business space (45%), cost of transport (36%) and poor access to infrastructure (29%) were all major constraints to their businesses (2005:45).

*Police harassment* of informal retailers has been well documented within the Durban Metropolitan Area. For example, 500 informal retailers at Warwick Junction were arrested for protesting against the arrest of 25 of their colleagues on 19 June 2007 (Ganpath, Wicks & Sapa 2007). In addition, retailers confronted police in July 2007 regarding the cost and limited number of permits, and were also arrested. One market official stated, "[w]e will try to accommodate street vendors who cannot pay their annual fees upfront, which comprises R39.90 a month for an unsheltered site, or R68 a month for a sheltered site". One shopkeeper, who did not want to be named, said: "The situation was unfair because the retailers are working to make an honest living. It's either they work, or they resort to crime to fend for their families. Their goods are their bread and butter, and it was a sad sight to see their stock being confiscated" (Ganpath 2007).

However, although the local municipality places great emphasis in the Durban Informal Economic Policy to facilitate the growing sector the "eThekweni Municipality [in 2005] budgeted to spend R3.7 million and employ scores of new Metro Police officers who will be dedicated to enforcing the city's street-trading bylaws" (Makhanya 2005). Police have the right to remove retailers and confiscate their produce if they operate outside of their permitted area, or fail to produce their permits upon request. The police will confiscate stock if the traders are either in breaking rule 8.(a) that states, "every standholder, tableholder and manufacturer shall confine his business to the limits of his stand, table or space allotted to him in terms of these Bylaws (Market Bylaws KZN P.N. 42/1972. SECTION A.4) or fail to immediately present their permit. The implications of these actions to informal retailers of fruits and vegetables are more severe due to the perishable nature of their stock. They do not just lose a day's trading but the quality will

deteriorate or even become spoiled, hence the price of their produce will decline.

Lund and Skinner (2004) argued at the time that Durban has the most progressive informal economy in South Africa but it is obvious that the principles of the policy has not always been communicated to all stakeholders, such as the police.

*Transport* of informal retailers without a vehicle was a major constraint to their efficiency, as many were unable to purchase their stock from the market and return to their stall in time for the start of the day's trading. No minibuses service the Durban FPM and only a small number of taxis and pick-up trucks transport informal retailers to and from the FPM. This is surprising considering the Warwick Street Junction (a predominant area of trading for fresh fruit and vegetables), is serviced by 2,000 minibuses, and there are 270,000 daily taxi, train and bus departures (Saunders 2004:197). However, since the FPM's main trading hours are from 6 am to 10 am, this does not make it a viable route for a minibus or taxi. Furthermore, minibus drivers require a high turnover of customers on each route that get on and off the bus. Therefore, a viable route would have link in the FPM as a stop-off rather than a final destination otherwise there would be a relatively little turnover of custom per trip.

Finally, the participating retailers did not identify any endogenous constraints to their business, yet they expressed a desire for training to develop their skills and improve their knowledge of the business environment. Therefore, one may infer that lack of business skills are a current constraint to their development, although this was not explicitly identified during surveys with informal retailers. This demonstrates a possible gap in the questionnaire or the interviewer's technique.

### **6.1.5 Prioritisation of these constraints**

Focus groups were used as a forum for all stakeholders to discuss and prioritise the constraints facing informal and small retailers. Requesting participants in focus groups to agree upon a list and then individually rate 1 to 5 their perceived greatest to least important constraint provided a useful forum for discussion. It enabled retailers to express to management and agents how

specific categories constrict their development. However, in retrospect, the focus groups revealed some of the outcomes displayed in Table 8. One can infer that the location of the market, cost of transport and trading facility were all prioritised as major constraints.

Nevertheless, the focus group results does not correspond with the findings from the surveys, which prioritised police harassment, high prices in the market and competition as the greatest constraints. This may have been as a result of the low representation of informal and small formal retailers in the focus groups. Although many retailers had provisionally agreed to attend, the pressure on retailers to collect their produce and return to their stall before customers arrive meant that attending a workshop at the fresh produce markets was difficult.

#### **6.1.6 Development opportunities for small retailers to strengthen their position**

Hart argues that although there are a plethora of constraints to the development of informal retailers there is “a range of opportunities outside of the organised labour market” for retailers to be involved (1973:81). Many retailers were, however, unsure what support or opportunities were available to them in Durban (54%) and Pietermaritzburg (65%). Numerous retailers acknowledged that there were problems constraining their business but did not feel as though there was anything they could do to address these or that there was anyone that would help them. Informal retailers felt particularly disempowered and at times despondent regarding how they could improve their situation.

