12. ENVIRONMENTAL MANAGEMENT SERVICES DEPARTMENT
(FRESH PRODUCE MARKET)
REPORT: INVESTIGATION IN TERMS OF SECTION 78 OF THE MUNICIPAL
SYSTEM ACT
(From the Mayoral Committee Cluster: Infrastructure and Planning:
15 January 2014, the Mayoral Committees: 22 January and 2 July 2014)

1. PURPOSE

The purpose of the report is to inform Council on the findings of the recently
conducted section 78(1) assessment as prescribed by Municipal System Act with
regard to Tshwane Fresh Produce Market.

2. STRATEGIC OBJECTIVE

Shared Economic Growth and Job Creation

3. BACKGROUND

A Mayoral Committee Resolution made on 19 July 2012 resulted in: The approval to
commence an investigation in accordance with Chapter 8 of the Municipal Systems
Act into an alternative service delivery mechanism for the Tshwane Market.

The Mayoral Committee decision contains the following:

Having sketched the challenges that national fresh produce markets around South
Africa face, the Mayoral Committee document alludes to the risks that the Tshwane
Market faces in maintaining the status quo:

- "The loss in market share will eventually turn the market into a loss making
  operation, adding a further burden to council’s financial constraints;
- In the long term council will sit with a white elephant that it will have to dispose
  of at a significant loss;
- Redundant staff complements;
- Transformation programmes will move at a snail pace;
- Massive job losses from both council and Market Agents (±2 000 permanent
  jobs);
- Undermining of the food security initiatives as well as the agrarian reform
  programmes of the initiatives of this country."

Given the above, the Mayoral Committee resolved as follows:

1. "That approval be granted to commence a Section 78 investigation as
   prescribed by the Municipal Systems Act, and
2. That cognisance be taken that a consultant will be appointed to assist the
   Tshwane Market with the investigation in terms of Section 78 of the Municipal
   Systems Act."
The City of Tshwane appointed the University Business Enterprises at the University of Pretoria (BE at UP), as part of the Memorandum of Understanding with the institution, with to assist in exploring opportunities and options for the Tshwane Market.

This report, which provides an overview of the Section 78(1) investigation into continuing to provide the Fresh Produce Market Services through an internal mechanism, i.e. a department or a business unit within the City of Tshwane, was tabled at Mayco on the of 22 January 2014. Mayco approved that report be used to consult organised labour and thereafter be updated to reflect the views of labour before submission to Council.

4. DISCUSSION

4.1 TRENDS IN THE FRESH PRODUCE INDUSTRY IMPACTING ON NATIONAL FRESH PRODUCE MARKETS

National and International trends point towards the need to separate ownership (the land ownership) and management (business) of fresh produce markets in order to achieve efficient business practices. The rationale underpinning this argument is that research shows that since 1999, very little volume growth has occurred in National Markets throughput, despite substantial growth in overall fresh produce production. The graphs below illustrate the tonnage sold for fruit and vegetables respectively over a period from 1999 to 2012:
The graphs demonstrate that although fruit and vegetable production has grown steadily over the last decades, produce sold through Fresh Produce Markets has only experienced minimal growth. As such the graphs illustrate that National Fresh Produce Markets are losing market share in the fresh produce sector. There are several reasons for this:

Increases in fresh-produce consumption due to urbanisation, health consciousness and economic growth, from increasingly demanding consumers, result in stringent quality management systems that retailers are able to apply through direct relationship with producers (e.g. Woolworths, PnP, Shoprite/Checkers).

Improved transportation, cold chain management, traceability and communication systems allows for more efficient and effective distribution of goods, easier market access to more direct off-take agreements (as opposed to the past where the producer was reliant on the fresh produce market as an information source).

The Broad-Based Black Economic Empowerment efforts of the Tshwane Market, in its current form, is limited as it is not trading in fresh produce but rather facilitates trading in fresh produce.

Changing nature of the value chain of the sector has resulted in direct delivery of fresh produce to a growing retail sector, resulting in relatively reduced procurement through National Markets including Tshwane Market.

Food safety requirements are receiving increased attention – HACCP (Hazard Analysis and Critical Control Points), GlobalGAP and traceability. Tshwane Market is not complying.

The above is supported by the international case studies: traditional fresh produce markets' throughput is declining as, similarly to elsewhere in the world, supermarkets are increasingly buying directly from suppliers, bypassing traditional distributors.
As a result of the above, trends emerging in the South African Fresh Produce Market arena since 1999 include:

There has been an increased movement towards some form of corporatisation to allow for increased adaptability. The City of Johannesburg and City of Cape Town already moved on the matter with the Joburg Market being managed as an Municipal Entity and Cape Town Market being managed as a private business (not being a municipal service as defined in the Municipal Systems Act and listed in the Part B of Schedule 5).

The rationale for investigating alternative ownership and management models for Fresh Produce Markets is underpinned by the following value propositions:

- Improved financial positioning in the Markets;
- Improved BBBEE participation in the ownership and operation of the business;
- Immediate local economic development benefits;
- Reduction of risk associated with managing the business;
- Increased and faster commercial adaptability resulting in placing Fresh Produce Markets in a stronger competitive position; and
- Facilitation of health and food safety standards

Since most Fresh Produce Markets still reside in the hands of municipalities, Fresh Produce Markets need to be restructured and re-positioned to enable them to adjust quickly and decisively to market changes and requirements and to respond to the trends described above.

4.2 NATIONAL FRESH PRODUCE MARKETS IN SOUTH AFRICA

It is important to understand that a Fresh Produce Market does not sell fresh produce. Its sole purpose is to provide the trading platform on which fresh produce is bought through agents from producers and sold, through the same agents to buyers.

As such the Fresh Produce Market provides the necessary facilities, infrastructure and trading systems to facilitate these transactions.
The figure below illustrates the space in which Fresh Produce Markets operate

PRODUCTION / HARVESTING / PACKAGING / DISTRIBUTION

Table 1: Turnover of the Top Four Markets in South Africa

<table>
<thead>
<tr>
<th>2012/2013</th>
<th>JHB</th>
<th>Tshwane</th>
<th>Durban</th>
<th>Springs</th>
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<tbody>
<tr>
<td>Turnover</td>
<td>R4,930 billion</td>
<td>R2,257 billion</td>
<td>R1,038 billion</td>
<td>R0,3 billion</td>
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<tr>
<td>Market share</td>
<td>45.95%</td>
<td>21.04%</td>
<td>10.10%</td>
<td>2.90%</td>
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<tr>
<td>%Growth 2012/2013 on the previous financial year</td>
<td>17.90%</td>
<td>15.48%</td>
<td>10.68%</td>
<td>8.18%</td>
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</table>
Ownership and management models of fresh produce markets currently in operation include:

- departmental markets: most of the markets in SA, including Tshwane Fresh Produce Market;
- municipal controlled, but externalised such as Joburg Market, which is a Municipal Entity; and
- private markets such as Cape Town (Epping) Market.

4.3 THE TSHWANE MARKET

The following SWOT Analysis provides a snapshot overview of the strengths and weaknesses of the Tshwane Market:

SWOT: Tshwane Market- Strengths:

Tshwane Market is well-established in the fresh produce environment; Second largest fresh produce market in South Africa – size does matter; Adequate infrastructure available for operations on the market, but needs to be rearranged and upgrade for compliance purposes; Adequate land available for expansion (depending on future scenarios); Good location therefore easy access to facilities; Long standing agent relationship and established client base – large data base of producers and buyers; Some important role-players like wholesalers and meat markets etc.; Diverse product offering; Financially sound – generates handsome surplus albeit not ring fenced; Skilled management team and new organisational structure further enhances the management team and addresses industry issues; Master plan for expansion completed; and
This Municipal Systems Act Section 78 assessment process – recognition that change is needed.
SWOT: Tshwane Market- Weaknesses:

- Maintenance and capex backlog with regard to infrastructure;
- Food health and safety compliance sub-standard;
- Available land and facilities not optimally utilised;
- Not in control of all service delivery inputs that are mission critical;
- Tshwane Market surplus generated not applied towards its development;
- Slow movement in Master Plan implementation – surplus funds allocated elsewhere in the City budget;
- Slow processes in filling new staff structure;
- Protracted process to change bylaw – too protracted to keep up with industry changes;
- General protracted City decision-making process – especially supply chain management processes;
- Doesn't offer sufficient variety in fresh produce basket – only more bulky produce are sold at Tshwane Market;
- Imbalance of producers and buyers – few large scale producers and buyers;
- No direct contacts with the producers and buyers – little influence on sales;
- Not the preferred fresh produce marketing channel; and
- Current institutional structure cannot accommodate Broad Based Black Economic Empowerment (BBBEE).

SWOT: Tshwane Market- Opportunities

- The fresh produce industry shows growth over the long term and this trend is to continue;
- To facilitate value-add opportunities;
- The move towards a food and fresh food hub (not only fresh produce);
- Enter electronic trade – saving in capital expenditure;
- To facilitate SADC countries to procure from the market;
- Possible capital investment support by DAFF;
- Possible ring fencing of market business;
- Implementation of long awaited National Agricultural Marketing Council (NAMC) Section 7 Committee recommendations;
- Drive towards implementation of Strategic Infrastructure Projects (SIP) projects – national focus on agricultural produce, value add and logistics;
- Interest of stakeholders (e.g. agents, NAMC, DAFF) in Tshwane Market restructuring
- General National and Provincial urgency to get matters done;
- The new institutional structure of the City; and
- The implementation of national and international food quality and safety standards and procedures – traceability, HACCP and GlobalGAP.

SWOT: Tshwane Market- Threats

- Loss of any one or more of the big 10 producers and/ or buyers;
- Suppliers and buyers not locked in and it is relatively easy to switch marketing channel;
- Mainly concentrating on fresh produce whereas efforts should shift to food marketing in general;
- Quality of fresh produce sold at Tshwane Market not at same level when compared to chain retailers;
Other marketing channels including Johannesburg Market (substantial expansion plan);
Lack of understanding of the operation and competing forces of fresh produce markets including that of Tshwane Market;
Being at the peril of the agents to generate the bulk (90%) of its turnover and ultimately growth;
Lack of expansion opportunities due to jurisdictionally bound nature of “municipal services”;
Lack of timeous infrastructure upgrade and expansion;
Quality issues due to lack of quality control except for potatoes;
Volatility of agricultural sector with regards to delivery of high quality fresh produce constantly;
General lack of innovation due to municipal governance environment; and
Little influence on the implementation of BBBEE strategies in current institutional structure.

4.4 SECTION 78 (1) INVESTIGATION

The Section 78(1) investigation was completed in 4 Parts:

Part 1 – Synopsis report, project background and methodology;
Part 2 – Global Trends in the Fresh Produce Industry (case studies of Brazil, Mexico, India, France and Spain) and in South African Fresh Produce Markets (case studies of Johannesburg and Epping Fresh Produce Markets);
Part 3 – The Tshwane Fresh Produce Market; and
Part 4 – Section 78 (1) assessment, including an overview of national and sector legislation and historical and current issues facing the fresh produce market industry in SA.

Union views are to be obtained after City of Tshwane is informed of content of reports.

The Section 78 (1) criteria for investigation include:

- Criterion 1 – Costs and benefits
- Criterion 2 – Capacity
- Criterion 3 – Re-organisation of the City of Tshwane administration and the development of its human resources
- Criterion 4 – Job creation and development impacts
- Criterion 5 – Labour views
- Criterion 6 – Other Trends

These are set out in the table below and the assessment was conducted for a “Department” and a “Business Unit”:

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<th>Criteria</th>
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Criterion 1 – Costs and benefits

Criterion one requires an assessment of the direct and indirect costs and benefits associated with the project if the service is provided by the municipality through an internal service delivery mechanism, including the expected effect on the environment and on human health, well-being and safety. These costs include financial costs but go beyond these to cover non-financial costs as well.
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<tr>
<td>It is important to understand that the greatest environmental impact regarding fresh produce is at the source of production, followed by ripening, cooling and transportation to and from the market. Should the Market services continue to be provided through an internal mechanism, no substantial effect is expected on the environment as the assets and infrastructure have been in place for many years. Plans for upgrades of Market facilities and possible expansion of the premises will be brought about irrespective whether the Market will continue to operate under the Department or in a more independent configuration. While upgrades and expansion will have an impact on the environment (especially during construction), this is inconsequential with regard to the market’s future ownership and management structures. The Tshwane Market plays a dual role in ensuring food security in its jurisdiction, although the exact extent of this remains unclear. Firstly, it provides an outlet where producers (suppliers) can sell their produce and earn an income. The Tshwane Market is currently assisting emerging farmers by transporting their produce to the market to be sold through the Tshwane Market system. Secondly, the Tshwane Market provides a platform where it is relatively easy for hawkers and the informal trade to buy fresh produce, who themselves make a living off the market and also assist in providing fresh produce to townships. As a result, the Tshwane Market fulfils an important role in contributing to the human health and well-being of its jurisdiction. However, this function will most likely not be impacted on whether the market continues to exist under the municipality via a department or business unit or under a more independent service delivery option. As alluded to above, the Tshwane Market has made provision in its new organisational structure for Food Safety and Quality Control. Currently, the Market is not up to standard with regard to industry food safety and health quality control resulting in farmers and buyers bypassing the Tshwane Market. The Market aims at becoming fully HACCP and Food Safety compliant. The first step is to attain HACCP accreditation for the cold rooms and the ripening centre as well as rendering the platform floor compliant. While the City provides a permanent Environmental Health Practitioner to the Market, management stated that the need for compliance with industry standards is not always fully understood by the City as this is a much specialised field. As such, it does not receive the required attention and support that would assist towards implementing these standards. An example is that while the organogram makes provision for various posts in the newly developed Food Safety and Quality Control Directorate, the City has only provided for the appointment of one expert person.</td>
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| Direct cost | Municipal organisational structures tend to be loaded and it is estimated that the Departmental organisational structure will cost more than the Business Unit organisational structure. The total direct operational cost for the current MTREF is estimated at R 243 708 868 and for the 10 year planning period it is estimated at R 1 088 822 964. | The total direct operational cost for the current MTREF is estimated at R 240 681 307 and for the ten year planning period it is estimated at R 1 047 495 674 which is less than that of an internal Department. The Business Unit results in a saving of approximately R 3 027 561 for the current MTREF and R 41 327 290 for the ten year planning period. |

<p>| Indirect cost | The indirect cost is calculated at 15% of the operating cost, which is based on the 2013/2014 budget of the City of Tshwane. The total cost for the current MTREF is estimated at R 36 556 330 and for the 10 year planning period it is estimated at R 160 323 445. This amount is based on the budget as prepared for the Section 78(1) Report. The Net Present Value for the departmental service delivery mechanism is R 75 162 614. | The indirect cost is calculated at 10% of the operating cost, which is based on the 2013/2014 budget of the City of Tshwane. The total cost for the current MTREF is estimated at R 24 068 131 and for the ten year planning period it is estimated at R 104 749 567 which is much less than that of an internal Department. This amount is based on the budget as prepared for the Section 78(1) Report. The Business Unit results in a saving of approximately R 12 488 199 for the current MTREF and R 55 573 878 for |</p>
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<td>Environment</td>
<td>Due to the nature of the Tshwane Market function it is not foreseen that the two service delivery mechanisms will in principle have different environmental impacts. As indicated above the City of Tshwane is jurisdictionally bound and service as indicated above should not be rendered to producers out the City jurisdiction. The Market is slow to improve outdated ripening and cooling facilities with more modern environmental facilities as it fails to get capital allocations in time. Its capital requirements are not ring-fenced and funded from surpluses rendered. By virtue of the very fact that all sales have to take place on the market floor it contributes little to the environmental impact regarding transportation.</td>
<td>the nine year planning period. The Net Present Value for the business service delivery mechanism is R 129 550 811. Financially, and based on the assumptions, the business unit service delivery mechanism is performing much better than the departmental service delivery mechanism.</td>
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<td>Human health, well-being and safety</td>
<td>Due to the nature of the Tshwane Market function it is not foreseen that the two service delivery mechanisms will in principle have different human health, well-being and safety impacts. However, the City of Tshwane agreed an organisational structure for the Tshwane Market, but is slow to implement it as a result of limited funds in the City of Tshwane. The surplus funds generated by the market are not applied towards the market.</td>
<td>Due to the nature of the Tshwane Market function it is not foreseen that the two service delivery mechanisms will in principle have different human health, well-being and safety impacts. By its very nature the Business Unit will be more focussed, incorporate specific pre-agreed goals and more appropriately measured, therefore it should outperform the Departmental service delivery mechanism for this criterion.</td>
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**Criterion 2 – Capacity**

Criterion two requires an assessment of the municipality's capacity and potential future capacity to furnish the skills, expertise and resources necessary for the provision of the service through an internal mechanism. This criterion focuses on questions concerning the capacity of the municipality, implementation skills, effective labour relations and training and development. The City of Tshwane developed a more service delivery responsive organisational structure for the City itself and for the Tshwane Market. The challenge that the City is facing is to find the funds to implement the new organisational structure to its full extent. As indicated in the Municipal Systems Act Section 78(1) Report in Part 3 the organisational structure of the Tshwane Market is also not implemented. The requirements of Tshwane Market are unique and it is doubted whether the City of Tshwane will find the requisite skills by means of its internal recruitment processes.

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Department and a Business Unit will have the same challenges as regards the implementation of the service as they will have to use the systems of the City of Tshwane to employ staff, procure goods and services and to get operational and capital funds. Based on the available information it may be highly unlikely that the City of Tshwane will furnish the necessary skill, expertise and resources (financial and human) to perform the Tshwane Market function as an internal department.

The City of Tshwane will have to transfer internal resources, employ from outside and contract resources in. This may be a time consuming process and there is a chance that the appropriate skills will not be attracted with a departmental organisational setup.

As a result of historical trends, it is highly doubtful whether the City of Tshwane with a departmental institutional and organisational structure will ever meet the demands of the fresh produce industry timeously and diligently in order for the Tshwane Market to reach its full potential and be sustainable and self-sufficient.

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The City of Tshwane will have to transfer internal resources, employ from outside and contract resources in. This may be a time consuming process and there is a chance that the appropriate skills will not be attracted with a departmental organisational setup.

As a result of historical trends, it is highly doubtful whether the City of Tshwane with a departmental institutional and organisational structure at large will be successful with the implementation of a business unit and that it will ever meet the demands of the fresh produce industry timeously and diligently in order for the Tshwane Market to reach its full potential and be sustainable and self-sufficient.

It is envisaged that due to its very nature that the business unit will be in a better position to utilise the required facilitating of the business especially from a human resource perspective. The "separate" nature of a business unit setup will be more attractive to external resources with the required skills set than a Departmental setup.

However, there is doubt whether a business unit institutional and organisational structure is moving Tshwane Market sufficiently to compete with the private sector forces in the fresh produce industry. A business unit institutional and organisational structure, albeit ring-fenced, will be hampered by the same human resource, supply chain, operational and capital expenditure and jurisdictional constraints as a department. Therefore, it is viewed that a business unit will only have a marginal benefit over a department for this criterion.
Criterion three requires an assessment of the extent to which the re-organisation of the municipality's administration and the development of the human resource capacity within that administration as provided for in Sections 51 (organisation of administration) and 68 (capacity building) of the Municipal Systems Act, respectively, could be utilised to provide a service through an internal mechanism.

Section 51(g)(i) of the Municipal Systems Act states that "a municipality must within its administrative and financial capacity establish and organise its administration in a manner that would enable the municipality to perform its functions through operationally effective and appropriate administrative units and mechanisms, including departments and other functional or business units."

Section 68(1) of the Municipal Systems Act states that "a municipality must develop its human resource capacity to a level that enables it to perform its functions and exercise its powers in an economical, effective, efficient and accountable way."

The Tshwane Market has been located within the City since its inception. The City of Tshwane underwent many restructuring exercises and the latest is discussed in the Section 78(1) Report. The restructuring is delivering positive results for the City at large, but has little positive effect on the position of the Tshwane Market as it does not really address the industry specific matters that will render it to deliver markedly improved performance. The Tshwane Market is still losing market share.

One of the key traits of a fresh produce market and the fresh produce industry is trust by all role-players. Tshwane Market is no different. Trust is normally earned over a long term and the Municipal Systems Act Section 57 appointments do not bode well for developing a trustful environment within which the Tshwane Market can develop long term relationships. Further, a brand is normally developed over many years and fresh produce markets, including Tshwane Market have lost brand value over time. This view is based on the results of the NAMC Section 7 investigations.

While the Tshwane Market operates under the Department of Agriculture and Environmental Management, it does so more or less independently apart from a few support staff (human resource and finance) assisting the Market in their day-to-day operations.

Considering the fact that the Tshwane Market function is an existing function and service that is by its nature very specialised, it is therefore highly unlikely that the City of Tshwane will through another re-organisation exercise of its administration be in a position to furnish the required skills and expertise to manage the market to its full potential. To re-organise the City administration is a protracted exercise and the opportunity to implement a Tshwane Market focused departmental institutional and organisational structure successfully within the required time is highly unlikely. The fresh produce industry is moving fast and it does not wait for the City of Tshwane to implement restructuring efforts.

It will take too long to develop internal skills as the Tshwane Market is losing market share and needs action without delay. It will not be possible to train and skill up the necessary internal staff to fulfil the specialised services required.

The changing of the institutional service delivery mechanism of the Tshwane Market function and service is overdue and the City of Tshwane...
is overdue and the City of Tshwane does not have the luxury of time to develop resources and re-organise its administration. For this reason, and as discussed above, the City will have to combine internal and external resources to effectively implement the Department, but it will be difficult to find the required skills internally as well as the external resources as they will be reluctant to work in a City Departmental structure.

It is also not foreseen that the City of Tshwane will markedly adjust its internal institutional and organisational structure to accommodate a very unique "municipal service". In theory, the implementation of a business unit may need a bit more administrative restructuring and re-organisation than a Department. However, it is more a matter of discipline and adjustment of systems than any physical disruption to the City of Tshwane organisational and institutional structure.

As mentioned above a business unit may be more effective in implementing the necessary change than a departmental institutional and organisational structure. However, it is doubtful if a business unit will have sufficient impact to deliver the required performance enhancement that is needed by Tshwane Market.

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Criterion 4 – Job creation and development impact

Criterion four requires an assessment of the likely impact on development, job creation and employment patterns in the municipality if the Tshwane Market is operating through an internal mechanism.

The constraints placed on the Tshwane Market with regard to lengthy procurement and human resource processes, are not conducive to the planned developments at the Market. Expansion and upgrades are planned but are bogged down by lengthy municipal processes. Despite the expanded organogram, job creation is likely to be slow due to long lead times in appointing new staff. It is expected that the status quo will remain regarding employment patterns in the Tshwane Market if it continues as an internal mechanism.

As a result of the legislative environment Tshwane Market, as an internal service delivery mechanism, can play a very limited role in achieving government objectives of improved Black Economic Empowerment (BEE) other than in terms of procurement and employment. While attempts are made to include more BEE agents, this is a difficult process as agent relationships with their producers are based on long-standing trust, commitment and loyalty. The NAMC maintains that markets under a more independent management structure would be able to foster BEE more effectively, which is debatable in the light of the above argument.

| Due to the nature of the Tshwane Market function and the position described above it is not foreseen that the current departmental internal service delivery mechanisms will suddenly render improved results. | Due to the nature of the Tshwane Market function it is not foreseen that the two service delivery mechanisms will in principle have vastly different job creation and development impacts such as improved staff mentoring and focus with own performance culture from inception. |
Due to its ring fenced nature there may be an improvement in capital expenditure and this development may increase short term employment and development opportunities. The new developments may also create longer term employment opportunities. By its very nature a business unit will be more focussed and more appropriately measured and should outperform the departmental service delivery mechanism. However, any marked improvement in this criterion with the implementation of a business unit is not foreseen.

**Criterion 5 – Labour views**

The views of organised labour are to be obtained.

A draft letter (Municipal Systems Act Section 78(1) Report Part 4, Annexure D) was prepared and needs to be completed and forwarded to the organised labour in order to gain their views as provided for in Section 78(1)(a)(v) of the Municipal Systems Act.

The Section 78(1) Report does not include the views of Organised Labour with regard to Municipal Systems Act Section 78(1). A process has been put in place by the City of Tshwane to obtain the views of Organised Labour and will be added to the Report at the relevant time. It is proposed that the City of Tshwane deals directly with Organised Labour, in cooperation with the Municipal Systems Act Section 78 service provider.

**Criterion 6 – Other trends**

This section takes into account any developing trends in the sustainable provision of the Tshwane Market function and service generally. As alluded to in Parts 2 and Part 4 of the Municipal Systems Act Section 78(1) Report, very little volume growth has occurred in National Fresh Produce Markets, despite overall production of fresh produce having increased substantially over the last years. The steady loss in market share by Fresh Produce Markets (including Tshwane Market) is ascribable to the rise of direct relationships between the large buyers and the large producers, thereby bypassing the fresh produce market system. Also substandard health and food safety standards have rendered fresh produce markets less and less attractive and competitive in an industry where consumer awareness of food safety is rapidly increasing.

As such the NAMC has recommended that one of the means to counter these negative trends is to separate ownership and management in order to achieve increased and long-term competitiveness of fresh produce markets and facilitate the transformation with regard to Black Economic Empowerment in line with government objectives. In addition, separating ownership and management would result in increased flexibility due to its delinked nature from onerous municipal processes and procedures, thus allowing for more rapid response and adaptation to changes in the industry. (NAMC, 2007)

In short, the separation of ownership and management would result in achieving more efficient business practices and increased commercial competitiveness.

As discussed in Part 2 of the Municipal Systems Act Section 78(1) Report there are currently three institutional ownership models for fresh produce markets, namely departmental markets (internal service delivery mechanisms), Municipal Controlled, but externalised markets (Municipal Entities) (external service delivery mechanisms) and those fresh produce markets that are totally private. It is evident that there are two external institutional service delivery mechanisms available to the City of Tshwane. However, a business unit is not one of these two service delivery mechanisms. For the record and purposes of clarity, private markets are not institutional service delivery mechanisms.

Based on the above and the shortcomings of internal service delivery mechanisms as described herein and national trends and recommendations, it will be strongly advisable for the City of Tshwane to consider external service delivery mechanisms as described in Section 76(b) of the Municipal Systems Act for the management component of the Tshwane Market. These external
service delivery mechanisms are to be assessed in terms of the provisions of Section 78(3) of the Municipal Systems Act.

As a result of the conclusions reach above, it is thus recommended that, before taking a decision to continue with the Tshwane Market as an internal mechanism, the City should conduct an assessment in terms of Section 78(3) of the Municipal Systems Act into possible external mechanisms as contemplated in Section 76(b) of the Municipal Systems Act for the Tshwane Market.

5. COMMENTS OF THE STAKEHOLDER DEPARTMENTS

5.1 COMMENTS OF THE GROUP LEGAL COUNSEL

(Unaltered)

The purpose of the report is to inform Mayoral Committee on the findings of the recently conducted section 78(1) assessment as prescribed by the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000, hereinafter referred to as ‘the MSA, 2000’), with regard to the Tshwane Fresh Produce Market.

Whilst section 77 of the MSA, 2000 provides for the occasions when an alternative mechanism for service delivery should be considered, section 78 of the MSA, 2000 provides for the criteria and processes to be followed.

This Group Legal Services Department should mention that if the possibility of a municipal entity is considered then section 84 of the Local Government: Municipal Finance Management, 2003 (Act 56 of 2003, ‘the MFMA, 2003’), should also be observed The said section has many similarities with that of section 78 but there are some difference’s as well (e.g. 90 days’ notice). The said section 84 of the MFMA, 2003 provides as follows:-

84 Financial implications for municipalities

(1) When considering the establishment of, or participation in, a municipal entity, a municipality must first-

(a) determine precisely the function or service that such entity would perform on behalf of the municipality; and

(b) make an assessment of the impact of the shifting of that function or service to the entity on the municipality’s staff, assets and liabilities, including an assessment of-

(i) the number of staff of the municipality to be transferred to the entity;

(ii) the number of staff of the municipality that would become redundant because of the shifting of that function or service;

(iii) the cost to the municipality of any staff retrenchments or the retention of redundant staff;

(iv) any assets of the municipality to be transferred to the entity;

(v) any assets of the municipality that would become obsolete because of the shifting of that function or service;

(vi) any liabilities of the municipality to be ceded to the entity; and

(vii) any debt of the municipality attributed to that function or service which the municipality would retain.
(2) A municipality may establish or participate in a municipal entity only if:

(a) the municipal manager, at least 90 days before the meeting of the municipal council at which the proposed establishment of the entity, or the municipality's proposed participation in the entity, is to be approved-

(i) has, in accordance with section 21A of the Municipal Systems Act-

(aa) made public an information statement setting out the municipality's plans for the municipal entity together with the assessment which the municipality must conduct in terms of subsection (1); and

(bb) invited the local community, organised labour and other interested persons to submit to the municipality comments or representations in respect of the matter; and

(ii) has solicited the views and recommendations of-

(aa) the National Treasury and the relevant provincial treasury;

(bb) the national and provincial departments responsible for local government; and

(cc) the MEC for local government in the province; and

(b) the municipal council has taken into account-

(i) the assessment referred to in subsection (1);

(ii) any comments or representations on the matter received from the local community, organised labour and other interested persons;

(iii) any written views and recommendations on the matter received from the National Treasury, the relevant provincial treasury, the national department responsible for local government or the MEC for local government in the province.

(3) For the purposes of this section, 'establish' includes the acquisition of an interest in a private company that would render that private company a municipal entity.

(our emphasis and underlining)

We advise that it would be advisable if a properly conducted due diligence report is conducted by an outside service provider having regard to all possible options and matters of compliance.

Cognisance is taken of the content of the report which is done in compliance with section 78 of the MSA, 2000.

5.2 COMMENTS OF CHIEF FINANCIAL OFFICER

(Unaltered)

Cognisance is taken of the contents of the report. Note is also taken of the findings from the section 78(1) investigation on Tshwane Fresh Produce Market.

The purpose of this report is to inform the Mayoral Committee on the findings of the recently conducted section 78(1) assessment as prescribed by Municipal System Act with regard to Tshwane Fresh Produce Market.
It is indicated in the report that based on the findings from the section 78(1) investigation; the city has to conduct a further assessment in terms of section 78(3) of the Municipal Systems Act, before taking a decision to continue with the Tshwane Market as an internal mechanism. Furthermore, the views of the organised labour are to be obtained on the Municipal Systems Act Section 78(1).

The Group Financial Services Department will gladly render further financial comments on future reports in this regard.

5.3 COMMENTS OF STRATEGIC EXECUTIVE DIRECTOR: CORPORATE AND SHARED SERVICES

No comments received.

5.4 COMMENTS OF THE STRATEGIC EXECUTIVE DIRECTOR: ECONOMIC DEVELOPMENT

No comments received.

5.5 COMMENTS OF THE STRATEGIC EXECUTIVE DIRECTOR: AGRICULTURE AND RURAL DEVELOPMENT

No comments received.

5.6 COMMENTS FROM ORGANISED LABOUR

At its meeting on the 22 January 2014, Mayco, approved that the report be used to consult labour and that it be thereafter be updated to reflect the views of labour before submission to Council.

Implementing this decision, the Department attempted several times to meet with Local Labour forum but all the meetings were cancelled due to technicalities as listed in the attachments (See Annexure B). The Department was subsequently informed that the matter will not be heard by LLF but will be referred to Work Place Skills and Restructuring Committee. After numerous scheduling of meetings, the restructuring committee also failed to convene and that's when the Department wrote individually to organised labour unions indicating its intention to proceed with the matter, in absentia of the inputs.

To date organised labour has not yet responded to the formal requests as per the letters attached.

6. IMPLICATIONS

6.1 HUMAN RESOURCES

None

6.2 FINANCES

None
6.3 CONSTITUTIONAL AND LEGAL FACTORS

The report complies with chapter 8 of the Municipal System Act.

6.4 COMMUNICATIONS

Stakeholders were consulted during the investigation as prescribed by section 78 of the Municipal Act and that views of organised labour will be obtained through Local Bargaining Forum on the reports.

6.5 PREVIOUS COUNCIL AND MAYORAL COMMITTEE RESOLUTIONS

A Mayoral Committee Resolution made on 19 July 2012 resulted in: “The approval to commence an investigation in accordance with Chapter 8 of the Municipal Systems Act into an alternative service delivery structure for the Tshwane Market”. At its meeting on the 22 January 2014, Mayco, approved that the report be used to consult labour and that it be thereafter be updated to reflect the views of labour before submission to Council.

7. CONCLUSION

Based on this Municipal Systems Act Section 78(1) assessment it appears that the Tshwane Market would be better served in reaching its economic and commercial potential if its management were separated from the municipality.

Based on result of the investigation, it is thus recommended that, before taking a decision to continue with the Tshwane Market as an internal mechanism, the City is to conduct an assessment in terms of Section 78(3) of the Municipal Systems Act into possible external mechanisms as contemplated in Section 76(b) of the Municipal Systems Act for the Tshwane Market.

Efforts to consult labour as mandated by Mayoral Committee have been unsuccessful. Any further efforts to get the views of labour on this matter will only stall the process. It is advisable that the report should be submitted to Council for approval to proceed with an assessment in terms of Section 78(3) of the Municipal Systems Act into possible external mechanisms as contemplated in Section 76(b) of the Municipal Systems Act for the Tshwane Market.

The Mayoral Committee on 2 July 2014 resolved to recommend to Council as set out below:

IT WAS RESOLVED (BY THE MAYORAL COMMITTEE: 22 JANUARY 2014):

That for purposes of the Section 78(2) decision, the following resolutions should be taken:

1. That the contents of the report be noted;

2. That the views of organised labour be obtained through the Local Bargaining Forum on the reports;

3. That the reports be finalised incorporating the views of organised labour; and
4. That the final reports be submitted to Council for a final decision on the progression to Section 78(3) of the Municipal Systems Act.

During consideration of this item by Council on 31 July 2014 and after Cllr WD Peach addressed Council on this matter, it was resolved as set out below:

ANNEXURES:

A: Part 1, 2, 3, and 4. Assessment report
B: Communication with the Organised Labour

RESOLVED:

1. That for purposes of the Section 78(2) decision, the following resolutions should be taken:

1.1. Notes that efforts to consult labour as mandated by Mayoral Committee have been unsuccessful.

1.2. That the Mayoral Committee proceeds to submit the report to Council, without organised labour inputs, for approval to proceed with an assessment in terms of Section 78(3) of the Municipal Systems Act into possible external mechanisms as contemplated in Section 76(b) of the Municipal Systems Act.
Tshwane Fresh Produce Market
Status Quo and Needs Analysis
PART 1

Synopsis Report (Executive Summary)
Introduction and Project Background and Methodology
Document Status: Final prior to union inputs
9/18/2013

Prepared For:

Date:
19 September 2013

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Foreword

Part 1 provides a synopsis executive summary of the full status quo investigation and Municipal Systems Act Section 78(1) report. It also provides the project background and methodology and an introduction to this four-volume report.
Prepared by:

- Business Enterprises at University of Pretoria (Pty) Ltd
- Agricultural Economics, Extention & Rural Development
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Executive Summary

Akhile was appointed on 15 April 2013, to assist the City of Tshwane Metropolitan Municipality (hereafter referred to as the City of Tshwane or City), through Business Enterprises at University of Pretoria with the “Investigation in Accordance with Chapter 8 of the Municipal Systems Act into an Alternative Service Delivery Mechanism for the Tshwane Fresh Produce Market”.

Global Industry Analysis

National fresh produce markets operate in a very dynamic industry, unlike more pure municipal services like water, sanitation, electricity and waste management.

Some fresh produce markets like the Tshwane Market operate within the local sphere of government and one needs to have an understanding of the workings of the global and local fresh produce industries and South African fresh produce markets when considering an appropriate service delivery mechanism since various service delivery mechanisms may have vastly different effects and impacts on the performance and risk profile of the City and the Tshwane Market.

Due to the growth in the world population, the massive growth in food demand is expected to continue in the future, as the world population is expected to reach 9 billion people by 2050. As a direct result, the global fruit and vegetable industry has grown significantly over the past decade and it is expected to keep on growing. The table below illustrates the top ten fruit and vegetable producing countries in the world.
Table 1 Top ten fruit and vegetable producing countries in the world

<table>
<thead>
<tr>
<th>Vegetable Countries</th>
<th>Production (MT)</th>
<th>Fruit Countries</th>
<th>Production (MT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>132 885 800</td>
<td>India</td>
<td>9 564 100</td>
</tr>
<tr>
<td>India</td>
<td>34 761 000</td>
<td>Vietnam</td>
<td>2 564 500</td>
</tr>
<tr>
<td>Vietnam</td>
<td>6 732 700</td>
<td>China</td>
<td>2 299 500</td>
</tr>
<tr>
<td>Nigeria</td>
<td>5 945 600</td>
<td>Iran</td>
<td>2 169 400</td>
</tr>
<tr>
<td>Philippines</td>
<td>4 842 200</td>
<td>Myanmar</td>
<td>1 350 000</td>
</tr>
<tr>
<td>Myanmar</td>
<td>3 719 300</td>
<td>Nigeria</td>
<td>1 212 000</td>
</tr>
<tr>
<td>Nepal</td>
<td>3 003 820</td>
<td>Indonesia</td>
<td>1 204 000</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>2 698 000</td>
<td>Papua New Guinea</td>
<td>947 800</td>
</tr>
<tr>
<td>Japan</td>
<td>2 619 400</td>
<td>Nepal</td>
<td>656 300</td>
</tr>
<tr>
<td>Brazil</td>
<td>2 445 100</td>
<td>Democratic People’s Republic of Korea</td>
<td>548 100</td>
</tr>
</tbody>
</table>

Source: Gyan Research and Analytics, 2012

Based on the above country specific case studies regarding the fresh produce markets, were conducted of Brazil, India, France, Mexico and Spain, each of which is elaborated on briefly below.

Brazil

The Brazilian economy is ranked the eighth largest economy in the world and is set to become fifth in the midterm. Brazil is the third largest fruit producer among developing countries, behind China and India.
Fresh produce is procured by wholesalers (CEAGESP- a state company for the federal government of Sao Paulo dealing with fresh produce terminal markets and grain warehouses), Fresh Produce Market, and CEASAs (Central de Abastecimento e Servicos Auxiliares – a government-run wholesaler), terminal markets (SINAC- National System of Central Supply in charge of Group Executive System Modernization Supply (Gemab) created by the Federal Government in 1969) and (COBAL- State Companhia Brasileira de Alimentos – a state company responsible for coordination functions, technical control, administrative and financial program), municipal markets and retailers.

The distribution of fresh produce in Brazil is highly concentrated, consisting mainly of regional central suppliers, the CEASA, that were established by the Federal Government in 1962. There are currently more than 50 CEASAs in Brazil, with either state or mixed ownership. They distribute approximately 50% of all the production of fresh fruits and vegetables in Brazil. The largest CEASA is CEAGESP, which is responsible for distribution in the city of São Paulo. The Supply Centres are therefore government entities for food supply in Brazil.

The Centres were intended to Wholesale Marketing using private agents that acted in the traditional markets of horticulture, fish and other perishables. The Fresh Produce Market – central hub (CEAGESP) obtains fresh produce from farmers through a packer-shipper or a dealer. The Fresh Produce Market is a wholesaler linking produce from the farmer to retailers. The retail industry supplied by this Fresh Produce Market supply are hawkers, individual buyers, government institutions, schools and universities, restaurants, greengrocers, and supermarkets.

Supermarkets and hypermarkets account for almost 50% of the retail market and they use a variety of strategies to compete in fresh produce. As a result, the markets for fresh foods in Brazil are changing from producer to consumer markets where powerful supermarkets require a steady supply of good quality and traceable produce.
The fruits and vegetables markets in Brazil have strict food safety regulations and are required to demonstrate the safety and traceability of their produce up to the consumption stage. This is a necessary condition in order to have access to international markets such as the European Union (EU) and the United States (US).

Mexico

Mexico has one of the world’s fastest growing and largest fresh produce industries and is home to the largest market for the United States’ agricultural products.

Mexico has a total of 64 wholesale markets made up of 550,000 wholesalers. Mexico City’s Central Wholesale Market (CA) is the largest of all wholesales in Mexico and is the country’s largest business centre and the biggest wholesale market in the world. The market spans over an area of 304 hectares and accounts for handling over 50% of all food products sold in Mexico.

The Central Market in Mexico City serves as a collection point for agricultural products from all over the country and abroad. Products sold on the market are sourced from across the country from independent growers and large consolidated groups as well as imported abroad largely from the United States and other various international companies.

The Mexico City Central Wholesale Market is held as a trust by the City and acts as a fiduciary institution under Banco Santander Mexicano S.A. The governing body of the market comprises of members of the public and private business sectors as well as from the local and federal governments. Changes in market operations and adaptations to meet the dynamic business environment of modern business practices are constantly monitored by the administrative team. The team sets regulatory practices to insure safety within the market as well as to manage the entity’s budgets.
Key players in the Mexican wholesale industry include retailers, wholesalers for other central markets, multi-national food giants and large Mexican buyers. Since much of the fresh produce is exported to the US, strict food safety standards and regulations have to be adhered to.

Similarly to elsewhere in the world, supermarkets are more and more interested in buying directly from suppliers, bypassing traditional distributors.

India

India is the world’s second largest producer of vegetables (after China) of brinjal (eggplant or aubergine), cauliflower and onion, and third for potato, and tomato. It is the leader in the production of peas and okra.

The marketing of agricultural product industry in India is governed and controlled by the state under the Agricultural Products Marketing Committee (APMC) Act. The Act requires that all produce be sold in government regulated markets commonly known as ‘mandis’. These government markets have poor infrastructure and long chains of intermediaries causing severe delays in the value chain of timely distribution of goods to the market. The lack of proper post-harvest management of fruits and vegetables accounts for an estimated 20-30% of losses at different stages of storage, grading, packing, transport and marketing of the fresh produce.

The APMC was amended in 2003 with the introduction of parallel private markets, contract farming and assigned new roles for cooperatives.

There are currently 48 cities with 103 active markets; over 70% of the total population is served by these markets. The markets have different models including, traditional markets, emerging models, low investment chain and high investment chains. There are more than 7 000 wholesale markets under the management of APMC. Throughout all the markets auctions are a compulsory
component of trade in India, and a 1% market fee is charged for every transaction. The players within the markets are the commission agents and the market operators. Although the commission agents make the least contribution to value addition within the supply chain, they are the highest earners with 6-8% of the total chain. The majority of the retail shops are owned by the commissioning agents, and all auction sheds are assigned to commissioning agents rent free. The market operators are not allowed to participate in the buying and selling of produce.

**France**

France is a net importer of fresh produce thus imports are more than exports.

Based on a law passed in 1953 and public involvement, a network of markets called Marchés d’Intérêt Nationale (MIN) was formed (FAO, n.d.). The objective of this network was to organise wholesales by ensuring that they are in full operation. Wholesale markets were aimed at reducing costs of market search by retailers and clarity of market transactions (Gibbon, 2003). The Rungis wholesale market in Paris is the most important market for fresh produce outlets. The market offers guaranteed technical and organisational support to traders that conduct business in the arena.

Rungis is the largest fresh produce market in the world and is managed by a company called Semmaris. Semmaris was established in April 1965 so to construct and manage the Rungis market and its annexes. The state is the major shareholder of this institution. The market has the largest turnover of the wholesale markets worldwide.

Prices at the market are formed through interaction of forces of demand and supply. The wholesales markets provide a sufficient environment for demand and supply to determine prices with open competition and transparency. In the rural areas of France, there are assembly markets that have been traditionally built so as to enhance provision of fair prices to farmers. Generally, products on these markets are sold through an auction system.
The French fresh produce markets have developed their wholesale markets into modern infrastructures which met the EU’s high standards and are at the disposal of professionals in competitive economic and technical conditions. French markets, for example, have electronic traceability systems which have the ability to intervene as a coordination mechanism between agents. The system is said to increase information and knowledge transmission, storage and processing capacity.

Despite growing health demands through increased fresh produce intake in EU, market consumption volumes of fruit and vegetables in France recorded a decrease of up to 8.9 million tonnes by 2011 with a compounded annual rate of change of -2.3% between 2007 and 2011. In addition, retail supermarkets are sourcing up to 60% of their produce directly from suppliers whilst the remaining 40% is purchased at the wholesale markets.

As a result, the French market has been experiencing moderate declines of volume of fresh produce sold at the market for the past couple of years. By 2011, the markets recorded a negative growth of 3.8%.

**Spain**

According to FAO data in 2007, Spain remained the world’s leading fruit and vegetable exporter with a market share of 9% of the total.

Over the years, the Spanish fresh produce market continued to grow until 2007. However, the market consumption volumes declined between 2007 and 2011 though projections show that it will pick up by the end of 2016.
Spain, as most countries, has a wholesale market system with 65% of the fresh produce sold through the wholesale. Spain fresh produce market is known for its substantial contribution to the economy in terms of its sales figures and job creation both by production companies and auxiliary services. The market contributes (*inter alia*) around 50% of the final vegetable production and 32% of the total agricultural production.

The Spanish wholesale markets are owned by a formal network which is a public regulatory body and institution called Empresa Nacional Mercados Centrales de Abastecimientos (MERCASA). MERCASA was formed by government in 1966 with the aim of replacing the old central markets in the major cities by modern network of wholesale facilities. Since then, MERCASA looks after the operation of the market and also appoints market staff whilst the government has majority support in its management structure.

MERCASA in Spain has set up a network of 23 Mercas with 2 600 wholesale markets that mainly trade fresh produce to more than 50 000 customers in the entire food chain and having revenue of over £ 10 000 million per annum. The MERCASAs network sells 50% of all fresh produce consumed in Spain as wholesale. The total coverage of market area in Spain is approximately over 700 ha of land area and the country’s 86% of the population is influenced by the Mercas.

In wholesale markets, prices are formed through forces of demand and supply. The wholesales which have overtime evolved and expanded, provide a good environment for demand and supply to effectively determine prices with open competition and transparency.

Wholesalers pay a lease fee and a monthly rent to the market authorities. This money is used for maintenance and operation expenses of the market. The market fee is charged depending on the size occupied by the tenant. In some instances, an agreement is made between the market authorities and the tenants on a maximum annual adjusted fee usually based on independent
official indicator like consumer price index. Most Spanish markets follow this set up though there are a few markets that have fixed rentals for a specific period of time.

The South African Fresh Produce Industry

South Africa produces fresh fruit, which is prominent in the export sector, whilst vegetable production is largely for the domestic market. More than 50% of the fruits produced in the country are exported, and less than 20% goes directly into the domestic market, local retailers and fresh produce markets. The domestic market comprised mainly of local retail outlets (supermarkets, green-grocers, informal traders (hawkers) and the processors), wholesalers and the fresh produce markets.