*Cooperatives* were identified by management and agents as a potential avenue to develop between informal retailers to increase their bargaining power by buying in bulk from agents. SEDA has promoted the use of cooperatives because of their international success. Philip’s (2003) survey of cooperatives in South Africa identified that business viability was one of the greatest constraints to cooperatives moving beyond survivalist practices. She states that “[m]ost co-ops and group enterprises are started with unemployed people, often with low skills levels, and no prior business experience, in economically marginal areas. And – like all businesses - it is under these circumstances that they have the least chance of success” (Philip 2003:20).

**Figure 23: Requirements to start-up as a Cooperative; according to Ithala Development Fund:**

- All members of the Cooperative are to attend a compulsory pre-establishment session with the department of Economic Development's District Co-ordinators
- Subject to the approval of the business idea by the District Co-ordinators, members are then referred to an Further Education and Training (FET) college for training on Co-operative and business management skills
- The Co-operative members are then required to complete a business plan and have it approved by their mentors at the FET colleges.
- Once the business plan is approved, the FET College forward the business plan to Ithala for financial analysis.
- Once the business plan is accepted as financially viable to Ithala, the Co-operative is funded, subject to the terms and conditions of Ithala.

Source: Ithala Development Fund:2006. <http://www.ithala.co.za/> (downloaded in 19 Feb 2008).

In addition, the research found that a large number of cooperatives in the FPMs consisted of foreign retailers. However, Hunter and Skinner's (2003) investigation of foreign retailers in Durban found that of 171 respondents, 22% expressed problems of police harassment and 12% argued that there is severe xenophobia towards black foreigners (2003:311).

*Training Courses* were expressed as means to improve the skill base of informal and small formal retailers. The Department of Agriculture has published seventeen manuals on running cooperatives and developing business skills as part of their programme to promote agribusinesses<sup>12</sup>. Furthermore, the eThekweni municipality have conducted training and management programmes for over 400 informal retailers in 2006<sup>13</sup>, which forms a major requirement of Durban's Informal Economic Policy (2000). Therefore, this displays the state's willingness to offer opportunities for retailers to develop their businesses. However, one may

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<sup>12</sup> These manuals can be accessed by: [http://www.nda.agric.za/docs/coop\\_manuals/default.htm](http://www.nda.agric.za/docs/coop_manuals/default.htm)

<sup>13</sup> <http://www.durban.gov.za/durban/invest-durban/news/str/view?searchterm=becoming>

argue that although this may be available, a lack of awareness (as confirmed by Orford: 2005) is one of the main reasons why few retailers access these opportunities.

Finally, although privatisation was identified by agents as an opportunity (see Figure 18) and that the current system is not beneficial to all stakeholders, this has not been developed further in the research. The new institutionalist approach argues that the state has a role to play in preventing markets from exploiting those with the least bargaining power (Chang 1996). Therefore, the state presently has a role to play with regards to food security for the expanding urban areas and ensuring competitive behaviour rather than collusion between actors. The future effect, however, this has on the market environments is not guaranteed.

## **6.2 Contributions to relevant literature**

The research intends to be able to contribute to relevant literature around the areas of fresh produce and the informal economy. Durban's Informal Economy Policy (Joint Executive Committee:2000) requests investigations in three areas where this research can contribute. Primarily, it requires further research to be conducted on the role of foreign workers in the informal economy. The research found (especially in Pietermaritzburg FPM) that foreign workers had formed informal cooperatives out of necessity, because of discrimination from domestic informal retailers. Retailers from Zimbabwe, Mozambique, Malawi and Pakistan were all using the markets. They provide an interesting case study for foreign workers in the informal trade and the benefits of cooperatives for purchasing power.

Secondly, the Durban Informal Economy Policy (Joint Executive Committee:2000) requests information regarding "the constraints that lack of storage places on growth of business for the street vendors in the CBD area, and the opportunities that exist for different use of existing empty or partly used spaces" (Joint Executive Committee 2000: 45). The research argues the lack of storage facilities in the CBD contributes to the higher transport costs of retailers, reduces the shelf-life of produce and causes retailers to be more risk adverse when purchasing stock. They are currently unable to buy produce that can generate higher profit margins such as fruit because of the perishable nature of the stock. High temperatures in both Durban and Pietermaritzburg

reduce the shelf life in retailers' stock more than in other countries with cooler climates. The research has developed a log frame to provide cold storage facilities and timeframes for implementation (see Appendix 2).