Fresh Produce Markets in South Africa

The South African fresh produce markets are made up of National Produce Markets and privately owned markets not controlled in terms of municipal bylaws. The four biggest fresh produce markets are Durban, Johannesburg, Cape Town and Pretoria, in all the major cities of South Africa with four medium markets being Bloemfontein, East London, Pietermaritzburg, and Port Elizabeth. The six smaller fresh produce markets comprise of Kimberly, Klerksdorp, Springs, Uitenhage, Vereeniging and Welkom. Since 1967 Witbank, Umtata, George, Mpumalanga and Nelspruit was added and today we have a total of nineteen fresh produce markets in South Africa.

This fresh produce markets functions as being a meeting place for buyers and sellers and being a place where prices are discovered by means of supply and demand ensured market access to all.

The role of the produce markets in South Africa includes: providing the necessary facilities to commercial, growing and emerging markets and providing equal opportunities of trade between
large scale, commercial and small scale producers, through initiatives that allow trade without discrimination on size or origin. In addition to the meeting place and price formation function, the market also provides modern infrastructure and technologies as well as ripening facilities. Fresh produce markets provide an easily and accessible market for small scale and emerging producers to sell their produce.

It is evident from the table below that the Johannesburg Fresh Produce Market is returning the highest rand value per ton (R 3 743) with Tshwane, Durban, East London and Bloemfontein Fresh Produce Markets at approximately R 3 400 per ton.

**Table 2 South African Fresh Produce Markets**

<table>
<thead>
<tr>
<th>Market</th>
<th>Turnover</th>
<th>Volume (tons)</th>
<th>Rand per ton</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bloemfontein</td>
<td>R 331 553 705</td>
<td>96 129</td>
<td>R 3 449.05</td>
</tr>
<tr>
<td>Cape Town*</td>
<td>R 170 307 707</td>
<td>56 649</td>
<td>R 3 006.37</td>
</tr>
<tr>
<td>Durban</td>
<td>R 1 113 755 676</td>
<td>327 108</td>
<td>R 3 404.86</td>
</tr>
<tr>
<td>East London</td>
<td>R 317 670 246</td>
<td>93 098</td>
<td>R 3 412.21</td>
</tr>
<tr>
<td>George</td>
<td>R 26 260 852</td>
<td>12 946</td>
<td>R 2 028.49</td>
</tr>
<tr>
<td>Johannesburg</td>
<td>R 4 834 928 718</td>
<td>1 291 892</td>
<td>R 3 742.52</td>
</tr>
<tr>
<td>Kimberley</td>
<td>R 73 344 935</td>
<td>23 690</td>
<td>R 3 096.03</td>
</tr>
<tr>
<td>Klerksdorp</td>
<td>R 301 894 537</td>
<td>97 574</td>
<td>R 3 094.01</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>R 103 275 646</td>
<td>35 611</td>
<td>R 2 900.11</td>
</tr>
<tr>
<td>Nelspruit</td>
<td>R 15 726 605</td>
<td>7 753</td>
<td>R 2 028.45</td>
</tr>
<tr>
<td>Pietermaritzburg</td>
<td>R 312 356 815</td>
<td>100 452</td>
<td>R 3 109.51</td>
</tr>
<tr>
<td>Port Elizabeth</td>
<td>R 300 568 672</td>
<td>99 692</td>
<td>R 3 014.97</td>
</tr>
<tr>
<td>Springs</td>
<td>R 315 250 176</td>
<td>111 660</td>
<td>R 2 823.30</td>
</tr>
<tr>
<td>Tshwane</td>
<td>R 2 217 933 468</td>
<td>641 404</td>
<td>R 3 457.94</td>
</tr>
<tr>
<td>Uitenhage</td>
<td>R 27 037 397</td>
<td>11 836</td>
<td>R 2 284.34</td>
</tr>
<tr>
<td>Umtata</td>
<td>R 15 656 356</td>
<td>6 426</td>
<td>R 2 436.41</td>
</tr>
</tbody>
</table>
The general trend in the fresh produce market industry is that since 1996, very little volume growth has occurred in National Markets throughput, despite substantial growth in overall fresh produce production. National Markets are losing market share in the fresh produce sector as a result of commercialisation and direct marketing, which have its routes in an increasingly more demanding consumer. Improved transportation, electronic communication systems and Broad-Based Black Economic Empowerment efforts, resulted in easier market access to more direct off-take agreements. Further, the changing nature of the value chain of the sector has resulted in direct delivery of fresh produce to a growing retail sector, resulting in relatively reduced procurement through National Markets.

While most of the National Markets remain in the hands of the Municipalities, there has been an increased movement towards some form of corporatisation in order to allow increased adaptability. The rationale for investigating alternative ownership and management models for Fresh Produce Markets is underpinned by a value proposition that increased local economic benefits listed below:

- improved financial positioning in the Markets;
- improved BEE participation in the ownership of the business;
- immediate local economic development benefits;
- reduction of risk associated with the business;
- increased market competition by strategically placing Fresh Produce Markets in a stronger competitive position.\(^1\); and

\(^1\) National Agricultural Marketing Council (s.a.) Section 7 Investigation: National Fresh Produce Markets
facilitation of health and food safety standards as these become central to the operation of the market.

The Johannesburg Fresh Produce Market

The Johannesburg Fresh Produce Market is not only the largest fresh produce market in South Africa, but also in Africa. The Johannesburg Fresh Produce Market is characterised as a Municipal Entity as it is a private company that is 100% owned by the City of Johannesburg Metropolitan Municipality (City of Johannesburg), trading as the Johannesburg Fresh Produce Market.
The Cape Town Fresh Produce Market

The Cape Town Fresh Produce Market has been in operation for 50 years and is the oldest and is one of the largest markets in South Africa. After Cape Town Market’s acquisition from the City of Cape Town, in 2004 the Cape Town Fresh Produce Market became the only privatised fresh produce market operating in the country. The market is also the first to include agents and buyers as shareholders and they hold a 26% share in the business as of 2007. In 2010 the market was announced the first market in the world to sign a service level agreement between the market and market agents.

Developments regarding Fresh Produce Market Ownership and Management in South Africa

The following three ownership and management models are currently in operation in the South African fresh produce market context, namely:

- **The Departmental/Business Unit/Administrative Unit ownership and management model.** Neither of these internal service delivery mechanisms are defined in the Local Government: Municipal Systems Act No. 32 of 2000 (Municipal Systems Act). These models’ differentiating characteristic is that the market operates as a function within the administration of a municipality. This means that the municipality has executive authority over it and has the right to administer it. This in effect means that the municipality manages the fresh produce market business and owns the land and all developments thereon. The following markets are managed as internal Departments of their respective municipalities: Tshwane, Durban, Springs (Ekurhuleni), Mzunduzi (Pietermaritzburg), East London (Buffalo City), Mangaung (Bloemfontein), Klerksdorop (Matlosana), Port Elizabeth (Nelson Mandela), Welkom, Vereeniging, Sol Plaatje (Kimberley) and Emalahleni (Witbank).

- **The Municipal Entity ownership and management model** is defined in terms of ownership in the Municipal Systems Act. This model differentiates itself by the fact that a corporatised (municipal) entity (a private company) is externally incorporated into the
parent municipality by the municipality, but it remains under the control of the municipality. While the municipality administers the function, the Municipal Entity manages the business. The land and developments thereon can be owned by either of the parties.

Johannesburg Fresh Produce Market was corporatized with the following aims:

- In the first place, it was estimated that at least R50 million in infrastructure investment was needed at the time to keep the Johannesburg Fresh Produce Market attractive to wholesalers, wholesale-retailers, other buyers and producers over the following few years. It was believed that corporatisation would protect the available surplus and guarantee that resources were invested in much-needed extensions and upgrading.

- Secondly, it was supposed that corporatising the Johannesburg Fresh Produce Market would allow for better focused management and would bring in a board of directors with fresh ideas and business acumen. Plans included the improvement of operating systems. A long-overdue upgrading of the market’s all-important information technology system was to be undertaken.

Like agencies and utilities, each corporatised unit has a board of directors and a managing director or chief executive officer. The board of directors is accountable to the company shareholder, the City of Johannesburg. As the sole shareholder, the Municipal Council is responsible for setting policy and tariffs and directing the unit’s activities through a Service Delivery Agreement. The agreement was, at the time, administered by the City of Johannesburg’s Contract Management and Shareholder Units, which holds the company responsible for delivering on specified key performance indicators and see to the corporate governance arrangements between the parties.

Uitenhage and Kei (Mtahata) are two other fresh produce markets managed as municipal entities.
- **The private ownership and management model** falls outside the confines of the Municipal Systems Act. This is where the business of the fresh produce market business is owned and managed by private operators, while the land and developments thereon can be owned by either the municipality or the private sector. The business owner may not necessarily be the land owner. This is in line with the view of the separation of ownership and management. Further, in this instance the municipality can elect to exercise its right to administer the fresh produce market through its by-laws.

Epping Fresh Produce Market was sold to the private sector through a competitive bidding process. It had been managed as a traditional city-owned fresh produce market and reported into the Trading Services Department of the City of Cape Town. After an internal restructuring process at the City of Cape Town in 2001, the Epping Market was identified as “non-core” to the City of Cape Town’s operations. Consultants were appointed with funding and supervisory support from the MIIU to investigate the future institutional options for Epping Fresh Produce Market.

Results of an in-depth analysis and feasibility study led to a recommendation that the most appropriate option was a sale of the business operation and assets coupled with a lease of land and buildings.

Other fresh produce markets that are private markets include Nelspruit, Mpumalanga, George, Ugu, Noord-einde, Butterworth and King Williams Town Markets.

**New Developments**

The recently adopted Infrastructure Plan, to be implemented through the Presidential Infrastructure Coordinating Committee (PICC) identified one of its seventeen Strategic Integrated Projects to deal with Agri-logistics and rural infrastructure development. Improved
transport linkages and emphasis on small-scale farming may impact on the fresh produce market environment.
The Tshwane Fresh Produce Market

This section commences with insights into the strategies and policies guiding the City of Tshwane and how these impact on the Tshwane Market. The following were analysed in determining their impact on the Market:

- Tshwane City Development Strategy;
- Tshwane 2055 Growth and Development Strategy;
- Spatial development initiatives in Pretoria West;
- Transport related developments that would impact on the area; and
- Tshwane Market Master Plan.

High-level Financial Review of the City of Tshwane

The financial assessment demonstrated the following:

The financial performance indicates that operating surpluses have occurred and is improving over time. This practice is encouraging and should continue. On a point of clarity, the financial performance revenue includes capital contributions and as such reflects the surplus inclusive of capital grants and contributions. The operating surplus for 2011/12 including capital grants was R2.02 billion and after deducting the capital grants and contributions of R1.46 billion the operating surplus in respect of operations is indicated to be R557.9 million. This number, however little, is improving over the period of assessment.

The Debtor's ratios are normally a challenging one for municipalities and the City of Tshwane is no different in this instance. It is reported that all the debtor’s ratios are improving and the current efforts to improve this ratio should be continued.
The City of Tshwane has a high total debt to operating revenue ratio and this may impact on future borrowing capabilities and prohibit growth and expansion, but what is encouraging is that also this ratio is improving.

The cash and cash equivalents have increased considerably since 2009/2010. Investments are favourable at R324 million. It must be noted that this includes unspent grants of R320 million.

Debt impairment should receive attention as the results are somewhat off the mark. Financial statements deal with historical matters and it is therefore recommended that debt impairment receive attention during future financial planning and budgeting processes.

The expenditure on repairs and maintenance is relatively low and may need attention during future financial planning and budgeting processes in order to ensure that repairs and maintenance does not fall behind. The under expenditure on this item for may hold severe adverse long-term financial and service delivery consequences for the City. It is therefore recommended that close attention be paid to this expenditure item in order for it not to fall behind.

Tshwane Market Overview

The Tshwane Market was previously located under the Economic Development Department and after the 2011 elections was shifted to the Department of Agriculture and Environmental Management alongside divisions dealing with Agriculture Management, Waste Management and Environmental Management.

There are currently eight market agents trading in Halls A and B. The agents act as an agent (extension) for the producer and endeavours to negotiating the best price and receive a commission on the sales made.

The analysis of the buyer and seller information revealed the following:
• The Tshwane Market has 3 905 sellers and 15 793 buyers.

• Given the fact that there are 3 905 sellers at the Tshwane Market, the top fifty constitute 1.3% of the total number of sellers and contribute to a third of the total Tshwane Market turnover and 30% of the total tonnage sold per annum.

• Almost 46% of turnover comes from the top 100 sellers, which account for 2.6% of the total seller pool.

• The top three sellers account for 8.6% of produce sold at the Tshwane Market.

• Only 3% of turnover comes from sellers selling less than R 100 000 per annum. A more significant 23% of value of sales is ascribed to sellers selling under R 1.2 million per annum.

• There are 15 793 buyers at the Tshwane Market, of which the top fifty constitute 0.3% and contribute to almost half of the markets total turnover and contribute to 47% of the total tonnage bought per annum.

• Almost 60% of turnover comes from the top 100 buyers, which account for 0.6% of the total buyer pool.

• The top two buyers account for 16% of produce bought at the Tshwane Market.

• Buyers purchasing produce under the value of R 100 000 per annum are classified as informal traders.

• Only 8% of the turn-over is ascribed to purchases made under the R 100 000. A more significant 25% of turn-over is ascribed to purchases made under R 1.2 million.

Financial Review of Tshwane Market

Tshwane Market’s in not financially ring-fenced and not all costs associated with the running of the business are allocated to it. The income of Tshwane Market is fairly well ring-fenced and the income is merely all on a cash basis. Tshwane Market also doesn’t have a balance sheet and it is not measured in terms of its financial performance. Therefore, it can be said that the financial performance if the Tshwane Market is not determined other than how it perform against budgeted income and expenditure.
The following is pointed out:

- Expenditure is dominated by remuneration which made up 64.9% of total expenditure for the 2011/2012 financial year. The second biggest expenditure item (9.7%) is the capital charges that are mainly made up of depreciation which is not a cash expense but a provision for replacement of assets. The third largest expenditure item (8.7%) is for repairs and maintenance.
- It is understood that the electricity charge to the market is too little and the property rates charge may also be incorrect. These will have to be corrected in due course.
- The two expenditure items that had the biggest effect on the operating budget under and over expenditure during 2010/2011 and 2011/2012, respectively are remuneration and municipal rates and services.

**Tshwane Market Property**

Master Plan states that the overall condition of the buildings is in an “acceptable working condition” and the building structure is “acceptable”. However, the Tshwane Market does not comply with the National Building Regulation (NBR) and the Occupational Health and Safety Act.

The Master Plan further highlights the fact that although the roads, parking areas and paved areas are in good to very good condition, preventative and general maintenance to the buildings is lacking.

Inadequate public transport facilities exist for informal buyers, and no provisions are made for pedestrian access to the Tshwane Market. Pick-up and drop-off facilities for taxis do also not exist outside the Tshwane Market.
Further Tshwane Market Expansion

The Master Plan sets out the Market expansion plans as indicated in the image below. These will be implemented in a phased approach as funds become available.

![Figure 1 Master Plan: Planned developments at the Tshwane Market](image)

Utilities

**Electricity:** According to the Master Plan no electricity accounts are available. In an informal discussion with Tshwane Market Staff it was confirmed that the Tshwane Market was being significantly undercharged for electricity, while waste removal costs have doubled over the past
year. Other tariffs are insignificant in relation to these. Council will have to be engaged regarding undercharging in order to avoid massive paybacks.

**Water:** The water reticulation network is generally in good working condition and is sufficient to cater for existing operation and allows for reasonable future growth.

**Sewerage:** The capacity of the Works is 55 mega litre per day of which it serves 40 mega litre a day and of which 200 kilolitre comes from the Tshwane Market.

**Waste:** Waste costs for the Tshwane Market have doubled over the last year as the rebate on waste was discarded and waste removal costs increased by 50%. This increased the Tshwane Market's waste bill significantly as it is currently paying between 65c/kg to 68c/kg. There is a yet untested view that this service can be obtained at a lower rate from the private sector.

**Storm Water:** Blocked and inadequate storm water drainage is one of the biggest problems the Tshwane Market faces. However, this would not pose a problem if the system was regularly cleaned and maintained.

**Communication:** The Tshwane Market is served by two separate data and telecommunication systems – one for general operations, which is a standard internet and networking service, and the other for the transactions occurring between agents and buyers. The data network is in a functional state. However, unmanaged and uncontrolled expansion has resulted in cable management being unacceptable, resulting in almost impossible fault finding.

**Food Safety**
Due to sub-standard food safety and control measures, farmers and buyers are currently bypassing the Tshwane Market, since many farmers have Hazard Analysis and Critical Control Points (HACCP) in their own facilities which becomes null and void once produce passes through the Tshwane Market. This break in the value chain will be rectified once the appropriate health and food safety measures have been put in place.

The new organisational structure makes provision for Food Safety and Quality Control.

**Quality and Quantity Control**

Currently, the Tshwane Market does not have sufficient staff to conduct effective quality and quantity control. However, the new organisational structure makes provision for these functions.

**Employee Related Matters**

The approved organisational structure for 09 July 2012 was made available for analysis. The organogram had been developed after the Tshwane Market had been moved from the Department of Economic Development to the Department of Agriculture and Environmental Management as a result of a political decision subsequent to the previous elections. Under the Department of Economic Development, all staff had been Tshwane Market staff, including financial, human resources and support staff. However, with the move to the Department of Agriculture and Environmental Management, support services were kept centrally at the City of Tshwane. As a result eight staff members are outsourced to the Tshwane Market.

The 2012 organogram was developed to make provision for additional posts (amongst others) in Food Safety and Quality Control, as well as Revenue Management. The organogram is approved but not yet functional as funding constraints are hindering implementation.
Contracts

The main contracts that the Tshwane Market has are with FreshMark Systems regarding software. The Tshwane Market has also contracted in several external companies through tender processes, who provide services on and as and when required basis. These relate mainly to cleansing services and the provision of the relevant FreshMark software as can be seen below. The appointments are all three year contracts, except for the banking services, which is a five year contract and expires in June 2017.

Small Farmers and Black Economic Empowerment

The Tshwane Market makes a concerted effort to assist small farmers’ sell their produce at the Tshwane Market. For example the Tshwane Market sends its one ton bakkie to collect produce at the Rooiwal Agrivillage. The Tshwane Market is also motivating for extending fresh produce market support to small farmers through the Agricultural Produce Marketing Agencies Bill of 2013.

The Tshwane Market is also aiming at supporting Black Economic Empowerment (BEE) Agents. However, the reservation is that since agents rely highly on existing strong relationships with farmers, this initiative will be difficult to implement.

Competition

Tshwane Market operates in competition with the following marketing channels available to producers:

- farm gate sales;
- export market;
- other fresh produce markets;
• wholesale market;
• retail market;
• informal trade;
• hospitality and catering market;
• dry fruit market;
• processed fruit; and
• fresh and processed fruit juice market.

These marketing channels are all privately owned and are taking up the majority of fresh produce supply.

**Strengths, Weaknesses, Opportunities and Threats**

The following table sets out the SWOT analysis for the Market:

**Table 3 SWOT Analysis of the Market**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tshwane Market is well-established in fresh produce environment</td>
<td>Maintenance backlog with regard to infrastructure</td>
</tr>
<tr>
<td>Second largest fresh produce market in South Africa</td>
<td>Food safety compliance sub-standard</td>
</tr>
<tr>
<td>Adequate infrastructure available for operations on the market</td>
<td>Available land and facilities not optimally utilised</td>
</tr>
<tr>
<td>Adequate land available for expansion</td>
<td>Not in control of all service delivery inputs that are mission critical</td>
</tr>
<tr>
<td>Good location therefore easy access to facilities</td>
<td>Tshwane Market surplus generated not applied towards its development – used elsewhere</td>
</tr>
<tr>
<td>Long standing agent relationship and established client base – large data base of producers and buyers</td>
<td>Slow processes in filling new staff structure</td>
</tr>
<tr>
<td>Some important role-players like wholesalers and meat markets etc.</td>
<td>Protracted process to change bylaw</td>
</tr>
<tr>
<td></td>
<td>Slow movement in Master Plan implementation – surplus funds allocated</td>
</tr>
</tbody>
</table>
Diverse product offering
Financially sound – generates handsome surplus
Skilled management team and new organisational structure further enhances the management team
Important price setter in the industry
Master plan for expansion completed
This Municipal Systems Act Section 78 assessment process – recognition that change is needed

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>The fresh produce industry shows growth over the long term and this trend is to continue</td>
<td>Loss of any one or more of the big ten producers and/ or buyers</td>
</tr>
<tr>
<td>To facilitate value add opportunities</td>
<td>No supplier or buyer is locked in and it is relatively easy to switch marketing channel</td>
</tr>
<tr>
<td>The move towards a food and fresh food hub (not only fresh produce)</td>
<td>Mainly concentrating on fresh produce whereas it should shift efforts to food marketing in general</td>
</tr>
<tr>
<td>Enter electronic trade – saving in capital expenditure</td>
<td>Quality of fresh produce sold at Tshwane Market not at same level when compared to chain retailers – not a driver of quality in the industry therefore price making ability become less important</td>
</tr>
<tr>
<td>To facilitate SADC countries to procure from the market</td>
<td>Large scale producers are using diversified marketing channels which render it easy to switch away from the Tshwane Market</td>
</tr>
<tr>
<td>Possible capital investment support by DAFF</td>
<td>Not participating in the increased growth in the export of fresh produce due to direct contracting through other fresh produce marketing channels</td>
</tr>
<tr>
<td>Possible ring fencing of market business</td>
<td>Other marketing channels including Johannesburg Market (as mentioned in Part 2 Johannesburg Market is implementing a substantial expansion plan)</td>
</tr>
<tr>
<td>Implementation of long awaited National Agricultural Marketing Council Section 7 Committee recommendations</td>
<td>Decision-makers not always understand the operation and competing forces of fresh</td>
</tr>
<tr>
<td>Drive towards implementation of SIP projects – national focus on agricultural produce, value add and logistics</td>
<td></td>
</tr>
<tr>
<td>Interest of stakeholders in Tshwane Market restructuring</td>
<td></td>
</tr>
</tbody>
</table>
The new institutional structure of the City produce markets including that of Tshwane
The implementation of HACCP, Market
GlobalGAP\(^2\) and traceability to ensure Being at the peril of the agents to generate the safe products bulk of its turnover and ultimately growth
Lack of expansion opportunities due to Lack of timeous infrastructure upgrade and jurisdictionally bound nature of “municipal services” expansion
The current global economic crises
Lack of quality inspection except for potatoes
Volatility of agricultural sector with regards to delivery of high quality fresh produce constantly
General lack of innovation due to municipal governance environment
Little influence on the implementation of BBBEE strategies in current institutional structure

**Municipal Systems Act Section 78(1) Assessment**

Subsequent to the detailed *status quo* analysis as in the previous sections, it is now possible to provide the Municipal Systems Act Section 78(1) Assessment.

**Background towards the Development of the Fresh Produce industry and Fresh Produce Markets**

**History of Fresh Produce Market Ownership**

From inception, fresh produce markets were a local matter although municipalities received their rights to operate fresh produce markets from national and provincial government. Since

becoming a union in 1910 did the “Zuid-Afrika Wet” determine that fresh produce markets are under its jurisdiction.

However, fresh produce markets were handed to provinces which again delegated it to municipalities who developed their own market ordinances.

The “Publieke Veilingen en Transaksies in Levende Have en Landbouvoortbrengselen Wet” (Auction Act) in 1925 accepted to determine auction procedures in order to improve greater unity between fresh produce markets.

After the Second World War (1939-1945) effort was made to place markets under the control of national government, with no success, which lead to the hampering of the expansion of fresh produce markets.

In 1972 there were approximately 100 municipal markets in South Africa with a turnover of R80 million. The 23 biggest fresh produce markets handled 98% of the total combined fresh produce markets turnover.

The marketing of fresh produce in South Africa was controlled through the marketing boards which have undergone several changes in roles and responsibilities since inception:

- Potato Board;
- Banana Board;
- Citrus Board; and
- Deciduous Fruit Board.

Price Formation

There are three price formation mechanisms in fresh produce markets:
**Auction System:** The Auction Act was passed in 1925 and was widely used as the main price formation mechanism. Today, however, only Johannesburg Flower Market continues to use the auction system.

**Out-of-hand System:** Although the auction was the generally accepted sales system, out-of-hand sales occurred everywhere during the latter half of the 20th century. At present, out-of-hand sales are the only means of sale at fresh produce markets. Prices are determined by private negotiation between agents (acting on behalf of producers) and buyers (wholesalers, retailers, hawkers, consumers, processors and institutional buyers).

**Direct Marketing:** Prices are established through private negotiation between producers and buyers (e.g. wholesalers, retailer, and hawker or chain store group). A study conducted by the HSRC concluded that there was evidence that direct marketing was increasing and that this might have a negative effect on the fresh produce markets.

**Assessment of Contemporary Fresh Produce Industry Issues and Trends**

An assessment was conducted of contemporary Fresh Produce Market issues and trends drawing on various Section 7 investigations conducted by the National Agricultural Marketing Council (NAMC).

**NAMC Report on the Investigation into Fresh Produce Marketing – Report 1: Johannesburg Fresh Produce Marketing (1998):** One of the most important recommendations for the purposes of this investigation was the need for increased autonomy of market management in the financial, operational and management areas of their markets. As per the report:

“the Metropolitan Council should, as soon as possible, take the appropriate steps to give market management financial independence, and the authority to manage the market without reference to the Metropolitan Council. There is no compelling reason why the Metropolitan Council should continue to own the Johannesburg Market, but, if it does, ownership and management should be split.”
The recommendations of the report were accepted by the then Minister of Agriculture and role-players expressed their support for an independent national market system where ownership and management were separated. As a result the Johannesburg Market was corporatised in 1999.

**NAMC Report on the Investigation into Fresh Produce Marketing – Report 2: Fresh Produce Marketing in South Africa (2000):** The second phase investigation (dated 2000) looked at evaluating the marketing system for fresh produce at national level. In this report the recommendation developed in the previous phase, was reiterated, namely that:

> “ownership and management of all fresh produce markets should be separated in order to achieve efficient business practices. The role-players and market authorities of each market should determine which process might achieve this.”

During 2001 to 2004, the NAMC undertook several visits to establish to what extent the recommendations had been implemented. Levels of implementation varied greatly from one market to the next and a number of markets had commenced with investigating the possibility of separating ownership and management. However, many of the recommendations fell outside the jurisdiction of the markets and required government intervention.

**NAMC Section 7 Investigation: National Fresh Produce Markets (2007):** Regarding the future management and ownership of fresh produce markets the Committee focused its attention on four possible models, namely:

- departmental option as the most common option;
- municipal entity option, which has been embraced by limited number of fresh produce markets such as Johannesburg;
- national entity option, of which there are currently no examples in South Africa of fresh produce markets operating under this model; and
- private entity option such as the Epping Fresh Produce Market in Cape Town.
Assessment of Institutional, Statutory and Legal Framework

The following legislation is analysed:

- **National and Municipal Legislation:**
  - Local Government: Municipal Structures Act, Act 117 of 1998 (Structures Act);
  - Municipal Systems Act;
  - Municipal Finance Management Act;
  - Competition Act (No. 89 of 1998) (if applicable) (Competition Act);
  - The City of Tshwane: Market By-laws (2008)

- **Sector Legislation:**
  - Agricultural Produce Agents Act No 12 of 1992;
  - Agricultural Produce Agents Amendment Act No. 47 of 2003 and the Rules (made under Section 22(1) of the Agricultural Produce Agents Act);
  - Marketing of Agricultural Products Act, No. 47 of 1996;
  - Agricultural Produce Standards Act, No. 119 of 1990;
  - Agricultural Produce Marketing Agencies Bill 2013; and
  - Marketing of Agricultural Products Amendment Bill 2013

Within the above legislation the following is highlighted for the purposes of this synopsis:

**Constitution**

Part B of Schedule 5 lists the local government matters which municipalities have executive authority, and the right to administer, and includes “Markets”. Section 156(5) of the
Constitution gives the City of Tshwane the right to exercise any power concerning a matter reasonably necessary for, or incidental to, the effective performance of its functions.

*Municipal Systems Act*

Given the fact that a market is defined in terms of the Constitution as a Schedule 5 Part B function, proper motivation is needed to initiate an investigation into changes in ownership and management structures. Section 77 of the Municipal Systems Act sets out the occasions where a municipality must review and decide on mechanisms to provide “municipal services” where such “municipal service” is provided through an internal mechanism or an external mechanism. In this case, section 77(a) can be argued to act as the trigger event as it is envisaged that the service is to be upgraded and improved.

Based on legal opinion received in this regard, a Municipality can review a service delivery mechanism at any time but that it must review service delivery mechanisms when one of the “trigger events” are triggered. One can make the case that there are several ‘push’ factors that initiate this investigation:

In the strict sense of Section 77 wording one can deduce that due to the planned extensions and upgrades to the Market, a Municipal Systems Act Section 78 investigation becomes necessary.

Furthermore, the industry trends as alluded to above at length indicate that the separation of ownership and management at Markets has been under investigation since the early 1990s. Various reports support this notion, it has been underpinned by the National Department of Agriculture and various markets have initiated its implementation with various degrees of progress and success.

In addition, the Mayoral Committee decision taken on 19 July 2012, also acts as a trigger as it authorises the investigation to take place.

The Mayoral Committee decision contains the following:
Having sketched the challenges that national fresh produce markets around South Africa face, the Mayoral Committee document alludes to the risks that the Tshwane Market faces in maintaining the status quo:

“The loss in market share will eventually turn the market into a loss making operation, adding a further burden to council’s financial constraints;

In the long term council will sit with a white elephant that it will have to dispose of at a significant loss;

Redundant staff complements;

Transformation programmes will move at a snail pace;

Massive job losses from both council and Market Agents (±2000 permanent jobs);

Undermining of the food security initiatives as well as the agrarian reform programmes of the initiatives of this country.” (Tshwane, 2012)

Give the above, the Mayoral Committee resolved as follows:

1. “That approval be granted to commence a Section 78 investigation as prescribed by the Municipal Systems Act, and
2. That cognisance be taken that a consultant will be appointed to assist the Tshwane Market with the investigation in terms of Section 78 of the Municipal Systems Act.” (Tshwane, 2012)

Given the list of arguments above, one can say with surety that this Municipal Systems Act Section 78(1) assessment is valid and legitimate and that sufficient reason exists to conduct this investigation based on the trigger events listed above.

Agricultural Produce Marketing Agencies Bill 2013
Impacting on Fresh Produce Markets is the Agricultural Produce Marketing Agency whose functions are to:

- Initiate programmes to bring about transformation within the agricultural produce industry and monitor such;
- Establish rules, regulation and codes of conduct in respect of fresh produce markets, agents, auctioneers, brokers and wholesalers;
- Ensure that food safety requirements, regulation and quality standards are implemented and enforced in collaboration with other regulatory bodies;
- Coordinate the rationalisation of market by-laws in respect of fresh produce markets;
- Assist the fresh produce markets in sourcing funding from available resources to modernise and refurbish the market infrastructure;
- Approve the development of any new fresh produce markets to be established in the Republic, taking into consideration how it will affect the existing markets and ensure that its operations will meet appropriate standards;
- Serve as a point of information exchange and expertise among various players in the industry and with outside parties, in order to share experiences and expertise in specific technical areas;
- Facilitate the development and implementation of programmes aimed at providing training of people involved in the agricultural produce industry, attracting investment for market expansion and developing new distribution channels;
- Provide an integrated marketing function nationally to stimulate the demand of agricultural produce locally and internationally; and
- Coordinate and enforce the compulsory registration and accreditation of all new and existing agricultural produce agents, auctioneers, brokers and wholesalers.
The list deals with the obligatory functions of the Agency. The Agency may also among others facilitate the separation of ownership from the management of fresh produce markets, where appropriate.

The Agency may make funds available to promote the “marketing of fresh produce and fresh produce markets in general”.

The Agency also may make rules and draw up a code of instructions relating to the following:

- The buildings, structures and equipment used at national fresh produce markets and the materials and methods employed in the erection, installation, alteration, repair and improvement of such buildings, structure and equipment;
- The facilities provided at such fresh produce markets;
- The planning, lay-out and construction of such fresh produce markets;
- The management and conduct of such fresh produce markets;
- The use and utilisation of such fresh produce markets; and
- The performance of services at such fresh produce markets.

A major shortcoming in the bill is that a fresh produce market is not defined and little is stated about targeted support to the up in coming farmer and the informal buying sector.

**Production & Commodity Characteristics**

In order to take informed decisions regarding the institutional structure of a fresh produce service delivery mechanism it is important to have a basic understanding of the production and commodity characteristics of fresh produce.
Characteristics of Fresh Produce

The following describe *inter alia* the characteristics of fresh produce:

- A substantial portion of fresh produce is produced at a considerable distance from consuming markets.
- Weather conditions, pests and diseases have an effect on production quantum and quality.
- The production time cycle for fresh produce is relatively rigid for extensive and irrigation farming practices. It is only under controlled conditions that certain fresh produce can be produced throughout the year and this is limited to mostly only vegetables.
- Fresh produce is a perishable good, with some items more perishable than others *e.g.* strawberries’ shelf life is less than that of potatoes.
- The quality of fresh produce varies between producers and seasons.
- Fresh produce varies according to weight-value relationship. In general, bulky fresh produce has (*e.g.* potatoes and pumpkins) has a lower relative prices per kilogram value while lighter, more exotic fresh produce (*e.g.* kiwi fruits and grapes) obtain higher prices per kilogram.
- There is an important institutional demand (from restaurants, hotels, hospitals, catering industry *etc.*) over and above the ultimate consumer demand prevalent in the fresh produce industry.

Characteristics of Fresh Produce Distribution

The follow describe the characteristics of fresh produce distribution:

- Transportation and storage as well as grading and packaging of fresh produce are of greater significance than for most manufacturing industries.
- National studies indicate that producers should be provided with a variety of alternatives for transfer of ownership of their fresh produce.
• Middlemen mostly specialise in the price-determination and risk-bearing aspects of the fresh produce distribution channel.

• It is evident that different distribution channels apply for institutional and ultimate consumer demand.

• Research indicated that fresh produce should be within easy reach of consumers, which requires a developed retail and intensive distribution network.

• Convenience products lend themselves ideally to self-service marketing. This shifts the burden of marketing communication to the retailer and the producer in a lesser extent. It is a well-known marketing fact that self-service requires effective packaging, appropriate shelf space and advertising at the point of sale.

Trends in Fresh Produce Marketing

The following trends are evident in the international distribution of fresh produce:

Large multinational companies become increasingly involved in fruit marketing (also in South Africa).

Food safety requirements are receiving increased attention.

Electronic fresh produce markets (the internet trading phenomenon) are increasing.

Mass production in terms of packing is shifting towards mass individualisation to cater for specific needs of customers. The informal sector has been growing since 1990 since when hawkers were allowed to trade legally on pavements and street corners.

There has been a growth in the independent franchise groups and retail outlets (e.g. Spar, 7Eleven, Rite Value, Pick ‘n Pay, Fruit & Veg (Food Lovers Market), Shoprite/Checkers, Score, Woolworths, Walmart (Massmart) etc.).

These retailers are also expanding into Africa. These groups are not the necessarily the major buyers at fresh produce markets and they endeavour to shorten the value chain by buying fresh produce directly from farmers who adhere to predetermined grower programmes, packaging it in terms of prescribed packaging requirements and transporting
it to distribution centres. These groups have their own distribution centres from where fresh produce is received and dispatched. These groups normally have their own (not the same) quality and food safety requirements, therefore traceability is becoming a matter of major importance.

It is also evident from the sale statistics at fresh produce markets (including Tshwane Market) that the more bulky fresh produce with longer shelf lives are sold at fresh produce markets, which is a clear indication that the more exotic fresh produce finds its way more conveniently through other marketing channels. This has an influence on the composition of the fresh produce basket (variety), which has an influence on the number of buyers and price per ton achieved.

**Specific principles of institutional and organisation design informing the Municipal Systems Act Section 78(1) assessment**

Specific principles of institutional design that may have an effect on the outcome of the Tshwane Market Municipal Systems Act Section 78(1) assessment include:

- Attempt to ensure that Structure follows Strategy;
- Ensure accountability;
- Ensure quality of information;
- Ensure responsiveness of the Structure through streamlining; and
- Ensure an organisational culture and values that are linked to high performance.

The recently reviewed and newly developed organisational structure of the Tshwane Market complies with the above principles.

Through a Models of Control analysis, which analyses institutions in terms results and command orientation, the findings show that in order for Tshwane Market to be more effective and efficient
in a competitive, changing and demanding industry it should endeavour to move to an institutional structure that is less command orientated to one that is more results orientated.

**Municipal Systems Act Section 78 assessment process**

Section 78 of the Municipal Systems Act provides a four step process for reviewing and deciding upon a mechanism for providing a “municipal service”, which can briefly be described as follows:

- The City must consider a range of statutory considerations (elaborated on below) in relation to the provision of the services through an internal mechanism (see Section 78(1) of the Municipal Systems Act).

- After satisfying the requirements of the above bullet the City may then decide on an appropriate internal mechanism or decide to explore the possibility of providing the service through an external mechanism (see Section 78(2) of the Municipal Systems Act).

- Should the City decide to explore the external mechanism options, it must conduct a feasibility study and then assess the different external service delivery options, after giving notice to the local community (see Section 78(3)(a) of the Municipal Systems Act). This process should be undertaken with regard to a further range of considerations which embrace similar considerations to the first stage as envisaged in Section 78(1) of the Municipal Systems Act and additional feasibility requirements as set out in section 78(3)(c) of the Municipal Systems Act.

- After having considered the various external options, the City must decide on an appropriate internal or external mechanism (see Section 78(4) of the Municipal Systems Act).

The Municipal Systems Act Section 78 process is graphically depicted below.
A new municipal service is to be provided or an existing municipal service is to be significantly upgraded, extended or improved.

Section 78 (1) assessment requirements:
(a)(i) direct and indirect costs and benefits
(ii) municipality’s capacity and potential future capacity to furnish the skills, expertise and resources
(iii) re-organisation of administration and development of HR capacity
(iv) impact on development, job creation and employment patterns
(v) views of organised labour
(b) any other developing trends in the sustainable provision of municipal services

Section 78 (2) Decision

Provide service through internal mechanism: 78 (2)(a)

Explore possibility of providing the service through an external mechanism: 78 (2)(b)
Internal Service Delivery Mechanism Assessment

Section 76 of the Municipal Systems Act allows for the following internal service delivery mechanisms, which are discussed in detail in Part 4:

- a department or other administrative unit within its administration;
- any business unit devised by the Municipality, provided it operates within the Municipality’s administration and under control of the Council in accordance with operational and performance criteria determined by the Council; or
- any other component of its administration.
Municipal Systems Act Section 78 (1) Assessment

Table 4 Section 78 (1) Assessment

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<tr>
<th>Criteria</th>
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| Criterion 1 – costs and benefits | Criterion one requires an assessment of the direct and indirect costs and benefits associated with the project if the service is provided by the municipality through an internal service delivery mechanism, including the expected effect on the environment and on human health, well-being and safety. These costs include financial costs but go beyond these to cover non-financial costs as well.  
It is important to understand that the greatest environmental impact regarding fresh produce is at the source of production, followed by ripening, cooling and transportation to and from the market.  
Should the Market services continue to be provided through an internal mechanism, no substantial effect is expected on the environment as the assets and infrastructure have been in place for a long time. Plans for upgrades of Market facilities and possible expansion of the premises will be brought about irrespective whether the Market will continue to operate under the Department or in a more independent configuration.  
While upgrades and expansion will have an impact on the environment (especially during construction), this is inconsequential with regard to the market’s future ownership and management structures.  
The Tshwane Market plays a dual role in ensuring food security in its jurisdiction, although the exact extent of this remains unclear. Firstly, it provides an outlet where producers (suppliers) can sell their produce and earn an income. The Tshwane Market is currently assisting emerging farmers by transporting their produce to the market to be sold through the Tshwane Market system.  
Secondly, the Tshwane Market provides a platform where it is relatively easy for hawkers to buy fresh produce, who themselves make a living off the market and also assist in providing fresh produce to townships.  
As a result, the Tshwane Market fulfils an important role in contributing to the human health and well-being of its jurisdiction. However, this function will most likely not be impacted on whether the market continues to exist under the municipality via a department or business unit or under a more independent service delivery option.  
As alluded to above, the Tshwane Market has made provision in its new organisational structure for Food Safety and Quality Control. Currently, the Market is not up to standard with regard to industry food safety and health quality control resulting in farmers and buyers bypassing the Tshwane Market.  
The Market aims at becoming fully HACCP and Food Safety compliant. The first step is to attain HACCP accreditation for the cold rooms and the ripening centre as well as rendering the platform floor compliant. While the City provides a permanent Environmental Health Practitioner to the Market, management stated that the need for compliance with industry standards is not always fully understood by the City as this is a much specialised field. As such, it does not receive the required attention and support that would assist towards implementing these standards. An example is that while the organogram makes provision for various posts in the newly developed Food Safety and Quality Control Directorate, the City has only provided for the appointment of one expert person. | Municipal organisational structures tend to be loaded and it is estimated that the Departmental organisational | The total direct operational cost for the current MTREF is estimated at R 240 681 307 and for the nine year |
Criteria

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<td>Business Unit organisational structure.</td>
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<td>approximately R 3 027 561 for the current MTREF and</td>
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<td>R 41 327 290 for the nine year planning period.</td>
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<td>delivery mechanism is R 75 162 614.</td>
<td>approximately R 12 488 199 for the current MTREF and</td>
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<td>delivery mechanism is R 129 550 811.</td>
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<td>Financially the business unit service delivery</td>
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<td>is not foreseen that the two service delivery</td>
<td>mechanism is performing much better than the</td>
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<td>dated ripening and cooling facilities with more modern environmental facilities as it fails to get capital allocations in time. Its capital requirements are not ring-fenced and funded from surpluses rendered. By virtue of the very fact that all sales have to take place on the market floor it contributes little to the environmental impact regarding transportation.</td>
<td>pre-agreed goals and more appropriately measured, therefore it should outperform the Departmental service delivery mechanism for this criterion.</td>
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**Human health, well-being and safety**

Due to the nature of the Tshwane Market function it is not foreseen that the two service delivery mechanisms will in principle have different human health, well-being and safety impacts.

However, the City of Tshwane agreed an organisational structure for the Tshwane Market, but is slow to implement it as a result of limited funds in the City of Tshwane. The surplus funds generated by the market are not applied towards the market.

Due to the nature of the Tshwane Market function it is not foreseen that the two service delivery mechanisms will in principle have different human health, well-being and safety impacts.

By its very nature the Business Unit will be more focussed, incorporate specific pre-agreed goals and more appropriately measured, therefore it should outperform the Departmental service delivery mechanism for this criterion.

**Criterion 2 – Capacity**

Criterion two requires an assessment of the municipality’s capacity and potential future capacity to furnish the skills, expertise and resources necessary for the provision of the service through an internal mechanism.

This criterion focuses on questions concerning the capacity of the municipality, implementation skills, effective labour relations and training and development.

The City of Tshwane developed a more service delivery responsive organisational structure for the City itself and for the Tshwane Market. The challenge that the City is facing is to find the funds to implement the new organisational structure to its full extent. As indicated in this Report in Part 3 the organisational structure of the Tshwane Market is also not implemented.

The requirements of Tshwane Market are unique and it is doubted whether the City of Tshwane will find the requisite skills by means of its internal recruitment processes.

**Capacity**

Tshwane Market is an existing function and service, and both a Department and a Business Unit will have the same challenges as regards the implementation of the service as they will have to use the systems of the City of Tshwane to employ staff, procure goods and services and to get operational and capital funds.

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Based on the available information it may
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<td></td>
<td>Based on the available information it may be highly unlikely that the City of</td>
<td>be highly unlikely that the City of Tshwane will furnish the necessary skill,</td>
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<td>Tshwane will furnish the necessary skill, expertise and resources (financial</td>
<td>expertise and resources (financial and human) to perform the Tshwane Market</td>
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<td>and human) to perform the Tshwane Market function as an internal department.</td>
<td>function as a business unit.</td>
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<td>The City of Tshwane will have to transfer internal resources, employ from</td>
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<td>outside and contract resources in. This may be a time consuming process and</td>
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<td>there is a chance that the appropriate skills will not be attracted with a</td>
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<td>departmental organisational setup.</td>
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<td>As a result of historical trends, it is highly doubtful whether the City of</td>
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<td>Tshwane with a departmental institutional and organisational structure will</td>
<td>doubtful whether the City of Tshwane with a departmental institutional and</td>
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<td>ever meet the demands of the fresh produce industry timeously and diligently</td>
<td>organisational structure at large will be successful with the implementation of</td>
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<td>in order for the Tshwane Market to reach its full potential and be sustainable</td>
<td>a business unit and that it will ever meet the demands of the fresh produce</td>
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<td>and self-sufficient.</td>
<td>industry timeously and diligently in order for the Tshwane Market to reach</td>
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<td>It is envisaged that due to its very nature that the business unit will be</td>
<td>its full potential and be sustainable and self-sufficient.</td>
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<td>in a better position to fulfil the required capacitating of the business</td>
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<td>especially from a human resource perspective. The “separate” nature of a</td>
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<td>business unit setup will be more attractive to external resources with the</td>
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<td>required skills set than a Departmental setup.</td>
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<td>However, there is doubt whether a business unit institutional and organisational</td>
<td>A business unit institutional and organisational structure is moving</td>
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<td>structure is moving Tshwane Market sufficiently to compete with the private</td>
<td>Tshwane Market sufficiently to compete with the private sector forces in the</td>
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<td>sector forces in the fresh produce industry.</td>
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<td>A business unit institutional and organisational structure, albeit ring-</td>
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<td>fenced, will be hampered by the same human resource, supply chain, operational</td>
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<td>and capital expenditure and jurisdictional constraints as a department.</td>
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<td>Therefore, it is viewed that a business unit will only have a marginal</td>
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<td>benefit over a department.</td>
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Criterion 3 – Re-organisation of the City of Tshwane administration and the development of its human resources

Criterion three requires an assessment of the extent to which the re-organisation of the municipality’s administration and the development of the human resource capacity within that administration as provided for in Sections 51 (organisation of administration) and 68 (capacity building) of the Municipal Systems Act, respectively, could be utilised to provide a service through an internal mechanism.

Section 51(g)(i) of the Municipal Systems Act states that “a municipality must within its administrative and financial capacity establish and organise its administration in a manner that would enable the municipality to perform its functions through operationally effective and appropriate administrative units and mechanisms, including departments and other functional or business units.”

Section 68(1) of the Municipal Systems Act states that “a municipality must develop its human resource capacity to a level that enables it to perform its functions and exercise its powers in an economical, effective, efficient and accountable way...”

The Tshwane Market has been located within the City since its inception. The City of Tshwane underwent many restructuring exercises and the latest is discussed in this Report. The restructuring is delivering positive results for the City at large, but has little positive effect on the position of the Tshwane Market as it does not really address the industry specific matters that will render it to deliver markedly improved performance. The Tshwane Market is still losing market share.