Thirdly, it requests that "a feasibility study should be done of ways in which local government could support alternative supply chains, such as through buying co-operatives" (Joint Executive Committee 2000:47). Whilst this was outside of the parameters of the research, informal retailers with vehicles often service rural areas and there is presently limited support from market management to develop cooperatives.

Fourthly, this research aimed to provide some support for Witt's (2000) statement that "there is a dire need for policy to provide an institutional and, more importantly, a physical infrastructure that will facilitate the sure and steady progress of individuals up the economic ladder" (2000:22). The opportunities that have been developed include the construction of physical infrastructure such as transport and cold storage as well as soft infrastructure: training and business support services.

Finally, the findings reflect the social relationships that govern decision-making, patterns of power and resources within markets, and provide a useful contribution to social capital theory. Whilst Fine (1999:8) refers to social capital theory as both ambiguous and chaotic, the research has provided information of the flow of knowledge (see Figure 7) and how it is traded between actors. The research findings demonstrate the benefit of drawing upon a range of methodological approaches to display the interactions between various stakeholders and institutions, such as surveys, open ended interviews, observation and focus group participatory exercises.

### **6.3 Limitations of the Research**

The research was limited, in retrospect, by its lack of empirical data collection. Participatory methods enabled the researcher to develop a comprehensive insight of the current situation facing

informal and small formal retailers, which allowed for some analysis of the interconnected relationship between constraints, but did not enable the research to determine to what extent these were statistically significant. In addition, as Witt (2000) asserts, informal retailers rarely keep detailed accounts and therefore extracting financial data was problematic. Given that the researcher could have applied alternative techniques in the surveys to enquire as to their financial position over time, and therefore further research is required to empirically investigate the impact of informal and small formal retailers.

As a white male, the researcher was often confused for an agent or a member of the management team. Agents and management were virtually the only white people in the markets, especially Pietermaritzburg, and therefore this was a rational conclusion for retailers to reach. Approaching informal retailers was initially met with scepticism, especially when asked about money and how much they spend. However, the researcher feels he was able to overcome these constraints and formed many trusting relationships with informal retailers.

Informed consent forms for surveys with informal and small formal retailers were met with extreme scepticism and many thought that they were signing a legal agreement that meant they had to pay something. Many respondents said that they were willing to answer the questions but would not sign the form as they believed that the authorities would know how much they earned.

Finally, establishing the total number of informal and small formal retailers that regularly access the FPMs was problematic as no information is kept by management. Therefore, the research was unable to confidently state that the findings from the sample size were representative of the situation. However, the findings do support the findings of empirical investigations conducted by Skinner (2005) and Witt (2000, 2002).

#### **6.4 Implications for practitioners**

The research aims to refocus value chain analysis around fresh produce away from producers and international exporting value chains, towards the micro-level local value chains and seek to boost the prospects of the weakest link in the chain, the informal retailer. With appropriate support

informal retailers can strengthen their position in the chain and the research should encourage further research into this area. The literature has proven the importance of the informal economy in servicing the urban and rural poor. Therefore, practitioners and researchers should contribute to this study and encourage what is referred to as 'pro-poor growth'.

## 7 Chapter 7: Conclusions and Recommendations

The research identified the constraints that restrict the development of informal and small formal retailers and highlighted potential opportunities that may assist in strengthening their position in the value chain. It explored the functioning of two static fresh produce markets in KwaZulu-Natal and conducted 89 surveys, 19 semi-structured interviews and 2 focus groups (15 participated in Durban and 4 in Pietermaritzburg) to understand, as comprehensively as possible, the current situation facing informal and small formal retailers.

This investigation accepted the first hypothesis (H<sub>1</sub>) that organised markets are key institutions which substantially influence the access and nature of participation by small retailers in fresh produce value chains, but rejected the second hypothesis (H<sub>2</sub>). It accepts its null hypothesis (H<sub>20</sub>) that within fresh produce value chains, organised markets are not an appropriate site to contribute to correcting market failures, at present. It is not known what proportion the sample size represents of the total informal and small business retail of fresh produce in Durban and Pietermaritzburg. However, the findings do support the investigations of Witt (2000, 2002) and Skinner (2005). Therefore, this research is applicable to the wider informal trade and small business development in both Durban and Pietermaritzburg.