One of the key traits of a fresh produce market and the fresh produce industry is trust by all role-players. Tshwane Market is no different. Trust is normally earned over a long term and the Municipal Systems Act Section 57 appointments do not bode well for developing a trustful environment within which the Tshwane Market can develop long term relationships. Further, a brand is normally developed over many years and fresh produce markets, including Tshwane Market have lost brand value over time. This view is based on the results of the NAMC Section 7 investigations.

While the Tshwane Market operates under the Department of Agriculture and Environmental Management, it does so more or less independently apart from a few support staff (human resource and finance) assisting the Market in their day-to-day operations.

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<td>Criterion 3 – Re-organisation of the City of Tshwane administration and the development of its human resources</td>
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Considering the fact that the Tshwane Market function is an existing function and service that is by its nature very specialised, it is therefore highly unlikely that the City of Tshwane will through another re-organisation exercise of its administration be in a position to furnish the required skills and expertise to manage the market to its full potential. To re-organise the City administration is a protracted exercise and the opportunity to implement a Tshwane Market focused departmental institutional and organisational structure successfully within the required time is highly unlikely. The fresh produce industry is moving fast and it does not wait for the
### Criterion 4 – Job creation and development impact

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<td>moving fast and it does not wait for the City of Tshwane to implement restructuring efforts.</td>
<td>City of Tshwane to implement restructuring efforts.</td>
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<td>It will take too long to develop internal skills as the Tshwane Market is losing market share and needs action without delay. It will not be possible to train and skill up the necessary internal staff to fulfil the specialised services required.</td>
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<td>The changing of the institutional service delivery mechanism of the Tshwane Market function and service is overdue and the City of Tshwane does not have the luxury of time to develop resources and re-organise its administration. For this reason, and as discussed above, the City will have to combine internal and external resources to effectively implement the Department, but it will be difficult to find the required skills internally as well as the external resources as they will be reluctant to work in a City Departmental structure.</td>
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<td>It is also not foreseen that the City of Tshwane will markedly adjust its internal institutional and organisational structure to accommodate a very unique “municipal service”.</td>
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<tr>
<td>In theory, the implementation of a business unit may need a bit more administrative restructuring and re-organisation than a Department. However, it is more a matter of discipline and adjustment of systems than any physical disruption to the City of Tshwane organisational and institutional structure. As mentioned above a business unit may be more effective in implementing the necessary change than a departmental institutional and organisational structure. However, it is doubtful if a business unit will have sufficient impact to deliver the required performance enhancement that is needed by Tshwane Market.</td>
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</table>
Criterion four requires an assessment of the likely impact on development, job creation and employment patterns in the municipality if the Tshwane Market is operating through an internal mechanism.

The constraints placed on the Tshwane Market with regard to lengthy procurement and human resource processes, are not conducive to the planned developments at the Market. Expansion and upgrades are planned but are bogged down by lengthy municipal processes. Despite the expanded organogram, job creation is likely to be slow due to long lead times in appointing new staff. It is expected that the status quo will remain regarding employment patterns in the Tshwane Market if it continues as an internal mechanism.

As a result of the legislative environment Tshwane Market, as an internal service delivery mechanism, can play a very limited role in achieving government objectives of improved Black Economic Empowerment (BEE) other than in terms of procurement and employment. While attempts are made to include more BEE agents, this is a difficult process as agent relationships with their producers are based on long-standing trust, commitment and loyalty. The NAMC maintains that markets under a more independent management structure would be able to foster BEE more effectively, which is debatable in the light of the above argument.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Department</th>
<th>Business Unit</th>
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<tbody>
<tr>
<td>Due to the nature of the Tshwane Market function and the position described above it is not foreseen that the current departmental internal service delivery mechanisms will suddenly render improved results.</td>
<td>Due to the nature of the Tshwane Market function it is not foreseen that the two service delivery mechanisms will in principle have vastly different job creation and development impacts such as improved staff mentoring and focus with own performance culture from inception.</td>
<td>Due to its ring fenced nature there may be an improvement in capital expenditure and this development may increase short term employment and development opportunities. The new developments may also create longer term employment opportunities. By its very nature a business unit will be more focussed and more appropriately measured and should outperform the departmental service delivery mechanism. However, we don’t foresee any marked improvement in this criterion with the implementation of a business unit.</td>
</tr>
</tbody>
</table>

Criterion 5 – Labour views

The views of organised labour are to be obtained.

A draft letter (Annexure A) was prepared and needs to be completed and forwarded to the organised labour in order to gain their views as provided for in Section 78(1)(a)(v) of the Municipal Systems Act.

This Report does not include the views of Organised Labour with regard to Municipal Systems Act section 78(1). A process has been put in place by the City of Tshwane to obtain the views of Organised Labour and will be added to the Report at the relevant time. It is proposed that the City of Tshwane deals directly with Organised Labour, in cooperation with the section 78 service provider.
Criterion 6 – Other trends

This section takes into account any developing trends in the sustainable provision of the Tshwane Market function and service generally. As alluded to in Parts 2 and this Part 4 of this report, very little volume growth has occurred in National Fresh Produce Markets, despite overall production of fresh produce having increased substantially over the last years. The steady loss in market share by Fresh Produce Markets (including Tshwane Market) is ascribable to the rise of direct relationships between the large buyers and the large producers, thereby bypassing the fresh produce market system. Also sub-standard health and food safety standards have rendered fresh produce markets less and less competitive in an industry where consumer awareness of food safety is rapidly increasing.

As such the MAMC has recommended that one of the means to counter these negative trends is to separate ownership and management in order to achieve increased and long-term competitiveness of fresh produce markets and facilitate the transformation with regard to Black Economic Empowerment in line with government objectives. In addition, separating ownership and management would result in increased flexibility due to its delinked nature from onerous municipal processes and procedures, thus allowing for more rapid response and adaptation to changes in the industry. (NAMC, 2007)

In short, the separation of ownership and management would result in achieving more efficient business practices and increased commercial competitiveness.

As discussed in Part 2 of this Report there are currently three institutional ownership models for fresh produce markets, namely departmental markets (internal service delivery mechanisms), Municipal Controlled, but externalised markets (Municipal Entities) (external service delivery mechanisms) and those fresh produce markets that are totally private. It is evident that there are two institutional service delivery mechanisms available to the City of Tshwane. However, a business unit is not one of these two service delivery mechanisms. For the record and purposes of clarity, private markets are not institutional service delivery mechanisms.

Based on the above and the shortcomings of internal service delivery mechanisms as described herein and national trends and recommendations, it will be strongly advisable for the City of Tshwane to consider external service delivery mechanisms as described in Section 76(b) for the management component of the Tshwane Market. These external service delivery mechanisms are to be assessed in terms of Section 78(3) of the Municipal Systems Act.

Conclusion and Recommendation

The two internal service delivery mechanisms are not feasible approaches in their own right as long-term solutions to the challenge the Tshwane Market faces. The business unit option appears to be a more appropriate option but it falls short in certain critical areas as explained above. The Departmental option also appears to cost substantially more than the Business Unit.
Based on this Municipal Systems Act Section 78(1) assessment it is evident that the Tshwane Market would be better served in reaching its economic and commercial potential if its management were separated from the municipality.

As a result of the conclusions reached above, it is thus recommended that, before taking a decision to continue with the Tshwane Market as an internal mechanism, the City conduct an assessment in terms of Section 78(3) of the Municipal Systems Act into possible external mechanisms as contemplated in Section 76(b) of the Municipal Systems Act for the Market.

For purposes of the Mayoral Committee Section 78(2) decision, the following resolutions should be taken:

That the contents of the Report be noted.
That the views of organised labour be obtained through the Local Bargaining Forum on the Reports.
That the Reports be finalised incorporating the views of organised labour.
That the final Reports be submitted to Council for a final decision on the progression to Section 78(3) of the Municipal Systems Act.

**Note:** The City of Tshwane in cooperation with the Municipal Systems Act Section 78 Service Provider formally notifies Organised Labour and obtains their views via the Local Labour Forum of the recommendations outlined in this Report. This is part of the Municipal Systems Act Section 78 assessment process and is a requirement of Section 78(1)(a)(v) of the Municipal Systems Act, which is the basis for the current assessment.

**Way forward**
The following next steps will be required given the two scenarios that present themselves:
Should the City decide to retain the Tshwane Market internally, a Municipal Systems Act Section 78(3) assessment will not be necessary. The status quo regarding the Tshwane Market will remain, and management and operations will continue on the same basis as it has since the Tshwane Market’s inception. At this point this investigation will terminate.

Should the City, however, decide to investigate the external option (i.e. separating management and operations of the Market), a Municipal Systems Act Section 78(3) assessment will have to be performed. This will entail addressing the criteria for each applicable service delivery as per Section 76(b) of the Municipal Systems Act as listed in Section 78(3) of the Municipal Systems Act as depicted in the table below.

**Table 5. Statutory Criteria set out in Section 78(3) of the Municipal Systems Act**

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<tr>
<th>Criterion</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Criterion 1</td>
<td>Give notice to the local community of its intention to explore the provision of the municipal service through an external service delivery mechanism</td>
</tr>
<tr>
<td>Criterion 2</td>
<td>The direct and indirect costs and benefits associated with the project if the service is provided by an external service delivery mechanism, including the expected effect of any service delivery mechanism on the environment and on human health, well-being and safety</td>
</tr>
<tr>
<td>Criterion 3</td>
<td>The capacity and potential future capacity of prospective service providers to furnish the skills, expertise and resources necessary for the provision of the service through an external service delivery mechanism.</td>
</tr>
<tr>
<td>Criterion 4</td>
<td>The views of the local community</td>
</tr>
<tr>
<td>Criterion 5</td>
<td>The likely impact on development, job creation and employment patterns in the municipality; and</td>
</tr>
<tr>
<td>Criterion 6</td>
<td>The views of organised labour.</td>
</tr>
</tbody>
</table>
| Criterion 7 | Conduct a feasibility study taking into account:  
(i) a clear identification of the municipal service for which the municipality intends to consider an external mechanism;  
(ii) an indication of the number of years for which the provision of the municipal service through an external mechanism might be considered;  
(iii) the projected outputs which the provision of the municipal service through an external mechanism might be expected to produce;  
(iv) an assessment as to the extent to which the provision of the municipal service |
<table>
<thead>
<tr>
<th>Criterion</th>
<th>Description</th>
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<td>through an external mechanism will-</td>
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</tr>
<tr>
<td>(aa) provide value for money;</td>
<td></td>
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<tr>
<td>(bb) address the needs of the poor;</td>
<td></td>
</tr>
<tr>
<td>(cc) be affordable for the municipality and residents; and</td>
<td></td>
</tr>
<tr>
<td>(dd) transfer appropriate technical, operational and financial risk;</td>
<td></td>
</tr>
<tr>
<td>(v) the projected impact on the municipality's staff, assets and liabilities;</td>
<td></td>
</tr>
<tr>
<td>(vi) the projected impact on the municipality's integrated development plan;</td>
<td></td>
</tr>
<tr>
<td>(vii) the projected impact on the municipality's budgets for the period for which an external mechanism might be used, including impacts on revenue, expenditure, borrowing, debt and tariffs; and</td>
<td></td>
</tr>
<tr>
<td>(viii) any other matter that may be prescribed.</td>
<td></td>
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</tbody>
</table>
**Project Background and Methodology**

Akhile was appointed on 15 April 2013, to assist the City of Tshwane Metropolitan Municipality (hereafter referred to as the City of Tshwane or City), through the University of Pretoria with the “Investigation in Accordance with Chapter 8 of the Municipal Systems Act into an Alternative Service Delivery Mechanism for the Tshwane Fresh Produce Market” (hereafter referred to as the Project).

National Fresh Produce Markets (National Markets) assist in stimulating local and regional economic development and bolstering food safety and security. National Markets such as the Tshwane Fresh Produce Market (Tshwane Market) generally operate in multi-faceted and competitive environments that comprise *inter alia* informal traders, retailers, wholesalers, contract buyers, chain stores, processors and exporters on the demand side and subsistence, small, commercial and large scale farmers on the supply side.

The National Agricultural Marketing Council’s Section 7 investigation into National Markets, confirms that since 1996, very little volume growth has occurred in National Markets throughput, despite substantial growth in overall fresh produce production. National Markets are losing market share in the fresh produce sector as a result of commercialisation and direct marketing, which have its routes in an increasingly more demanding consumer. Improved transportation, electronic communication systems and Broad-Based Black Economic Empowerment efforts, resulted in easier market access to more direct off-take agreements. Further, the changing nature of the value chain of the sector has resulted in direct delivery of fresh produce to a growing retail sector, resulting in relatively reduced procurement through National Markets.

While most of the National Markets remain in the hands of the Municipalities, there has been an increased movement towards some form of corporatisation in order to allow increased
adaptability. The rationale for investigating alternative ownership and management models for Fresh Produce Markets is underpinned by a value proposition that increased local economic benefits listed below:

- Improved financial positioning in the Markets
- Improved BEE participation in the ownership of the business
- Immediate local economic development benefits
- Reduction of risk associated with the business
- Increased market competition by strategically placing Fresh Produce Markets in a stronger competitive position
- Facilitation of health and food safety standards as these become central to the operation of the market.

As a result, National Markets need to be restructured and re-positioned to enable them to adjust quickly and decisively to market changes and requirements.

The City of Tshwane put out a call for the “Appointment of a Consultant to review the service delivery mechanism of the Tshwane Fresh Produce Market in accordance with Chapter 8 of the Municipal Systems Act” in 2009 (Tender No: CB79/2009; closed on 07 April 2009 ). However, the tender was never awarded.

A Mayoral Committee Resolution made on 19 July 2012 resulted in the revival of the project by endorsing the commencement of a Local Government: Municipal Systems Act (No. 32 of 2000) (Municipal Systems Act) Section 78 assessment as prescribed by the Municipal Systems Act and that Consultants should be appointed to assist in this regard.

---


4 National Agricultural Marketing Council (s.a.) Section 7 Investigation: National Fresh Produce Markets
The City of Tshwane entered into a Memorandum of Understanding with the University of Pretoria to assist in exploring opportunities and options for the Tshwane Market. The brief is three-fold as illustrated below:

![Figure 2. Project Role of the University of Pretoria](image)

The University of Pretoria, with the support of the City of Tshwane went out on a limited call for proposals to conduct a Municipal Systems Act Section 78 assessment into the possible externalisation of the Tshwane Market function, which resulted in the appointment of Akhile Management and Consulting (Pty) Ltd (Akhile).

In summary, the City of Tshwane is to assess the most advantageous institutional arrangement for the Tshwane Market in order for it to optimally comply with its Constitutional Mandate.
Methodology

The status quo assessment was based on the following data collection and collation methodology:

Desktop assessment: Information attained from the Fresh Produce Market and international research were used to compile the foundation of the report

Round-table discussions were conducted with market management (10 June 2013) and the market agents (18 June 2013)

One on one discussions with market staff were conducted in the week of 24 June 2013 with the following staff members:

  Mr R. Jones
  Mr S. Sedutla
  Mr M Letsoalo
Due to the length of the report, it has been split into several volumes:

Part 1 (this volume) provides a concise synopsis of the entire report. It also provides the project background and methodology pursued.

Part 2 provides insight into global fresh produce trends and the international fresh produce market. Five case studies were investigated: Brazil, Mexico, India, France and Spain. An overview of the South African fresh produce market environment is subsequently provided, followed by a detailed analysis of developments regarding Fresh Produce Market Ownership and Management in South Africa. The case studies of Johannesburg Fresh Produce Market and Epping Fresh Produce Market are described in detail to illustrate how corporatisation and privatisation has been handled elsewhere in South Africa.

Part 3 focuses on the City of Tshwane and the positioning of the Tshwane Fresh Produce Market in the City’s policies, strategies and plans. This volume also discussed the Tshwane Fresh Produce Market’s operations, activities and functions in detail.

Part 4 provides the Municipal Systems Act Section 78(1) investigation building on the status quo investigation of the previous parts (1 to 3) of this report. It provides an overview of the national and sector legislation governing the Fresh Produce Market. It proceeds to provide an overview of historical and current issues and challenges facing the fresh produce market industry. It then continues to providing an overview of the Municipal Systems Act Section 78(1) process and elaborates on the various internal service delivery mechanisms. It concludes with assessing the Market in terms of the criteria set out in Section 78(1) of the Municipal Systems Act and concludes with a recommendation towards the Municipal Systems Act Section 78(2) decision.
Tshwane Fresh Produce
Market
Status Quo and Needs Analysis
PART 2

Global Trends in the Fresh Produce Industry and in
Fresh Produce Markets

Document Status: Final prior to union inputs
9/18/2013

Prepared For:

Date:
19 September 2013

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Part 2 provides a market overview of the global fresh produce industry with special focus on Brazil, Mexico, India, Spain and France. It furthermore provides an overview of the South African fresh produce industry and the Fresh Produce Markets in South Africa. This report concludes with an overview of developments regarding Fresh Produce Market ownership and management in South Africa with detailed case studies of the Johannesburg and Epping Fresh Produce Markets.
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  - Mrs A. Benseler
Global Industry Analysis

National fresh produce markets operate in a very dynamic industry, unlike more pure “municipal services” like water, sanitation, electricity and waste management. These services are also referred to as utility type services and all have a monopolistic element to it. On the contrary fresh produce markets operate in a very competitive industry with many private sector entities competing with it. It is therefore of utmost importance to develop a clear understanding of the forces of influence in the fresh produce industry.

Some Fresh Produce Markets like the Tshwane Market operate within the local sphere of government and one needs to have an understanding of the workings of the global and local fresh produce industries and South African Fresh Produce Markets when considering an appropriate service delivery mechanism since various service delivery mechanisms may have vastly different effects and impacts on the performance and risk profile of the City and the Tshwane Fresh Produce Market (Tshwane Market).

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1 A “municipal service” is defined in Section 1 the Local Government: Municipal Systems Act No. 32 of 2000 (Municipal Systems Act) as:

“a service that a municipality in terms of its powers and functions provides or may provide to or for the benefit of the local community irrespective of whether—

(a) such a service is provided, or to be provided, by the municipality through an internal mechanism contemplated in section 76 or by engaging an external mechanism contemplated in section 76; and

(b) fees, charges or tariffs are levied in respect of such a service or not;

[Definition of ‘municipal service’ inserted by s. 35 (a) of Act 51 of 2002.]’’
External Environment Analysis

Fresh Produce Markets

Fresh produce mainly includes fresh fruit and fresh vegetables. Fresh fruit include: citrus, grapes, subtropical and deciduous fruits as well as cherries, berries, strawberries, figs, quinces, figs and melons. Fresh vegetables mainly include: potatoes, onions, cabbage, carrots, green peas, tomatoes, green mealies, green beans, beetroot, cauliflower, sweet potatoes and pumpkins (NAMC, 2005).

According to Mollen (1967), the Human Science Research Council (HSRC 1991) and Seitz, Nelson and Halcrow (1994) (in NAMC, 2005) the following stereotypical characteristics apply to fresh produce:

- Most of the fresh produce are produced quite a distance from the consumer market;
- Fresh produce is affected by weather, pests and diseases;
- The production time cycle is relatively inflexible and seasonal;
- Fresh produce is highly perishable;
- Fresh produce has varying quality;
- Bulky, commodity types of fresh produce such as potatoes and apples have a relatively low price per kilogram while lighter, ‘fancier’ produce have a relatively higher price per kilogram;
- The demand for fresh produce is relatively high; and
- Fresh produce can be considered a convenience product.

It is evident from the above that there is a vast difference between a normal “municipal service” and being involved in fresh produce trading.

The section below deals with an international overview of international fresh produce markets.
International Fresh Produce Markets

Introduction

This section serves as an international overview and commences with the identification and explanation of some of the global and consumer trends shaping the economic landscape followed by an overview of the global fruit and vegetable sector. The section on international markets concludes with detailed market reports of the five identified countries, namely: Brazil, Mexico, India, France and Spain.

Global Trends

This section aims to identify and describe the mega trends faced by agriculture as well as the main consumer trends impacting on the consumers’ buying decision. These trends have the potential to exhibit the promises of future agriculture, food security and sustainable agricultural development.

Megatrends

According to Menon (2011) megatrends are global, social, microeconomic, political, environmental or technological forces that, although slow to form, once in place, influence a wide range of activities, processes and perceptions, both in government and society, possibly for decades (Menon, 2011).

Emerging economies, particularly the Brazil, Russia, India and China (BRICs), have become the main countries of economic growth in the world economy (Braga, 2013). According to Hankel and Isaak (2013), contrary to the past, the world will be dominated by the emerging countries led
by the increasing middle class consumers in the BRICs and not by the developed countries in the West. The net effect of rising disposable incomes of consumers in the BRICs countries mainly came from the movement of consumers from rural areas to urban centers where opportunities such as higher wages and higher levels of employment exist. This increase in disposable income fuelled demand for food, specifically in the lower income groups; leading to a higher per capita demand for food safety, variety and better quality. In turn these demands led to the development of modern food retailing and food service formats in urban centers (Gyan Research and Analytics, 2012).

Developing countries are no longer seeking out the old rich nations of Europe or North America to imitate their economic models but rather attempt to imitate those economies that experienced economic miracles by observing the success of post-authoritarian stability aimed at commercial results through export-orientated growth, and trying to keep politics and security issues in the background in order to attract investment and trade. These developing countries are now rather looking to the stronger economies of Singapore and China. These economies, as well as the rest of the BRICs will become the future’s low cost production locations and show significant increases in their consumer markets (Hankel and Isaak, 2013).

Currently, the top five largest economies in the world are: the United States, China, India, Japan and Germany (Hankel and Isaak, 2013). By 2020, three of the world’s largest economies will be emerging countries, with the top five being China, the United States, India, Japan and Russia. Developed economies are being replaced by developing economies, specifically the BRIC countries. These shifts will have a significant impact on global politics, investment flows and the business environment while developing countries’ consumer markets grow in importance as their middle class expands (Eghbal, 2013).

Due to the growth in the world population, the massive growth in food demand is expected to continue in the future, as the world population is expected to reach 9 billion people by 2050. Consumer incomes are rising and the middle class are expanding especially in developing
countries like India and China (Love, 2013). The middle class consumers of the developed world do not buy more food with additional disposable income; they just tend to buy more convenience and restaurant food. On the other side middle class consumers from the developing world tend to spend a large portion of the disposable income gain on more food, more fruits and vegetables, more protein and more processed food, increasing the pressure on food demand. It can therefore be noted that if the middle class consumers in these developing countries keep on growing they are very likely to lead the import demand and the food demand going forward (Keller, 2011).

This increase in food demand leads to a drive to generate increased efficiency and develop new technology in agriculture. If the population increases as expected then so must the production of current food output. Since there is little arable land available in the world, additional product outputs will have to come from more efficient ways and biotechnology to increase food supply to meet the growing demand (Love, 2013). New technologies coupled with better management brings about, genetic research and application of genetically modified crops, precision farming, integrated pest, disease and weed management as well as increased efficiency of resource use, to ultimately increase yields, decrease losses to produce additional product output on less land. Another way in which output can be ‘increased’ to meet a growing demand will be to extend the shelf life of a product to eliminate waste (Bindraban and Rabbinge, 2012). It is expected that labeling and packaging will drive agricultural decisions in future. Innovation in the packaging industry led to packaging that are advanced enough to increase or even double the shelf life of a product by regulating the flow of gases through product packaging. Other innovations include environmentally friendly, biodegradable film packaging made from plant matter (Love, 2013).