This investigation has revealed that informal and small formal retailers have relatively little impact on the fresh produce value chain and that the structure of static markets are not conducive to these groups because of their lack of capital and inability to buy produce in bulk. There were a number of constraints that informal and small formal retailers faced, including:

- **Location:** both markets are located outside of their respective CBDs and constrict access for retailers without vehicles and quantity of stock purchased;
- **Transport:** lack of public transport routes that service both markets prevent retailers' access and arrival at the market;
- **Police harassment:** in Durban informal retailers have their stock confiscated or damaged by police officials;

- **Competition:** the identified areas of informal trading intensifies competition as retailers compete for the same customers;
- **Bulk buying:** lack of capital hinders retailers from buying in bulk and negotiating discounts; and
- **High prices:** current high prices on the markets prevent informal retailers from providing mark-ups on produce and value added services provided, due to the low disposable incomes of their customers.

However, opportunities for retailers to strengthen their position were identified as:

- **Transport for retailers:** to access the market at earlier times and carry more produce back to their trading location;
- **Formal and informal training:** to provide retailers with the experience to manage, develop and diversify their businesses;
- **Cold storage in the city:** to reduce the transport costs to and from the market, increase the shelf life of produce and enable retailers to buy in bulk;
- **Cooperatives:** to encourage retailers to buy collectively to increase their buying power within the market; and
- **Finance:** to enable business start-ups and purchase of stock and trading infrastructure, such as table and shelter.

Appendix 2 suggests a series of technically-orientated interventions in the markets' functioning related to informational suppliers and barriers to entry as the most effective sites for reform. This study has found evidence in support of such adjustments but warns that change is required in systems of institutional governance to ensure that small and informal retailers are not further marginalised.

Following the completion of this dissertation, it will be distributed along with the appended log frames to the management at the Durban and Pietermaritzburg, agents and informal retailer groups that participated. It will also be disseminated through the Learning, Monitoring and Research Facility, who funded the research, and it is hoped that the information aid informal

retailers and empower those that were involved.

### **7.1 Areas of further research**

Whilst this investigation produced four strategies to assist the development of informal and small formal retailers that use the markets, it did not conduct any substantial feasibility studies for each strategy developed and therefore would encourage any decision-making to be preceded by empirical investigations.

There were two areas of investigation that although outside the remit of the research are extremely important. The first is the role of tourism in determining the treatment of informal retailers by police officials. Retailers in Durban and Pietermaritzburg suggested this was the dominant difference between the two locations and many retailers in Durban had been assaulted during the research. The second is how informal retailers can access customers of high disposable incomes. Although some retailers operate along the Durban beachfront and at Essenwood market within Durban, the majority are still confined to areas such as Warwick junction and the Early Morning market, which are rarely visited by more affluent individuals. Finally, an empirical investigation of the impact of informal retailers on fresh produce over an extended period would strengthen the findings of this research and provide a calculation for Municipalities to understand of importance of informal retailing on their local economy.

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## 9 Appendices

### Appendix 1:

#### Survey questionnaire used with informal and small formal retailers

##### Questionnaire:

Name and Demographics of business owner:

Location of Business:

Mode of Transport to and from market:

1. Who do you buy from?
2. Who do you sell to?
3. How often do you come to the market?
4. What other suppliers do you obtain your fresh produce from?
5. How much money do you spend at the market each week?
6. What types of products do you buy?
7. Are you able to negotiate low prices? (if so) How or (if not) why not?
8. How do you do this in the case of potatoes – per kg?
9. What quantity of fresh produce do you buy at the market, each week? (bags /pallets)
10. What quantity of that do you sell, each week? (bags / pallets)
11. What happens to the waste fresh produce you do not manage to sell?
12. What mark-up do you put on your produce?
13. What are the greatest problems to developing your business?
14. What would you like to do about these problems?
15. What are the good things that agents do for you?
16. What are bad things about the agents?
17. What problems do you have with other people selling the same fresh produce as you?
18. What do you need to make more profit out of your business?
19. What help do you need from outside to help your business grow?

Would I be able to come and visit your shop to ask you some more questions?

- Where are you based? (get them to draw on a map)
- What is a good time?
- Contact number?

Would you be willing to take part in a meeting with other retailers and agents on Friday afternoon? We will aim to provide refreshments for those who are involved. This is an opportunity for you to express your opinions and share your experiences with others.