Agriculture is an energy intensive business sector – this makes the agricultural industry and farmers highly sensitive to changes in energy prices. If energy prices increase so do input costs almost invariably, since energy costs are one of those the input costs affecting the cost of fertilizer, chemical manufacturing, cooling and transportation. Another factor that plays a major role in input prices is the value of the dollar – global agricultural trade is denominated in terms of dollars. Therefore the value of most commodities is inversely related to the value of the
United States dollar, which in the case of a declining dollar may put pressure on prices. An effort to curb this will not be to increase the prices of outputs but rather to make use of, for instance, biotechnology to increase yields, therefore potentially increasing profits (Keller, 2011).

Recent surveys in the US, Japan and European Union revealed the average age of farmers in the US at 58 years of age, 67 years in Japan and more than one third of European farmers are older than 65. In these countries only 5% of the farmers were 35 years and younger. A similar trend can be seen around the world. For these farms to stay in production and keep on feeding the nation it is important that they are transferred to younger owners (Jöhr, 2012). With this, succession planning becomes important to ensure that the transferred farm remain at the same or higher production levels. These younger generation farmers will tend to embrace new technologies and innovations while learning how to weather an economic storm from the experienced older generation farmers (Love, 2013). During the past century, agricultural practices moved away from habits and skills, due to an increased understanding of production processes into methodically controlled ways of production which led to significant changes in production systems (Bindraban and Rabbinge, 2012).

**Consumer Trends**

Consumers are becoming more educated and empowered. With an increasing number of smartphones in the hands of consumers, product information is merely the touch of a button or the scan of a QR (Quick Response) code away. Food shoppers have embraced mobile technology to do everything from preparing shopping lists, tracking down sales, comparing prices, finding and sharing recipes as well as searching everything they can about a food’s origin, production and processing method, nutrition and benefits (Lempert, 2013). This influences, to a large extent, the marketing methods of companies. Moreover, although a gap still exists between developed and emerging markets living standards are on the increase, this translates into an increase in the number of choices demanded by consumers and a need for product differentiation and innovation.
Consumers still see, and will probably in five years still perceive, convenience as one of the most important consumer drivers for making buying decisions. This demand for convenience emanates from the trade-off between time and money – consumers are willing to pay more for convenience, especially in the light of an increase in disposable income and a change in lifestyles and work habits. Brands are therefore focusing on interpreting consumer lifestyles to reach out to customers warming to innovation (Kasriel-Alexander, 2013). This brings about changes in the evolution of distribution channels of food supply chains, specifically in the food service side which can unlock significant growth potential for the producer.

On the frozen food side unit sales are down even though the older generation (55 years of age and older) still prefers buying frozen foods. One of the reasons for this decline is the perception that the younger generation have of frozen foods. Young consumers see frozen foods as being processed versus prepared and feel that the quality and health of these frozen products are inferior to their fresh counterparts. This perception asked for a change in the frozen food marketing business to better explain the ingredients in frozen food as well as the process of freezing food and the benefits in terms of the product’s shelf life linked to product quality (Lempert, 2013).

Healthy eating is another important driver, a trend that will impact significantly on company strategies as well as the product mixes these companies decide to manufacture or keep on their shelves. This could lead to an increase in functional foods, foods with health benefiting or disease preventing benefits, over the next five to ten years as consumers demand more of these foods to try and eliminate the bodily damage done by a modern, stressful life style. In addition to this, because of the health aspect of consumer needs there could be an increase in the variety of products with health benefiting claims, such as organic, low fat, low salt and added vitamins (Deloitte, 2012). Snacking and mini-meals positively contributes to the overall quality of an individual’s diet and is therefore considered one of the trends concerning consumer health. It is predicted that in 2013 snacking and mini meals or a more frequent eating pattern, will become popular as work schedules become more hectic, and this will lead to a reduction in overall
portion sizes and an increase in the food variety consumed across all generations (Lempert, 2013).

Availability indirectly acts as the great equalizer in the retail industry and is therefore considered an important consumer driver. With availability comes an increase in choices in terms of price, brand and product type and with this, consumers have the necessary bargaining power when it comes to the buying decision (Deloitte, 2012).

The other drivers include affordability, taste or freshness, product availability, functionality and corporate responsibility. Although corporate responsibility has been seen as a corporate initiative, consumers are increasingly becoming concerned with factors such as sustainability, ethical sourcing and food miles. However, in the trade-off between corporate responsibility, affordability, taste or convenience, corporate responsibility is easily set aside to fulfil the needs of affordability, taste and convenience (Deloitte, 2012).

Consumers who are particularly aware of this trade-off, and understand the concept of forgoing one thing to enjoy something else, are the so called ‘Boomers’. This consumer group seek quality products, are brand loyal and overall not price-sensitive, they are particularly health conscience; nutrition and healthy eating habits are priorities when making buying decisions and these consumers often regard nutrition as important as taste. The benefits of breakfast are becoming hard to dispute and publications of it being the most important meal of the day are on the increase. With the increase in food prices, especially animal protein, there has been a shift to move animal proteins into meals such as lunch or dinner to maintain healthy eating and save money. Due to this, breakfasts, not only for the ‘Boomers’ but for most consumers, nowadays consists mostly of; a vegetable omelette, yogurt with granola, cereal and/ or fruits, a yogurt based fruit smoothie and whole grain breads (Lempert, 2013).

Food is becoming much more than a life staple, food is celebrated, avoided, healthier, greener, safer and nowadays also grown in urban areas. Consumers are tempted by bite-sized offerings,
greater novelty, superior niche services and trying something new. Products that are locally produced, processed, packaged and sold are capturing the nostalgic imagination of consumers, consumers want to feel a connection to the origin of the product that they are about to consume (Kasriel-Alexander, 2013). They want to know about the people producing their foods and hear their story. When reading labels they are looking for real information, information that will enable them to trace recipes, and foods back to their heritage, information brought about by transparency - something consumers are willing to pay for (Lempert, 2013).

The number of males doing household grocery shopping and cooking are on the increase as a result of - stay at home dads are on the increase, more men work from home and more men remain single for longer, these men are furthermore getting more comfortable and powerful in the kitchen. This brings about the need for changes in specifically food marketing strategies to target both male and female shoppers but specifically to increase impulse buying amongst men (Lempert, 2013).

Consumers are choosing their foods more holistically; taking into consideration all the food factors such as taste, source as well as the impact of the production method on the environment and animal welfare, ingredients, health and nutrition, convenience and availability. In light of the above it is anticipated that 2013 will be a transitional year as food claims on packages multiply and cause possible confusion amongst consumers. It is furthermore expected that consumers demand that retailers take up the role of gatekeeper and actually demand proof in the form of transparency (and traceability) of these claims before they are permitted to be sold to shoppers (Lempert, 2013).

Figure 1 illustrates the key consumer trends that shape the industry as found by the Deloitte’s global survey of 93 top executives at leading food and beverage businesses. Figure 2 illustrates the key issues driving the industry forward as found by the same survey.
Figure 1: Key Consumer Trends Shaping the Industry
Source: Deloitte, 2012

Figure 2: Key Issues Driving the Industry Forward
Source: Deloitte, 2012
Critical Success Factors for the Fruit and Vegetable Industry

According to Olson (2011), critical success factors exist within each agricultural industry and must be identified and complied with to keep the industry at performance levels. Once these are complied with the other measures of success will follow.

These critical success factors in the horticultural industry are as follows (Gyan Research and Analytics, 2012):

- To be able to optimally grow horticultural products it is important to have the correct natural growing conditions such as climate, day-length, altitude and soils or to be able to artificially create these natural growing conditions by erecting a greenhouse with irrigation and heating and cooling systems.

- To produce, process and pack fruit and vegetables is a technical and labour intensive process. For this reason it is important to train labourers in order to retain a competitive advantage on both the production and processing side by keeping costs relatively low.

- Due to the perishable nature of fresh fruit and vegetables the marketing of fresh produce in itself is a specialist field. Marketing strategies for the marketing of horticultural products should be done in such a way to minimize cost and increase profit margins by adding value.

- A fast, efficient, cost effective and in some cases, cold transport link is of the utmost importance and are necessary to reduce logistical costs. Because of the highly perishable nature of fresh produce, products are often moved between countries by means of airfreight, which varies significantly in terms of costs. It is for this reason that the expansion of the shelf life of fresh produce would be able to generate better revenues.
Global Overview

The global horticultural industry has been fuelled not only by a growth in world population but also by the fast pace, modern lifestyle of the health conscious consumer that bought about an increase in fruit and vegetable consumption (Gyan Research and Analytics, 2012). Volumes in market consumption increased with a compound annual growth rate of 2.2% from 2007 to 2011 to reach 793.8 million tons in 2011. This compound annual growth rate is expected to increase with 0.6% from 2011 to 2016 to reach 818.1 million tons by 2016 (MarketLine, 2012).

The global fruit and vegetable industry has grown significantly over the past decade and it is expected to keep on growing. In 2011 this market showed total revenues of US$ 1 517.3 billion and volumes of 793.8 million tons. This revenue represented a compound annual growth rate of 17% from 2007 to 2011 of which the Asia-Pacific markets contributed 21.6%, in terms of volumes a 2.2% compound annual growth rate was seen during the same period (Figure 3 and Figure 4) (MarketLine, 2012).

Figure 3: Global Fruit and Vegetable Market Value and Growth
Source: MarketLine, 2012
Even though the global fruit and vegetable industry are expected to keep on growing it is expected that the industry will experience a decelerated growth, with a compound annual growth rate of 12.4% in terms of value and a 0.6% compound annual growth rate in terms of volume for the five year period 2011 to 2016. This means that the fruit and vegetable industry will reach a value of US$ 2 719 billion by 2016 (an increase of 79.2% since 2011) and a volume of 818.1 million tons (a 3.1% increase since 2011) (MarketLine, 2012).
The Asia-Pacific market, at a 14% compound growth rate, will remain the biggest contributor to reach US$ 1 989.2 billion in 2016, a substantial 92.6% value increase since 2011, although only a 3% volume increase from 2011 to reach 600 million tons in 2016 (MarketLine, 2012).
Asia-Pacific accounts for 68.1% of the market value of global fruit and vegetables. During 2011 China accounted for 76% of the fruit and vegetable market value of Asia-Pacific and India for an additional 12.3% (MarketLine, 2012). China, India and Vietnam will remain the biggest contributors to global fruit and vegetable production, with China contributing 132,885,800
Metric Tons to the vegetable sector and India contributing 9,564,100 Metric Tons to the fruit sector (Table 1) (Gyan Research and Analytics, 2012).

### Table 1: Top Ten Fruit and Vegetable Producing Countries in the World (2010)

<table>
<thead>
<tr>
<th>Vegetable Countries</th>
<th>Vegetable Production (Metric Tons)</th>
<th>Fruit Countries</th>
<th>Fruit Production (Metric Tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>132,885,800</td>
<td>India</td>
<td>9,564,100</td>
</tr>
<tr>
<td>India</td>
<td>34,761,000</td>
<td>Vietnam</td>
<td>2,564,500</td>
</tr>
<tr>
<td>Vietnam</td>
<td>6,732,700</td>
<td>China</td>
<td>2,299,500</td>
</tr>
<tr>
<td>Nigeria</td>
<td>5,945,600</td>
<td>Iran</td>
<td>2,169,400</td>
</tr>
<tr>
<td>Philippines</td>
<td>4,842,200</td>
<td>Myanmar</td>
<td>1,350,000</td>
</tr>
<tr>
<td>Myanmar</td>
<td>3,719,300</td>
<td>Nigeria</td>
<td>1,212,000</td>
</tr>
<tr>
<td>Nepal</td>
<td>3,003,820</td>
<td>Indonesia</td>
<td>1,204,000</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>2,698,000</td>
<td>Papua New Guinea</td>
<td>947,800</td>
</tr>
<tr>
<td>Japan</td>
<td>2,619,400</td>
<td>Nepal</td>
<td>656,300</td>
</tr>
<tr>
<td>Brazil</td>
<td>2,445,100</td>
<td>Democratic People’s Republic of Korea</td>
<td>548,100</td>
</tr>
</tbody>
</table>

Source: Gyan Research and Analytics, 2012

The vegetable sector in the fruit and vegetable industry served to be the most profitable sector in 2011 with revenues totalling US$ 1,039.6 billion accounting for 68.5% of the fruit and vegetable industry’s overall value (MarketLine, 2012). Global vegetable production reached 990 million tons in 2011 with the majority (45% of total global vegetable production) of these vegetables being: potatoes, tomatoes, onions, cabbages, cucumbers and aubergines and China and India being amid the biggest vegetable producing countries (Table 1) (Gyan Research and Analytics, 2012).

In 2011, 548 million tons of fruit; tropical and semi tropical, citrus fruits, soft fruits, berries, exotics, apples and stone fruits were produced globally (Figure 9). This is 42 million tons more
than in 2010, indicating a 2.5% growth. Of the total harvest in 2011, 60% of the fruit production was made up of melons, bananas and apples (100 million tons) as well as grapes and oranges (70 million tons) (Gyan Research and Analytics, 2012). The fruits sector showed revenues of US$ 477.6 billion in 2011 contributing 31.5% of the fruit and vegetable market’s overall value (MarketLine, 2012).

![Global Fruit and Vegetable Production](image)

**Figure 9: Global Fruit and Vegetable Production**
Source: Gyan Research and Analytics, 2012

**Five Forces Analysis**

For the purpose of the five forces analysis; retailers will act as the players in the fruit and vegetable industry with the key buyers being end-consumers and the key suppliers being fruit and vegetable producers or farmers. Figure 10 acts as an illustration of a summary of the forces that drives competition in the global fruit and vegetable industry, indicating that the degree of rivalry and new entrants are the most important forces that drive competition. This industry is highly concentrated, dominated by large supermarket chains with the advantage of brand strength and bargaining power. The presence of these supermarket chains acts as a substantial barrier to entry. Buyer power in this industry is weak due to the perishable nature of the
products and suppliers are vulnerable to players switching suppliers. New companies are encouraged to enter the market by the low capital requirements and light government regulations in most countries to enter the global fruit and vegetable industry (MarketLine, 2012).

![Figure 10: Forces Driving Competition in the Global Fruit and Vegetable Industry (2011)](source: MarketLine, 2012)

Fruit and vegetables are mostly commodity items and there is little to differentiate between retailers. Many factors that affect buying power are therefore interdependent with the factors of supermarket retail especially brand loyalty and their ability to offer low prices. The fact that fruits and vegetables provide key vitamins and nutrients that are vital to buyers weakens the overall buyer power in the global fruit and vegetable industry. Figure 11 illustrate the drivers of buyer power in the global fruit and vegetable industry – from this it is clear that buyer independence and low cost switching are the most important drivers (MarketLine, 2012).
Figure 11: Drivers of Buyer Power in the Global Fruit and Vegetable Industry (2011)
Source: MarketLine, 2012

Figure 12 shows the drivers of supplier power in the global fruit and vegetable industry and specifically displays weak supplier power. The main supply channel for the fruit and vegetable industry consist of numerous independent farmers. Large supermarket chains use their purchasing power to bargain for lower prices and extended credit terms by buying in bulk especially in the case of smaller suppliers that depends heavily on the business of a particular supermarket for revenues. These low switching costs of supermarkets and the low levels of product differentiation significantly decrease supplier power (MarketLine, 2012).
It is quite easy for new comers to enter the retail market, there is no need for extensive capital outlay and companies can enter the market by going the niche or organic route. However, since supermarkets dominate the buyer side of the global fruit and vegetable industry brand recognition, economies of scale and high price competition drives the buyer side, the latter which appeals to the end consumer. These consumers are willing to incur minor costs when switching from established supermarkets to new comers given that the product offered is hard to differentiate. The threat of new entrants into the global fruit and vegetables market is therefore moderate – the factors that influence this threat of new entrants are illustrated in Figure 13 (MarketLine, 2012).
Figure 13: Factors Influencing the Likelihood of New Entrants in the Global Fruit and Vegetable Market, 2011
Source: MarketLine, 2012

It can be seen in Figure 14 that the threat of substitutes is limited. Fruit and vegetables play an important role in the human diet and can only be substituted with, more expensive, less sufficient, substitutes like vitamin tablets. Alternatively consumers can start their own vegetable and fruit gardens <i>versus</i> buying from supermarkets. This however brings about its own challenges in terms of agricultural knowledge, fertilizer and seed costs as well as the time needed to cultivate the produce. The threat of substitutes is therefore weak (MarketLine, 2012).
Concentrated retail food markets in developed economies are often dominated by a small number of leading supermarkets which leads to low levels of competition in the food retail market. As mentioned earlier, costs incurred by consumers to switch between retailers are negligible and the homogeneity of the fruits and vegetables sold by these supermarkets increases the level of rivalry between them. These products are furthermore highly perishable which increases the storage costs as well as the rivalry as supermarkets need to sell their entire inventory to avoid losses. The healthy rate of market growth on the other hand, reduces rivalry to some extent. Overall rivalry however remains strong and reflects a high level of competition between supermarkets in the fruit and vegetable industry (Figure 15) (MarketLine, 2012).

Figure 14: Factors Influencing the Threat of Substitutes in the Global Fruit and Vegetable Market, 2011
Source: MarketLine, 2012
Figure 15: Drivers of the Degree of Rivalry in the Global Fruit and Vegetable Industry (2011)
Source: MarketLine, 2012

Imports and Exports

Global vegetable exports amounted to US$ 56 billion (Figure 16) and imports amounted to US$ 57 billion (Figure 17) in 2010. China was the largest exporter, with exports going to Japan, Indonesia, Korea, Vietnam and the USA followed by the Netherlands and Spain (Gyan Research and Analytics, 2012).
The largest importer of vegetables was the USA, importing from Mexico, Canada, Peru and Guatemala followed by Germany, importing from the Netherlands, Spain, Italy, Belgium and France (Gyan Research and Analytics, 2012).

**Figure 16: Top 10 Vegetable Exporters, 2010**
Source: Gyan Research and Analytics, 2012

**Figure 17: Top 10 Vegetable Importers, 2010**
Source: Gyan Research and Analytics, 2012
Fruits valued at US$ 76 billion were exported and fruits valued at US$ 84 billion were imported globally during 2010. The main exporting countries were the USA, Spain, Chile, the Netherlands and Italy (Figure 18), while the main importing countries were the USA, Germany, the Russian Federation and the UK (Figure 19) (Gyan Research and Analytics, 2012).

![Bar chart showing top fruit exporters.

Figure 18: Top 10 Fruit Exporters
Source: Gyan Research and Analytics, 2012

The USA was the main importer (US$ 10 billion) and exporter (US$ 10 billion) of fresh fruit. The main USA importing countries were Mexico, Chile, Costa Rica, Guatemala and Ecuador and the main exporting countries were Canada, Hong Kong, Japan and Germany. Fruit exports are mainly driven by prices and production in which climatic conditions play an important role and fruit imports are driven by prices and consumption trends in the country to which the fruit are destined (Gyan Research and Analytics, 2012).
The section to follow will be dedicated to detailed market reports on the fruit and vegetable industries in Brazil, Mexico, India, France and Spain as well as an overview of their fresh produce markets (Gyan Research and Analytics, 2012).

Country Specific Market Reports

Brazil

Overview

The Brazilian economy is ranked the eighth largest economy in the world and is set to become fifth in the midterm (PMA, 2012). Brazil is the third largest fruit producer among developing countries, behind China and India. Its total production was 43.8 million tons in 2004, representing 3.2% of the production of all developing countries (Dorr and Grote, 2009). Agriculture accounts for 13% of the nation’ gross domestic product, and it employs, directly or indirectly, about one-quarter of the Brazilian labour force. Approximately 40% of agricultural...
Jobs come from agribusiness and contributes one third of the GNP and almost 40% to total exports (de Paula and Bastos, 2008).

Agricultural crops in Brazil cover a land of 62 million hectares in size which is 7% of the total area of the country. The fruits and vegetables cover 26% of the agricultural area. The country has about 18 metropolitan regions which have a population of 70 million (37% of the entire population), and 2 big metropolitan regions with a population of 31 million (16% of the entire population). It has 5,564 municipalities, 26 estates and one federal district (Brazilia). Urbanization is 20% of the Brasil population and 7% is in São Paulo. About 5,204,130 farmers are found in the rural areas of the country with about 18 million workers (Gutierrez, 2012).

Ownership Structure and Institutional Arrangement

The wholesale markets for agro-food in Brazil were established by the Federal Government on which it initiated the implementation of Supply Centres (CEASAs) in 1962. The CEASAs were the main instruments of marketing agro-food products in Brazil. The public supply in Brazil were established from the System National Supply Centres (SINAC) force between 1972 and 1988, which was assigned to COBAL, a state company, which was in charge of the Group Executive System Modernization Supply (Gemab) created in 1969. SINAC was inspired and guided by the Spanish model (Mercasa), and its initial plan was to establish a network of technical information for all agro-food markets in regional wholesalers and serve as a reference point for business between producers and distributors, providing the best equilibrium point of supply and prices (Cunha, 2006). The Supply Centres are therefore government entities for food supply in Brazil. Abracen – a Brazilian Association of Central Supply that represents the group of companies responsible for the agro-food supply in Brazil and the CEASAs, the associative entity Wholesale Markets installed and operating in many states of the country. The centrals were intended to Wholesale Marketing using private agents that acted in the traditional markets of horticulture, fish and other perishables.
The Ministry of Agriculture, Livestock and Supply through the Prohort program (Brazilian Program of Modernization Market Hortigranjeiro within the CONAB\textsuperscript{2}) facilitate and coordinate the collection of data relating to the marketing of horticultural wholesale markets and the integration of their databases, encourage the improvement in the processes of technical and operational management and management of wholesale markets (Cunha, 2006).

SINAC comprises of 21 companies called Central Abastecimento, \textit{i.e.} the CEASAs, 34 Markets Urban wholesalers, 32 Wholesale Markets Rural markets and various sized retailers varied in urban centres large and medium-sized businesses.

\textit{Export Market}

Brazil is the fourth largest world exporter of agricultural produce. According to Boon (2013), the export of all agrarian products from Brazil in 2012 had a value of US$ 70 billion. However, in the export of fruits and vegetables, Brazil is the 25\textsuperscript{th} position in the world. This implies that the countries produces and export less fruits and vegetables compared to field crops and animal products. The country exports more fruits in processed form, mainly fruit juices. Among the world markets supplied by Brazil through export, the Netherlands, as shown in Figure 20 buys about 40\% of the Brazilian fresh fruit export (Boon, 2013).
Brazil exported about 700,000 tons of fresh fruits and vegetables in 2012 which had a value of US$ 620 million. The most exported products as far as value is concerned are mangos, followed by melons (excluding watermelons), then bananas, lemons, apples, grapes, watermelons, papayas, oranges and avocados (Figure 21) (Boon, 2013).
Local Markets

In the production of fresh products, fruits are at the top with 39% total volume production and are followed by starchy roots, vegetables, pulses and nuts (de Oliveira, 2012). Fresh produce are procured by wholesalers (CEAGESP³ – Fresh Produce Market, and CEASAs⁴), terminal markets (SINAC⁵ - COBAL⁶), municipal markets and retailers.

The Fresh Produce Market – central hub (CEAGESP) obtains fresh produce from farmers through a packer-shipper or a dealer (Cunha and Belik, 2012). The Fresh Produce Market is a wholesaler linking produce from the farmer to retailers. The retail industry supplied by this Fresh Produce Market supply are hawkers, individual buyers, government institutions, schools and universities, restaurants, greengrocers, and supermarkets (Gutierrez, 2012).

³ CEAGESP is a state company for the federal government of Sao Paulo dealing with fresh produce terminal markets and grain warehouses.
⁴ CEASA (Central de Abastecimento e Servicos Auxiliares) – a government-run wholesaler.
⁶ COBAL – State Companhia Brasileira de Alimentos – a state company responsible for coordination functions, technical control, administrative and financial program.
Supermarkets and hypermarkets account for almost 50% of the retail market and they use a variety of strategies to compete in fresh produce. They actually provide a wide range of high quality products supplied from local and import markets. Supermarkets also use pricing strategies in driving sales, particularly through marketed promotions. They also provide consumer financial services such as consumer credit, insurance and extended product warranties.