**Thank you very much for taking part.**

## Appendix 2:

### Developed Strategies

In conjunction with the research a logical framework approach (LFA) was adopted to develop practical solutions to problems faced by informal and small formal businesses. The logical framework (LogFrame) helps to clarify objectives of any project, program, or policy. It aids in the identification of the expected causal links—the “program logic”—in the following results chain: inputs, processes, outputs (including coverage or “reach” across beneficiary groups), outcomes, and impact” (WB<sup>14</sup> 2004:8). These were then presented to the relevant market actors in feedback sessions in line with the social capital standpoint that information sharing is a critical part of the developmental process. The four strategies that were developed and presented are displayed below:

#### Strategy One: Training Course

Strategy Description: The development of a training course how evolved out of concerns regarding awareness over the price structures, applied business skills and communication between small retailers and agents. The market is based on relationships and there is a great flow of information and knowledge sharing between agents and producers. However, as the value chain illustrates (add cross-reference) there is a vacuum around the small and informal retailer. The agents are best placed to deliver the training as they are the most knowledgeable and the management should perform the role of managers: coordinate, publicise and facilitate.

The seminars should be conducted within the market trading floor for one hour a week. Sales statistics will be able to verify the busiest day in the market and times when the market is most populated. An area should be designated and management should work to make all retailers away of the proceedings. Finally, guest speakers who are successful small or informal retailers should be invited to share their experiences as a form of knowledge-sharing and inspiration to other retailers. A module outline has been developed, highlighting topics, issues and outcomes of the ten proposed seminars.

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<sup>14</sup> Monitoring and Evaluation: Some tools, methods & approaches.  
[http://lnweb18.worldbank.org/oed/oeddoelib.nsf/DocUNIDViewForJavaSearch/A5EFBB5D776B67D285256B1E0079C9A3/\\$file/MandE\\_tools\\_methods\\_approaches.pdf](http://lnweb18.worldbank.org/oed/oeddoelib.nsf/DocUNIDViewForJavaSearch/A5EFBB5D776B67D285256B1E0079C9A3/$file/MandE_tools_methods_approaches.pdf)

Strategy 1: Training Course	Measurable Indicators	Means of Verification	Important Assumptions
<b>Goal</b> The development and implementation of a training course tailored for small and informal retailers	Construction of a course outline and agreed assigned tasks Training of salesmen by agent principles Delivery of weekly seminars	External assessment of course Feedback sessions with small and informal retailers Suggestions box made available at each seminar Monitoring and evaluation in preparation for next course	Buy-in from all stakeholders Enthusiasm from agents and management Encouragement of salesmen Initiative and refusal to be apathetic
<b>Purpose</b> Increase knowledge and skill base of retailers	Number of participants at seminars Number of participants accessing other support services Number of informal cooperatives Quantity of stock monitored	Monitoring number at seminars Salesmen monitor number of informal coops negotiating prices Number of retailers seeking information on support services (see Strategy 4) Monitoring sales of stock	Attendance from small and informal retailers Benefits communicated to retailers by both management and agents Time available for retailers to attend
<b>Outputs</b> 1). Course outline material 2). Series of open seminars	Management circulate finalised material Publicity posters in strategic areas in the CBD Awareness campaign by Management in market and CBD Salesmen deliver seminars	Agents verify receipt of material by agreed date Survey of how retailers found out about seminars Monitor and feedback on seminars	Enthusiasm by management Cooperation from agents Encouragement of retailers and use as a development exercise for them
<b>Activities</b>	Project Milestones:	Workshop facilitated	Coordination, cooperation and

1). Agreed schedule and content 2). Assigned roles 3). Publicised by management 4). Ten weekly seminars presented	Week 1: Workshop to agree outline and schedule Week 2: Outline finalised and schedule developed Week 3: Posters and publicity produced and positioned Week 4: Awareness campaign in FPM and CBD by management Week 5: Commencement of first seminar	Schedule circulated and limited/no complaints Survey of how retailers found out about seminars Time dedicated by management in CBD Verification by agents that management are talking to retailers about seminars	enthusiasm for the strategy Reward and disseminate the achievement of involved parties Produce reports to other markets - be a market leader Identify that the small and informal retailers are the future of the market
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**Strategy Two: Transport Service *Strategy Description:***

Transport to and from the market is one of the greatest constraints facing retailers without their own means of transport. The under-utilisation of the market by informal retailers is in-part dependant on their inability to access its location. Currently no public transport services the markets, which are poorly location outside of the CBD. Informal retailers spend approximately R20-30 daily on transport and have to use minibuss or hire private taxis.