The markets for fresh foods in Brazil are changing from producer to consumer markets where powerful supermarkets require a steady supply of good quality and traceable produce. The consumers in Brazil demand a wide range or variety of vegetables and fruits. They also require more environmental-friendly fresh foods. The consumption of vegetables has increased as a result of increased income for consumers. Vegetables are produced around the main cities such as Sao Paulo which has a large number of small-scale farmers and a relatively small number of large farms. In these areas, tomatoes, carrots and melons are grown as an arable crop (Beek Advisory Services, 2013).

**Fresh Fruits and Vegetables Production in Brazil**

Brazil produced 455 million boxes of oranges in the 2011/12 production season (Foreign Agricultural Services, 2012). This was however less than the quantity produced by America in the same year by 47 million boxes. The production of apples in 2012 decreased slightly as a result of unfavourable weather condition and reduction in planted area (ibid, 2012). The total planted area for apples in Brazil in 2009/10 production year was 38,800 hectares (Foreign Agricultural Services, 2009). The main apple producing states in Brazil do Santa Catarina and Rio Grande do Sul own about 50% and 44% respectively of the production area.

Tomatoes, as the main vegetable crop grown in Brazil, production declined by 9% in 2009 production year, *i.e.* a decline from 3.94 million metric tons (MMT) to 3.58 MMT (Foreign Agricultural Services, 2009).
Food Safety and Traceability

There is a wide range of different standards and regulations in the food sector, such as hygienic standards, sanitary and phytosanitary standards, or maximum levels related to the content of aflotoxin or pesticides (Frohberg, Grote and Winter, 2006). According to Dorr and Grote (2009), the fruits and vegetables markets in Brazil are required to demonstrate the safety and traceability of their produce up to the consumption stage. This is a necessary condition in order to have access to international markets such as the European Union (EU) and the United States (US). Fruit producers increasingly need to meet the buyer's requirements and comply with certification systems. In Brazil, these specific certification systems are the Integrated Fruit Production (PIF), GlobalGAP, Fairtrade, and Organic certification schemes (Dorr and Grote, 2009). Certification is a procedure by which a third party gives written assurance that a product, process or service is in conformity with certain standards. Thus, certification can be seen as a form of communication along the supply chain, as the certificate demonstrates to the buyer that the supplier complies with certain standards (International Organization for Standardization – ISO 22000, 2007).

In Brazil, the Brazilian Ministry of Health and the Ministry of Agriculture and Supply (MAA) are the two official entities responsible for overseeing food safety regulation. The Food Safety Modernizing Act (FSMA) was signed into law in January 2011 in Brazil. The regulation of the act has numerous provisions with implications for many in the fresh produce industry. These provisions include produce safety standards, preventive controls, a fast-track program for imports, foreign supplier verification, traceability and record keeping requirements, and third-party certification (PMA, 2013).

Challenges

Among other challenges faced by the fresh fruits and vegetables in Brazil are the export regulations for not domestically used products. International trade in food produce is heavily conditioned by the various sanitary regulation mechanisms, with the strictest regulations being
found in the US and in the European Union. In addition to sanitary restrictions, Brazilian exports to these countries are subject to a series of tariff and non-tariff barriers, which limit the opportunities in selling to these countries.

**Supply Chain and Distribution Structure**

The distribution of fresh produce in Brazil is highly concentrated, consisting mainly of regional central suppliers known as CEASA (Centrais de Abastecimento S.A.). There are currently more than 50 CEASAs in Brazil, with either state or mixed ownership. They distribute approximately 50% of all the production of fresh fruits and vegetables in Brazil. The largest CEASA is CEAGESP, which is responsible for distribution in the city of São Paulo (PMA, 2013).

**Key Driving Forces and Value Addition**

In Brazil, consumers are the key driving force behind food supplies resulting to the current changes in agro-industrial systems associated with foods. Among other key factors influencing consumers to have so much impact to the agro-industries are: urbanization and demographic growth, out-of-the-house female employment, increased income and more educated consumers that have contributed to shifting production from bulk marketing to more segmented and individualized patterns. This has resulted in developing new products, flexible offers and new opportunities for products with added-value, such as fresh vegetables and fruits.

Value addition includes the conditioning processes and the made ready for use which are the saving time products (pre-cuts, individual dishes, ready-to-cook and ready-to-eat), and transforming processes that result in products with longer shelf life and not requiring low conservation temperatures (mainly canned foods and chips). The market for these conditioning process products is far more dynamic due to consumer preferences for fresh convenience products that are nutritionally unaltered and healthful.
Infrastructure, Logistics and Distribution

Despite being one of the world’s largest producers and exporters of agricultural goods, Brazil suffers from inadequate infrastructure. There is limited connectivity among transport modes, as well as inadequate railways and viable waterways to transport goods for export, which contributes to the overreliance on more expensive road transport (United States International Trade Commission, 2012). More importantly, the Brazilian roads are generally in poor condition thus impacting on time to ports and processing units as well as product losses. Regarding rail, the country only has some 30 thousand kilometres of rail track, most of which is located in the southern portion of the country. The country also uses waterways accounting for 28 000 kilometres of navigable rivers transporting about 13% of the cargo (Brostowicz, et al., 2012).

The port infrastructure in Brazil is inadequate considering the nation’s volume of agricultural production and exports despite having one of the longest coastlines in the world. They are about 50 inland and seaports, nearly all are owned by federal, state and/or city governments. Major problems detected in port services are red tape, poor access to port facilities (mainly roads and rail) and strong port unions (Brostowicz, et al., 2012).

Outlook for Fresh Food

There are higher disposable incomes among consumers, which will continue to play an important role in the agro-food supply chain. Consumers will continue to become more concerned about having balanced meals and leading healthier lifestyles as obesity rates grew significantly. Thus fish and seafood, nuts and fruits are expected to lead growth over the next few years (Euromonitor International, 2013).

Price Formation and Discovery
The amount of fresh produce supplied to the market and the demand of these produce in the market determine the price of fresh foods in the markets. However, some other factors are considered such as the costs involved in the entire chain from production until the shelves. Thus, accessibility of large numbers of buyers and sellers in wholesale markets make them important sources of market information on prices and the movement of products and thus enhance transparency and competition (Mainville, 2004; Louw, et al. 2006).

Mexico

Overview of the Mexican Market

Mexico has one of the world’s fastest growing and largest fresh produce industries and is home to the largest market for the United States’ agricultural products. According to statistics released by the United States Department of Agriculture (2011) U.S. agricultural and food exports to Mexico have been increasing at an average rate of almost 10% per year. Furthermore statistics show that the U.S. provides 61% of Mexico’s imports and importing approximately 75% of all Mexican exports (USDA, 2011).

Demographically Mexico is experiencing a population growth of almost 2%, adding to the current population of over 112 million; 64% of the population is under the age of 35 and 78% of the population resides in urban areas. Women have been increasingly assuming important roles in the economy as their participation in economic activities has been on the increase. Women have the final purchase in Mexico, however children and husbands also influence purchasing of commodities (Grupo PM, 2010). Women particularly in urban areas have been noted to be shifting their consumption habits to healthier lifestyles. Purchase habits of fresh produce commodities in Mexico are influenced by various factors which include the socio-economic level, city of residence, convenience and traditions and the products and services available. Commodities are purchased from a variety of markets which includes traditional markets, supermarkets, drug stores, government and public clubs. Participation in commodity markets and selection of markets where to purchase commodities also tends to vary across different
socio-economic levels. The higher income customers purchase mostly from supermarkets, medium income earners purchase more or less equally from supermarkets and traditional markets whereas the lower income earners purchase mostly from traditional market (Grupo PM, 2010).

**Market Trends**

Growth in the Mexican market has been driven by the following current trends in the market that were identified by the USDA (2011):

- Mexican consumers now are searching for more convenient food and food service alternatives.
- The addition of women in the labour force adds further to disposable household income to allow for the purchase of products previously perceived as too expensive.
- Supermarkets are more and more interested in buying directly from suppliers, bypassing traditional distributors.
- Retail expansion in both rural and small communities is creating new markets for consumer products, restaurants and entertainment services are following.
- New legislation limits smoking in almost every public area (affecting the HRI industry) and prohibiting the sale of unhealthy food in public schools (affecting food manufacturers/processors) and possibly having an indirect effect on imports.
- More young professionals and college students are driving an increase in the sale of products like beer and snacks and consumption in fast-food and dining-out establishments.
- Rise in urbanization is pushing up sales of packaged food and ready-to-eat meals, and creating new markets for catering and fast-food services.
- Food processors will increase their supply of health and wellness packaged foods, such as cereals, processed fruits and vegetables and yoghurt.
- Safer packaging options to allow children to handle products on their own, smaller packaging options geared towards younger consumers as well as less affluent consumers,
in prepared or ready-to-eat meal substitutes and products with easy preparation, such as microwaveable products.

**Fresh Produce Production in Mexico**

Mexico produces a wide variety of fresh fruits and vegetables. The country has a favourable climate characterised by plenty of sunshine, precipitation, fertile soil and a variety of growing regions and microclimates, which are ideal for production of a wide range of fruits and vegetables. The Fresh Produce Association of the Americas (FPAA, 2008) listed the following major fruits and vegetables produced in the Mexico:

- **Beans**: There are many varieties of beans grown in Mexico and exported to the United States. In fact, the warmer climates south of the border allow North Americans to enjoy healthy and good-tasting beans year-round.

- **Bell and Chili Peppers**: Mexico is a year-round supplier of many varieties of field-grown and greenhouse peppers, including green, red, orange, and yellow sweet bell peppers, and purple and gold peppers. Mexico grows a variety of peppers, including serrano, jalapeno, Anaheim, habanero, and poblano.

- **Cucumbers**: Mexico offers almost year-round availability of cucumbers, including pole-grown, hothouse English, field-grown and pickling, from crops in the states of Sinaloa, Sonora, Baja California, Baja California Sur and Jalisco.

- **Eggplant**: In addition to the traditional large, oval-shaped variety, Mexico also grows Chinese, Italian and Hindu eggplant.

- **Grapes**: During the summer months, grapes are grown in two different regions of Mexico: Hermosillo and Caborca. Warm days and cool nights produce excellent Perlettes, Flames and Sugraones as well as specialty varieties of grapes with a high sugar content.

- **Limes**: The Persian lime and the Key lime — also known as the Mexican lime — are the two most abundant varieties.

- **Mangos**: Boasting a long growing season, Mexico supplies an average of 66% of mango imports into the U.S. Because Mexico is so close to the U.S., mango producers are able
to offer sweeter tree-ripened fruit. Popular varieties include Tommy Atkins, Haden, Kent, Ataulfos and Keit.

- **Melons**: Because Mexico’s melons are grown in many diverse growing regions, you’re assured of ample supplies.

- **Squash**: Mexico, produces various cultivars of squash which include Italian zucchini yellow, straight, or crookneck varieties as well as gray, acorn, spaghetti, kabocha, banana and butternut hard-shell varieties. Annually the country exports more than 181.4 million kilograms of squash.

- **Tomatoes**: Mexico boasts a year-round growing cycle of tomatoes including grape, cherry, beefsteak, roma, vine-ripened, organic and specialty delivering nearly 725.7 million kilograms annually.

Mexico is also involved in production of various deciduous fruits. The major fruit commodities produced in Mexico together with production, consupmtion and trade figures are summarized in Table 2.

**Table 2: Fresh Deciduous Fruits Produced in Mexico for the 2010/11 Year**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Production</th>
<th>Consumption</th>
<th>Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Apples</strong></td>
<td>540,000 Metric Tons</td>
<td>Low in 2010/11 because of low domestic supplies and high prices.</td>
<td>90% of imports come from the U.S.</td>
</tr>
<tr>
<td><strong>Pears</strong></td>
<td>23,200 Metric Tons</td>
<td>Dropped by 3.6% in 2010/11 because of reduced demand and higher prices.</td>
<td>80% of Mexican pear demand is met by imported product, mainly from the United States.</td>
</tr>
<tr>
<td><strong>Grapes</strong></td>
<td>194,000 Metric Tons</td>
<td>Dropped by 18% in 2010/11 due to high prices resulting from reduced product availability, high exchange rate, and high tariffs.</td>
<td>Imports from Chile and the United States.</td>
</tr>
</tbody>
</table>

Source: USDA (2011)
Ownership Structures

The Mexico City Central Wholesale Market which is the largest wholesale Fresh Produce Market and wholesaler in Mexico is held as a trust by the City and acts as a fiduciary institution under Banco Santander Mexicano S.A (Louw et al, 2006). The governing body of the market comprises of members of the public and private business sectors as well as from the local and federal governments. Changes in market operations and adaptations to meet the dynamic business environment of modern business practices are constantly monitored by the administrative team. The team sets regulatory practices to insure safety within the market as well as to manage the entity’s budgets.

Value Addition in the Fresh Produce Industry

Value addition of fresh produce in Mexico has been growing amid advances in production capacities. According to the FPAA (2008) Farms in Mexico are increasingly using sophisticated growing methods and technology which include computerized drip irrigation, delivering water and nutrients directly to the roots of the plant to ensure that produce is safe for consumers across North America. This method has been found to use water efficiently and also keeps fruits and vegetables free from potential contaminants. Mexican farms are also adopting alternative farming practices such as crop rotation and integrated pest management, a substitute for some pesticides that uses beneficial insects to repel detrimental insects.

Price formation and Price Discovery on Fresh Produce Market

The Mexico City Central Wholesale Market plays a large role in matching supply and demand among provincial markets. Produce merchants at public markets often have different prices for products with different sizes, maturity, or cosmetic appearance.
Institutional Framework: Key Players in the Mexican Fresh Produce Industry

Key players in the Mexican wholesale industry include retailers, wholesalers for other central markets, multi-national food giants and large Mexican buyers.

The Wholesale Market

Mexico has a total of 64 wholesale markets made up of 550 000 wholesalers. México City, Guadalajara and Monterrey are the most important and largest of the wholesalers. Mexico City’s Central Wholesale Market (CA) is the largest of all wholesales in Mexico and is the country’s largest business centre and the biggest wholesale market in the world. The market spans over an area of 304 hectares, and deals in a variety of agricultural products from fruit and vegetables, flowers, birds and meat, fish and seafood to dairy products, groceries, sweets, seeds, cereals, etc. The market handles over 50% of all food products sold in Mexico reaching more than 700 000 traditional outdoor markets, mom-pop stores and street vendors (Grupo, 2010).

The Retail Sector

Mexico’s retail market consists primarily of supermarkets and convenience stores, and traditional channels. Foreign players, especially from the United States, have entered the Mexican market with different store formats, pushing Mexican retailers to modernize and expand their facilities. The main urban cities are well covered by several supermarket chains and now the strategy is to move out to smaller cities throughout the country and also to target specific, localized, high-end segments. Informal establishments, such as street vendors and open public markets also form part of Mexico’s retail sector making up nearly 50% of Mexico’s retail sector. However supermarkets dominate the retail sector in Mexico. Figures released by Grupo (2010) show that a total of 3 906 supermarket stores operating in Mexico in 2010 contributed up 60-70% of total produce sales in Mexico.
Hotel, Restaurant, Institutional (HRI) Sector

Mexico’s HRI sector is made up of a total of over 20 000 businesses registered as hotels, motels and other lodging facilities and more than 425 000 registered as restaurants, caterers, nightclubs, bars and other food preparation services. Approximately 15% of the food consumed in Mexican restaurants and hotels is imported mostly from the U.S. which is currently expanding its hotel and restaurant operations in Mexico.

Food Processing Sector

Mexico’s processing industry is dominated by multinational companies (both local and foreign), however opportunities for small and medium enterprises to participate have been on the increase. Statistics from the National Institute of Geography and Statistics show that there are over 170 000 registered companies under the industry classification for food and beverage manufacturing/processing in Mexico. According to the USDA (2011), as of 2011 the Mexican food processing sector was recording an annual growth rate of 2% with at an approximate market value of US$ 66 billion. The demand for more processed ready to eat convenience and healthy food, has led to the country’s processing sector responding to consumer needs through seeking innovative inputs and establishing business relationships with foreign food processors in order to exchange technological innovation for their knowledge of the market.

The Traditional Market

Traditional channels in Mexico are made up of 750 000 units from the following different traditional channels; public markets, street markets, fruit stores, Mom and pop stores. Traditional markets form an important retail market for most low income households in Mexico who purchase the bulk of their commodities from these markets (Grupo, 2010).
Distribution of Fresh Produce

The Central Market in Mexico City serves as a collection point for agricultural products from all over the country and abroad. Products sold on the market are sourced from across the country from independent growers and large consolidated groups as well as imported abroad largely from the United States and other various international companies. Domestic produce accounts for the majority of products sold at the Mexico City Central Wholesale Market, bringing domestic buyers from around the country, insuring nationwide distribution. Products delivered to the market come in bulk shipped out for packing and processing and then sold through the distribution channels offered at the Mexico City Central Wholesale Market. Big cargo trucks and 18 wheel trailers are used to distribute products from the market to various markets across the country. Products are sold and distributed to other key central markets throughout Mexico to various destinations in the industry as well as smaller wet markets in towns all over the country. Mexican wholesalers supply mainly to traditional markets and supermarket chains. Figure 22 shows the various distribution channels in Mexico. It also shows where produce sold on fresh produce markets is procured.
Market Access

In order to participate and establish themselves in the Mexican fresh produce markets, fresh produce distributors are encouraged to contact local distributors/importers as an early step. Secondly, distributors should promote sales and make sure that the imported products are available at points of sale. Distributors are also encouraged to maintain close contact with their representatives, especially regarding changes in import procedures and documentation (USDA, 2011).

Food Safety Standards

The Fresh Produce Association of the Americas (FPAA) is an institution that helps to ensure North America’s uninterrupted access to fresh, high-quality, healthy and delicious Mexican-grown fruits and vegetables. Mexico currently is the top supplier of fresh fruits and vegetables for the United States and the FPAA is the leading agent of produce trade at the U.S.–Mexico border and across the country. The FPAA ensures that safe and healthy produce of acceptable quality is produced in Mexico.

Because Mexico is the largest fresh produce exporter to the United States produce exported from Mexico is subject to the same strict standards as produce grown in the U.S. and is tested for safety by the Food and Drug Administration (FDA). The FFPA (2008) reports that Mexican produce is tested at a rate 900% higher than that of U.S. produce. In January 2013 the FDA issued its proposed rule on Standards for the Growing, Harvesting, Packing, and Holding of Produce for Human Consumption to implement the FDA Food Safety Modernization Act (FSMA) section on Standards for Produce Safety (Produce Marketing Association, 2013). The proposed rule applies to fruits and vegetables for human consumption that are raw agricultural
commodities, and sets standards for the growing, harvesting, packing and holding of such produce to minimize the risk of serious adverse health consequences or death. Very small farms are exempted from the proposed rule which applies to farms or farm mixed type facilities with an average monetary value of food sold each year during the previous 3-year period of more than US$ 25 000 (PMA, 2013).

According to the the FSMA the farms covered under the new ACT are required to adhere to the following standards:

- Standards regarding personnel;
- Standards Regarding Health and Hygiene;
- Standards Regarding Agricultural Water;
- Standards for Biological Soil Amendments of Animal Origin;
- Standards Regarding Domesticated and Wild Animals;
- Standards Regarding Growing, Harvesting, Packing, and Holding Activities;
- Standards Regarding Equipment, Tools, Buildings, and Sanitation;
- Standards Regarding Sprouts; and
- Recordkeeping Requirements.

Food safety and quality in Mexico is also being driven by growing advances in production capacities that were discussed above under value addition.

India

Overview

The horticulture sector in India consists of a large variety of crops - ranging from fruits and vegetables, orchids, honey, nuts to mushrooms. It has been a driving force in the continuous growth of the agricultural industry. India currently produces 257.2million tons horticultural produce on 23 million ha (Chopra, 2013). The horticulture industry in India has grown by 7% in the last five years (2006-2011). According to the Gyan Research and Analytics, 2012 in 2010 it
was ranked 14th in terms of export of vegetables valued at US$ 962 million and 12th for the import of vegetables valued at US$ 1.3 million. It was ranked 19th for export and import of fruit valued at US$ 1.1 million and US$ 1.02 million respectively for 2010.

India has a population of 1.22 billion as of March 2013 (CIA, 2013); it has an average population growth rate of 1.2% per year adding 14 to 16 million people per year. The consuming middle class makes up approximately 200-300 million of the entire population (Saran, 2012). The organised retail industry currently makes up 5% of the total retail industry which brings in approximately US$ 435 billion a year. The largest suppliers of fresh produce to India are mainly USA and China, with more imports from Chile, Australia, New Zealand and South Africa.

Table 3: Fruit and Vegetable Production in India, 2010 (Metric Tons)

<table>
<thead>
<tr>
<th>Year</th>
<th>Fruits</th>
<th>Vegetables</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>6 737 100</td>
<td>27 480 800</td>
</tr>
<tr>
<td>2007</td>
<td>6 244 400</td>
<td>29 146 000</td>
</tr>
<tr>
<td>2008</td>
<td>7 321 000</td>
<td>31 402 000</td>
</tr>
<tr>
<td>2009</td>
<td>7 983 900</td>
<td>28 006 300</td>
</tr>
<tr>
<td>2010</td>
<td>9 564 100</td>
<td>34 761 000</td>
</tr>
</tbody>
</table>

Source: Gyan Research and Analytics, 2012

**Top Five Produce**

Fruit production accounts for nearly 30% of the total horticultural industry, the fruit imports into India grew nearly 7% from 2005-2010. For the duration of 2009 to 2010 India imported an estimated 140000 tons of fresh fruits accounting for more than US$ 120 million. Apples have an import tariff rate of 50% and still contributed for over 58% of the imports in the year 2009/2010. Comparing this import duty to other fruits in the developing and developed countries, India’s custom duty on apples is relatively high.
Table 4 represents the imported and exported produce within the Indian fresh produce market, for the year 2008-2012. Top five Fruits constitute of Apple, Mango, Banana, Citrus fruits, Guava and the top five Vegetables are: Onion, Potato, Tomato, Brinjal, Cabbage or Cauliflower (Yadav, 2011).

### Table 4: Export and Import of Fresh Produce, 2008-2012

<table>
<thead>
<tr>
<th></th>
<th>Export (in US million)</th>
<th>Import (in US million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vegetables</td>
<td>626.71</td>
<td>767.92</td>
</tr>
<tr>
<td>Fruits</td>
<td>928.97</td>
<td>1,087.47</td>
</tr>
<tr>
<td>Source:</td>
<td>Gyan Research and Analytics, 2012</td>
<td></td>
</tr>
</tbody>
</table>

**Fruits**

Bananas, mango and citrus production make up approximately 70% of the total fruit production. Apples make up an estimated 3% share in total fruit production (Saran, 2012).

The domestic apple market in 2010 was valued at US$ 4.1billion. There are two types of apple varieties that are predominantly consumed in India, red delicious and golden delicious. Red delicious is characterised by the sweetness, crunchy, and uniform shape (Venkataraman, 2011). The red delicious variety makes up approximately 90% of all the apples imported into India, with Fuji, Royal Gala and Granny Smith making up the remaining 10%. The import of apples for the year 2009/2010 volumes came from the following countries: China 42%, US 42%, Chile 9%, Australia 1% and from the other countries made up 6% of the total apples imported into India (Pandey et al., 2013).
According to Pandey *et al.* (2013), imported apples are commonly priced at 25% to 50% higher than the domestically produced, due to the high margins and import tariffs charged by importers.