The development of a market bus service will reduce the cost of transport to the retailer, increase awareness of the market and what it can offer, improve access to the market for retailers and encourage the development of a new BE business. Finally, it will increase the number of people into the market, increase the quantity of purchases and increase the commissions of both the agents and the management.

Strategy 2: Bus Service	Measurable Indicators	Means of Verification	Important Assumptions
<b>Goal</b> The development of a bus service from the CBD to the Fresh Produce Market	Identification of BE business and vehicle Municipal clearance for project Construction of business plan Assessment of existing bus routes and location of informal retailers	External assessment of financial viability Feedback sessions with small and informal retailers Monitoring and evaluation process to make adjustments	Buy-in from all stakeholders Enthusiasm from agents and management Retailers involvement in process Justification communicated to relevant stakeholders
<b>Purpose</b> Reduced the transport costs for small and informal retailers that do not possess their own vehicle.	Number of retailers in market that do not possess vehicle Assessment of current transport costs Assessment of current transport routes Financially sustainability of service	Monitoring numbers using the bus service and demand points on route Willingness-to-pay assessment in informal markets Monitoring sales of stock	Willingness of informal retailers to use the service Benefits communicated to retailers by both management and agents Routes and times applicable to retailers needs
<b>Outputs</b> Identification of a viable BE business Acquisition of a bus Increased sales at the market	BE business chosen Purchase of a bus and insurance COR conducted and renovation of vehicle Production of publicity material in FPM and CBD	Survey of how retailers found out about bus service Monitor and feedback on transport at both FPM and CBD	Enthusiasm by management Cooperation from Municipality and business support unit Encouragement of retailers and use the service
<b>Activities</b> Meeting with business support unit to find business Business identification Identification of vehicle for purchase Attainment of loan or grant Assess most optimal route and full financial assessment Decoration and renovation of bus Publicise and promote the service at market and CBD	<b>Project Milestones:</b> Weeks 1&2: Identify BE business and clearance from Municipality Week 2: Identify bus route and financial sustainability of project Weeks 1-3: Purchase vehicle and insurance Week 4&5: Awareness campaign in FPM and CBD by management Week 6: Commencement of service	Meeting with Municipality and business support unit BE business identified Full assessment of service Survey of how retailers found out about the service Time dedicated by management in CBD Verification by agents that management are talking to retailers about service	Coordination, cooperation and enthusiasm for the strategy Reward and disseminate the achievement of involved parties Produce reports to other markets - be a market leader Assistance from management of informal retailers markets in Durban and PMB

### Strategy 3: Cold Storage Facility

*Strategy Description:* The perishable nature of fresh produce was a major constraint to the development of small and informal retailers. The heat within the CBDs of Durban and PMB means that fresh produce is spoilt very quickly, resulting in lost stock and revenue. Furthermore, because retailers cannot store stock they have to make regular visits to the market (increasing their transport costs) and have to buy small quantities (reducing their ability to bulk buy). Although there are cold storage facilities at the market, they are under-utilised by the retailers because they still incur the high costs of collecting and transporting the produce.

Providing a cold-storage facility within the CBD will provide small and informal retailers with a secure location to store their stock overnight, enable them to begin trading sooner in the day and reduce their overall costs.

Strategy 3: Cold Storage	Measurable Indicators	Means of Verification	Important Assumptions
Goal The development of a cold storage facility with the CBD	Municipal clearance for project Identification of a location Administrative training of facility	External assessment of financial viability Feedback sessions with small and informal retailers Monitoring and evaluation process to make adjustments	Buy-in from all stakeholders Enthusiasm from agents and management Retailers involvement in process Justification communicated to Municipality
Purpose Improve the shelf life of produce and in turn reduce the transport costs and wastage of produce	Number of retailers that use the facility Assessment of current transport costs Frequency of weekly visits to market by retailers Financially sustainability of service	Monitoring numbers using the facility Willingness-to-pay assessment in informal markets Monitoring sales of stock	Willingness of informal retailers to use the service Benefits communicated to retailers by both management and agents Access costs to retailer outweigh wastage costs
Outputs	Purchase of a cold storage facility	Survey of how retailers found out	Enthusiasm by management

Development of a cold storage facility Utilisation of facility by retailers Less wastage	Hiring and training of staff Number of retailers that use service Levels of unsold stock from retailers	about service and stock wastage Monitor and feedback on service at both FPM and CBD	Cooperation from Municipality and business support unit Encouragement of retailers and use the service
<b>Activities</b> Identification of location for storage Acquire municipal funding Purchase of facility Training of staff for conditioning and admin Promotion of facility in FPM and CBD	<b>Project Milestones:</b> Weeks 1-4: Secure clearance and funds from Municipality Week 2: Identify location financial sustainability of project Week 3&4: Hiring and training of admin staff Week 4&5: Awareness campaign in FPM and CBD by management Week 6: Commencement of service	Meeting with Municipality and agreed implementation Full assessment of service Purchase of facility Survey of how retailers found out about the service Time dedicated by management in CBD Verification by agents that management are talking to retailers about service	Coordination, cooperation and enthusiasm for the strategy Reward and disseminate the achievement of involved parties Produce reports to other markets - be a market leader Assistance from management of informal retailers markets in Durban and PMB

#### **Strategy 4: Business Support Promotion**

*Strategy Description:* Business services promotion is a low-cost, immediate impact initiative that will assist small and informal retailers develop their businesses. Orford (2005) confirms that lack of awareness regarding the business services offered are one of the greatest constraints to businesses in South Africa. Respondents were unaware of what was available and whether it applied to them. If the local government can be more pro-active then there will be a higher success rate of business and an increased potential of upgrading.

Three additional services should be offered that were strongly highlighted as constraints to small and informal businesses: the card system for purchasing fresh produce, police harassment and informal trading permits. There is an existing fear because they are both perceived as things of which to be fearful. The talks and awareness campaigns, delivered by the appropriate department, should focus on the following:

Strategy 4: Business Support Publicity	Measurable Indicators	Means of Verification	Important Assumptions
<p><b>Goal</b></p> <p>To create awareness and publicity of business support services that are available to small and informal retailers</p> <p><b>Purpose</b></p> <p>Assist the growth of small and informal retailers to benefit from the business services available to them.</p>	<p>Municipal clearance for project</p> <p>Identification business services</p> <p>Production of publicity material</p> <p>Number of retailers that use the seek services</p> <p>Attendance of meetings with business support staff</p> <p>Repeated attendance from retailers</p> <p>Financially sustainability of service</p>	<p>Feedback sessions with small and informal retailers</p> <p>Monitoring and evaluation process to make adjustments</p> <p>Monitoring numbers using the service</p> <p>Feedback surveys from small and informal retailers</p>	<p>Buy-in from all stakeholders Enthusiasm from agents and management</p> <p>Retailers involvement in process</p> <p>Justification communicated to Municipality</p> <p>Willingness of informal retailers to use the service</p> <p>Benefits communicated to retailers by both management and agents</p> <p>Retailers seek out the services</p>
<p><b>Outputs</b></p> <p>Development of publicity boards Visits from business support staff to offer advice and guidance Talks from department on business issues</p>	<p>Construction of publicity boards (English and Zulu)</p> <p>Confirmed dates for business support staff</p> <p>Management publicity in FPM and CBD</p>	<p>Survey of how retailers found out about service Monitor and feedback on service at both FPM and CBD Assessment of aesthetics and location of boards</p>	<p>Enthusiasm by management Cooperation from Municipality and business support unit</p> <p>Encouragement of retailers and use the service</p>
<p><b>Activities</b></p>	<p>Project Milestones:</p>	<p>Meeting with Municipality and</p>	<p>Coordination, cooperation and enthusiasm</p>

<p>Identification of business services Contracting departments to produce publicity boards Produce publicity material Provide regular meeting point for small and informal retailers to discuss their business growth</p>	<p>Weeks 1: Secure clearance and funds from Municipality  Week 2: Identify location financial sustainability of project  Week 3&amp;4: Identification of services and development of boards  Week 2&amp;5: Awareness campaign in FPM and CBD by management  Week 5: Commencement of service</p>	<p>agreed implementation  Full assessment of service  Construction of boards  Survey of how retailers found out about the service  Time dedicated by management in CBD  Verification by agents that management are talking to retailers about service</p>	<p>for the strategy  Reward and disseminate the achievement of involved parties  Assistance from management of informal retailers markets in Durban and PMB</p>
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