The Indian fresh fruit farming sector comprises of citrus fruits, bananas, semi-tropical fruits, soft fruit, pommes and stones fruits (DSIR, 2003). In 2010 the total area under fruit production was 6.33 million ha, of which mango accounted for 37% of the total area. According to *Error! Reference source not found.* mango, banana and papaya were ranked as the number one fruit crop in the country. Banana production accounted for 39.8%, while mango was 20.3% of the total fruit production for 2010/2011 as seen in Figure 23 (Indian horticulture database, 2011).

![Figure 23: Production Share of Major Fruits in India (2010-11)](source)

Source: Indian Horticulture Database, 2011

**Table 5: Fruit production in India, 2010**

<table>
<thead>
<tr>
<th>Top Varieties of Fruits Produced in India – 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mango</td>
</tr>
<tr>
<td>Citrus</td>
</tr>
<tr>
<td>Papaya</td>
</tr>
<tr>
<td>Guava</td>
</tr>
<tr>
<td>Apple</td>
</tr>
<tr>
<td>Pineapple</td>
</tr>
<tr>
<td>Sapota</td>
</tr>
<tr>
<td>Grapes</td>
</tr>
<tr>
<td>Pomegranate</td>
</tr>
<tr>
<td>Litchi</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>Banana</td>
</tr>
<tr>
<td>Fruits</td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td>Mango</td>
</tr>
<tr>
<td>Apple</td>
</tr>
<tr>
<td>Banana</td>
</tr>
<tr>
<td>Citrus</td>
</tr>
<tr>
<td>Guava</td>
</tr>
<tr>
<td>Grapes</td>
</tr>
<tr>
<td>Litchi</td>
</tr>
<tr>
<td>Papaya</td>
</tr>
<tr>
<td>Pineapple</td>
</tr>
<tr>
<td>Pomegranate</td>
</tr>
<tr>
<td>Sapota</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: Gyan Research and Analytics, 2012

**Vegetables**

India is the world’s second largest producer of vegetables (after China) of brinjal also known as eggplant or aubergine, cauliflower and onion, and third for potato, and tomato. It however is the leader in the production of peas and okra (Chopra, 2013).

Figure 24 represents the share of the vegetables produced in India during 2010-11. Potato is the major vegetable contributing nearly 28.9%, followed by tomatoes with (11.3 %), onion (10.3 %), brinjal or commonly known as eggplant contributes (8.1%) while cabbage (5.4%), cauliflower (4.6 %), okra (4%) peas (2.4 %) and the remaining others accounting for (25.4%) of vegetables produced in India (Chopra, 2013).
Industry and Market Challenges

The following represent some of the challenges facing the Indian horticultural industry (Gyan Research and Analytics, 2012):

- A major section of India’s agriculture is dependent on monsoons, especially since the country lacks proper irrigation facilities.
- The yield per hectare is quite low due to small and segregated land holdings.
- Scarcity of back-up infrastructure like cold-storages, roads, distribution networks and management of horticulture products considerably increases post-harvest losses. The lack of correct technical inputs is hindering the quantity and quality of products.
• Lack of encouragement for organic farming is making Indian horticulture products non-competitive in the international market, as there is an increasing demand for non-GM (Genetically Modified) farmed products. In 2011 the total GM area farmed accounted for 5.3% of the total arable land. GM planting is mainly for non-consumed and peripheral crops for certain fruits and vegetables.

• Packaging and marketing of horticulture products are not aligned to market requirements. As of January 2013 all GM crops are required to be packaged and labelled as such.

• Horticultural farmers have a challenge accessing financial instruments such as micro-credits and loans.

• Practices like cooperative farming are not promoted properly among farmers.

• Absence of innovations in the Indian horticulture industry, such as newer and more useful agricultural equipment and implements, is affecting the sector.

Challenges facing the Indian produce sector with regards to the planning and design of the markets are (Yadav, 2011): the high level of traffic congestion in and around the existing markets because of inadequate streets and parking area; insufficient loading and unloading space, buildings are unsuitable for storage and overall operations; poor sanitation and dirty premises arising from unsuitable layout and lack of space, lack of garbage disposal facilities and inadequate toilets and water points; facilities for providing protection to produce from direct sunlight, rain, and other climatic conditions are not available therefore resulting in high post-harvest losses of produce.

<table>
<thead>
<tr>
<th>SWOT Analysis for the Indian Fresh Produce Market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths:</strong></td>
</tr>
<tr>
<td>• India is characterised by its growing population and large agricultural land, which presents basics for a strong system of agricultural production.</td>
</tr>
<tr>
<td>• India's agricultural potential and relatively stable climate make the country an attractive destination for foreign investors and</td>
</tr>
<tr>
<td><strong>Weaknesses:</strong></td>
</tr>
<tr>
<td>• Despite strong domestic capacity for producing basic agricultural goods, the food processing industry remains relatively poor and is perceived to have inadequate infrastructure.</td>
</tr>
<tr>
<td>• There are massive incomes disparities between the poor members of society within India inhibit both the productive and consumptive</td>
</tr>
</tbody>
</table>
**SWOT Analysis for the Indian Fresh Produce Market**

<table>
<thead>
<tr>
<th>Opportunities:</th>
<th>Threats:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strong Gross Domestic Product (GDP) growth has contributed to middle-class</td>
<td>• Current global economic woes may depress prices to such an extent that</td>
</tr>
<tr>
<td>expansion and an increasingly diverse appetite for value-added agricultural</td>
<td>many agricultural producers find production in the short term unprofitable.</td>
</tr>
<tr>
<td>goods.</td>
<td>• A failure to implement infrastructural changes may hamper the growth of</td>
</tr>
<tr>
<td></td>
<td>the industry.</td>
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<td></td>
<td>• India's vulnerability to water stress could hamper agricultural growth</td>
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<tr>
<td></td>
<td>in the long term, as it is likely to limit agriculture land availability</td>
</tr>
<tr>
<td></td>
<td>while increasing yield volatility.</td>
</tr>
<tr>
<td>• The unstable weather conditions can threaten and disrupt normal agricultural</td>
<td></td>
</tr>
<tr>
<td>production especially where there are no proper irrigation systems in place.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Gyan Research and Analytics, 2012

**Ownership Structure and Institutional Framework**

The National Horticultural Board (NHB) was formed in 1984 as a registered society with the purpose to promote integrated development within the commercial horticultural industry, (NHB, 2010). The NHB is governed by a three tier management, consisting of a board of directors, managing committee and principal executives. The National Horticultural Board has various schemes implemented across India with the aim to promote the development of commercial horticulture through production and post-harvest management of crops, construct, expand and modernise cold storages for horticultural produce, promote horticulture through the development
and transfer of technology, and provide market information services for horticultural crops among others (Basu, 2010).

**Legislation**

India charges a 30% duty on all imports excluding imports for apples and plums. All produce imported into the country has to go through the Food Safety and Standards Authority of India.

The marketing of agricultural product industry in India is governed and controlled by the state under the Agricultural Products Marketing Committee (APMC) Act. The Act requires that all produce be sold in government regulated markets commonly known as ‘mandis’. These government markets have poor infrastructure and long chains of intermediaries causing severe delays in the value chain of timely distribution of goods to the market. The APMC was amended in 2003 with the introduction of parallel private markets, contract farming and assigned new roles for cooperatives (Pandey, Baker and Tewari Pandey, 2013).

There are a few uncertainties and risks that are faced by importers relating to the administration of nontariff import regulations, and this may contribute to the importers demands for higher margins. India eliminated quantitative restrictions on apple imports in 1999; however, it imposed nontariff measures that include phytosanitary, pesticide residue, and food safety regulation. This all done in addition to the 50% import tariff placed on apples Pandey et al. (2013). India requests that imported apples should be inspected for wax and chemical residues. However, this requirement is not included in the international standards and thus has not been mandatory. In the long run this could cause uncertainty regarding the rules and enforcement of this requirement.

**Supply Chain and Infrastructure**
There are currently 48 cities with 103 active markets; over 70% of the total population is served by these markets. The markets have different models including, traditional markets, emerging models, low investment chain and high investment chains (Punjabi and Sardana, 2007). There are more than 7 000 wholesale markets under the management of APMC. Throughout all the markets auctions are a compulsory component of trade in India, and a 1% market fee is charged for every transaction. The players within the markets are the commission agents and the market operators. Although the commission agents make the least contribution to value addition within the supply chain, they are the highest earners with 6-8% of the total chain. The majority of the retail shops are owned by the commissioning agents, and all auction sheds are assigned to commissioning agents rent free. The market operators are not allowed to participate in the buying and selling of produce (Yadav, 2011).

Figure 25: Supply Chain in India
Source: Pandey et al., 2013
The infrastructure of the Indian supply chain consists of collection centres, soil-testing laboratories, packing houses, cold storages, transportation and the retail outlets. The demand for organised retailing has led to increased quality of retail space, increased demand for quality produce and investments in the supply chain from various private stakeholders (PMA, 2013). This has led to the formation of six big retail chains namely: Reliance, Bharti, ITC, Aditya Birla Group, Godrej, Adani Group, (Panjabi and Sardana). These retail chains have wholesale stores under the Reliance Fresh, Choupal Fresh, Namdhari’s Fresh (Mittal, 2007). The supply chain is represented in Figure 25, where rural producers are the main suppliers of produce for urban consumers. The process includes wholesale markets, food service sector, modern retail or cooperatives and public distribution shops.

**Value Addition**

The lack of proper post-harvest management of fruits and vegetables accounts for an estimated 20-30% of losses at different stages of storage, grading, packing, transport and marketing of the fresh produce (Mittal, 2007).

Several chains have implemented improved technologies within the commercial fresh produce market to overcome these shortcomings, such as standardised regulation of ripening of mango, sapota, and banana. Other technologies such as the regulation of maturity standards for certain fruits, controlled temperatures for vegetables, and the use of foldable solar dryers, packaging boxes for transportation of fruits, have been implemented to reduce the level of post-harvest losses.

**Driving Forces in the Indian Fresh Produce Market**

The Indian urban food market is approximately $70 billion. The consuming population is characterised by high purchasing power, high population density, and has high demands for food
retail outlets (PMA, 2013). These factors have led to the growth of new retail names and formats of hyper and super-markets.

The current key drivers in the import of fresh fruit and vegetable market are (PMA, 2013): growth of the middle class, an expanded urban population, an increased number of nuclear and dual-income families, change in attitudes and tastes with increasing modernization particularly, of the youth, and an ability to offset seasonal supply-and-demand effects in fresh products.

**Outlook and Way Forward**

The fresh produce investments are expected to bring in US$30 billion in fresh investments within the following five years. The organised retail is estimated to increase by 11% in 2017, (Saran, 2012). The production, consumption, export and growth of the processed food horticultural industry is expected to increase to US$ 255 billion in 2016, with a 13% growth per annum (MarketLine, 2012).

The Central Government and the State Governments of India are taking initiatives to commercialise horticultural activities in the country, including opportunities found under the National Horticulture Mission through the implementation of schemes that promote fruit and vegetables sectors in India. The NHM has since brought an area of 1 657 ha under horticultural crop cultivation. There is an opportunity for India to engage in and increase organic farming initiatives; it has since taken up 137 000 ha dedicated to organic farming.

There have been collaborations with the Government of Israel, which has seen the creation of Centres of Excellence which aim to promote state-of-the-art technology for the production of fruits and vegetables. Through the assistance of the National Horticulture mission, 285 cold storage units, 264 mobile /processing units, 1 091 packing houses, 4 CA stores, and 16 refrigerated vans have been established through the schemes. Additionally, 172 markets, including 9 wholesale markets, have been set up to facilitate the marketing of horticulture products (MarketLine, 2012).
The Indian horticultural industry presents many opportunities and growth. Investors and international entrepreneurs are constantly making huge investments into the industry including trading of crops. According to the Global Horticulture Market Outlook, (2012) several universities and institutes, such as the Indian Council of Agricultural Research institutes, State Agriculture Universities and Krishi Vigyan Kendras (KVK) have implemented initiatives that develop infrastructure to support horticultural production.

France

Overview

France is a net importer of fresh produce thus imports are more than exports (Tuinbouw, 2011). The country imports citrus from Morocco, Spain and other Mediterranean countries (Ladaniya, 2008). Despite growing health demands through increased fresh produce intake in EU, market consumption volumes of fruit and vegetables in France recorded a decrease of up to 8.9 million tonnes by 2011 with a compounded annual rate of change of -2.3% between 2007 and 2011 (MarketLine, 2012). Cultivation area of fruits and vegetables in the country has reduced consequently reducing production levels and value of fresh produce at the market as shown in Figure 26 (Tuinbouw, 2011).
Figure 26: France Fruit and Vegetable Market Value from 2007-2011 ($ Billion)

Source: Marketline, 2012

Declines have been recorded in the marketing of fruit and vegetables over the past couple of years though projections show that it will pick up with strong growth in 2016. Before 2009, the market was performing really well with sharp increases in value of the produce at the market. By 2011, this French fresh produce market had total revenue of $27.8 billion and a compounded growth rate of 5.9% annually between 2007 and 2011.

**Top Five Traded Produce in France**

France imports about 1.6 to 1.7 million tonnes of fresh vegetables annually. Tomato is the most imported vegetable due to large volumes that comes to France as they make their way to Morocco. Apart from glasshouse vegetables imported from Netherlands in summer, the French mainly imports onions, mushrooms and green vegetables. The top five export vegetables are tomato, cauliflower, dwarf beans, onions and carrot and these are exported to Germany, Spain, Belgium and the UK (Tuinbouw, 2011).
In terms of fruits; bananas, oranges, mandarins, pears and apples\(^7\) are the important imported fruits to France. Spain has the most import share (42%) to France (Ladaniya, 2008; Tuinbouw, 2011). The most important export fruits are apples followed by bananas and these goes to Spain, UK and Germany (Tuinbouw, 2011).

**Volumes and Current Trend Issues**

France imports thousand tonnes of fresh produce every year from EU and Mediterranean countries to be traded in its markets. The Rungis wholesale market in Paris is the most important market for fresh produce outlet. The market offers guaranteed technical and organisational support to traders that conduct business in the arena (Ladaniya, 2012).

The French market has been experiencing moderate declines of volume of fresh produce sold at the market for the past couple of years. The market reached a volume of 8 913.2 thousand tonnes in 2011 from 9 782.5 thousand tonnes in 2007.

**Table 6: France Fruit and Vegetable Market Volumes In Thousand Tonnes (2007-2011)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Thousand tonnes</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>9 782.50</td>
<td>-</td>
</tr>
<tr>
<td>2008</td>
<td>9 790.10</td>
<td>0.1</td>
</tr>
<tr>
<td>2009</td>
<td>9 832.20</td>
<td>0.4</td>
</tr>
<tr>
<td>2010</td>
<td>9 265.30</td>
<td>-5.8</td>
</tr>
<tr>
<td>2011</td>
<td>8 913.20</td>
<td>-3.8</td>
</tr>
</tbody>
</table>

Source: MarketLine, 2012

\(^7\) The fruits are in order of most important and imported to France.
By 2011, the markets recorded a negative growth of 3.8%. There are several reasons accounting for this decline among which can be the reduction in consumption volumes over the years.

**Market Share and Trends**

Due to competition from integrated supermarket chains, wholesalers moved out of cities and their market share in the market declined (Cadilhon, 2003). The market share for the top five retailers in France is 77% of which 37% accounts for supermarkets in this group of trade. Out of at the 37% of supermarket retailing, 60% is sourced directly from suppliers whilst the remaining 40% is purchased at the wholesale markets. Supermarkets dominate sales of independent retailers like the catering sector and street market. Wholesale market dominates the import trade. Most of imported fresh produce which are imported in France are sold through wholesale. The wholesalers buy the produce at the port from the consignments through auction and sell them to their wholesale markets (Gibbon, 2003).

**Market Access**

France sources some of its fresh produce supply, for instance green beans, from smallholder farmers in developing countries like Burkina Faso and Senegal though their market share is also decreasing (Gibbon, 2003).

France has low capital requirements for entry to food retail marketing and again the government regulations are not strict compared to other countries in EU hence easy for a lot of new entrants to enter the market (MarketLine, 2012). This leads to stiff competition among traders.
Market Segmentation and Channels

In the French fresh produce market, vegetable segment reported to be the most profitable with total revenues of US$16.7 billion representing 60.1% of aggregate market value thus by 2011. On the other side, fruits contributed US$11.1 billion in the same year representing 39.9% of the total market’s value. Among the European countries, France has the third largest share of fruit and vegetable market value accounting for 10.8% with German having the largest share value of 16.5% (MarketLine, 2012).

Institutional Framework

Based on a law passed in 1953 and public involvement, a network of markets called Marchés d’Intérêt Nationale (MIN) was formed (FAO, n.d.). The objective of this network was to organise wholesales by ensuring that they are in full operation. Wholesale markets were aimed at reducing costs of market search by retailers and clarity of market transactions (Gibbon, 2003).

Market inspections are done by the Departmental Directorate for Competition, Consumer Affairs and the Prevention of Fraud (DDCCRF). Inspections are done from production to distribution as well as imports (Louw, 2006).

Ownership Structure

France fresh produce markets operate under both wholesale and retail trading. Supermarkets which comprise of a large share of retail market of fresh produce have not exercised much power in fresh produce market chain because of intricate regulatory and cultural conditions within the country. Wholesale markets have been greatly promoted in the country and are viewed as important institutions for price discovery (Cadilhon, 2003). The French wholesale markets are owned by a formal network called the Marchés d’Intérêt Nationale (MIN) (Gibbon, 2003).
France has one dominant MIN which is very dominant in the Paris region called Rungis (Garcia and Poole, 2002).

Rungis is the largest fresh produce market in the world and is managed by a company called Semmaris. Semmaris was established in April 1965 so to construct and manage the Rungis market and its annexes. The state is the major shareholder of this institution (Louw et al, 2006). The market has the largest turnover of the wholesale markets worldwide. There are a lot of wholesale markets at Rungis market and competition is very strong. In 2010, the market had 407,243 tonnes and 399,642 tonnes of fruits and vegetables respectively brought into the market (Rungis, 2010).

**Supply Chains**

France marketing practices are similar to those in the EU. Wholesale markets remain an important fresh produce supply market in the main terminal markets. Supermarkets do not have much power in the fruit and vegetable chain in France the large supermarket chains procure produce directly from exporters in other countries. The farmers and the wholesalers are on the supply chain whilst retailers (supermarket) and other intermediaries coupled with caterers are essential part of demand chain (Ladaniya, 2012). Fresh produce in France goes through the supply chain as given in Figure 27.

![Figure 27: France Fresh Produce Supply Chains](source: Masbou, 2009)
Produce are purchased as fresh raw materials from a wholesale market or at any point of supply and also procured as processed goods. When procuring a good, quality and quantity of the product becomes essential. The raw materials can either be sold raw or taken into production to transform them into a form desirable by the consumer. The products are then distributed through the distribution centres to point of sale which can be at the wholesale market or at the retailer (Masbou, 2009).

**Food Safety and Traceability**

In Europe, an act was passed in the 1990’s on food safety which gave birth to a vertical co-ordination process. The vertical co-ordination process entails that a product can be tracked backward; from the retailer to the supplier and not only by means of the usual forward tracking system; from the grower or processor to the retailer. The law stresses that buyers should take responsibility to ensure that upstream suppliers are delivering safe food to them. Consequently, upstream firms need to closely monitor their handling of food to meet downstream customer satisfaction. Risk management is a key driver for successful co-ordination in the fresh produce supply chain (Georgeta et al, 2008).

Traceability is the ability to track a product through all stages of supply chain. Some consumers however, reported that they assess quality of a processed food through brand name and price (Carrigan et al, 2006). France tracks its products through the electronic traceability system (ETS). This system is said to reduce cost of product recalls and incidences of food safety since it can electronically track a problem source. ETS has helped build back the customer’s trust (Galliano and Orozco, 2013).

**Value Addition**
France is among the first countries to embrace the Fresh Cut technology. Fresh cut basically involves washing and packaging fresh fruit and vegetable products in such a way that they are ready to be consumed, e.g. vegetable salad. This technology involves subjecting vegetables in a modified and controlled atmosphere, low temperature pasteurisation and intermediate moisture (osmosis) with emphasis on maintaining the product’s freshness (Louw et al., 2006).

In the 20th century, even though consumption of fresh vegetables remained four times higher than that of processed vegetables, consumption of processed vegetables grew among French people. Studies have also shown that consumption of frozen fruits is higher in France than in the neighbouring countries (Plessz and Gojard, 2012). This shows that value addition in the French fresh produce is important.

Value addition has been closely linked by increased price for the processed product. Plessz and Gojard (2012) found that processed food unit values varied distinctly across income groups and less distinctly for fresh vegetables, and the richer the household the more expensive processed vegetables will be purchased.

**Price Formation and Discovery**

France like most European countries has wholesale markets which are seen as price discovery arenas. Prices at the market are formed through interaction of forces of demand and supply. The wholesales markets provide a sufficient environment for demand and supply to determine prices with open competition and transparency (Cadilhon, 2003). In the rural areas of France, there are assembly markets that have been traditionally built so as to enhance provision of fair prices to farmers. Generally, products on these markets are sold through an auction system. This way is seen as most transparent in a free market (Louw et al., 2006).

**Infrastructure**
The French fresh produce markets have developed their wholesale markets into modern infrastructures which met the EU’s high standards and are at the disposal of professionals in competitive economic and technical conditions. The infrastructures are determined in conforming to users’ needs and to be up to date with market developments (Louw et al., 2006).

French markets have electronic traceability systems which have the ability to intervene as a coordination mechanism between agents. The system is said to increase information and knowledge transmission, storage and processing capacity (Galliano and Orozco, 2013).

**Logistics and Distribution**

Analysing from supply chain management of the French fresh produce market, it is noted that produce at the wholesale markets are sourced from either imports or the supplier (farmer). Some retailers, such as the large supermarket chains, also source their produce directly from suppliers outside the country. At the wholesale market, some produce are sold as fresh produce whilst others are purchased for processing. The produce which undergoes processing will be taken to point of sale after production. Fresh produce and the processed food are all transported through distribution centres (Masbou, 2009).

**Forces Driving Competition in the French Fresh Produce Market**

The forces driving competition in the French fruit and vegetable markets include: buyer power, degree of rivalry, new entrants, substitutes and supply power (MarketLine, 2012). Generally, suppliers (farmers) of fresh produce at the wholesale markets are characterised by small quantity supply and small scale therefore supermarkets which usually dominate the markets tend to source produce from their competing suppliers. Therefore, it can be concluded that buyer power is weak. Again there is risk of new entrants due to lenient regulations to entry of retail market hence more competition. However, this situation is controlled by the large supermarket’s intimidation nature through exercising greater bargaining power.
**Forces Driving Buyer and Seller Power in the French Fresh Produce Market**

The drivers of buyer power include: backward integration, buyer independence, buyer size, financial muscle, low-cost switching, oligopoly threats, price sensitivity, product dispensability, tendency to switch and undifferentiated products. Buyer power and low-cost switching are the strongest forces (MarketLine, 2012). The large supermarkets with brand name tend to enjoy their brand loyalties and offers low prices to suppliers who solely depend on them consequently weakening buyer power.

The drivers of supplier power are differentiated inputs, forward integration, importance of quality/cost, no substitute inputs, oligopoly threats, player dispensability, player independence, supplier size and switching costs (MarketLine, 2012). Contracts between the suppliers and large supermarkets tend to favour the former. The small suppliers tend to rely solely on revenue from these supermarkets and hence are vulnerable to manipulations. Again the supermarkets exercise their purchasing power through negotiating to pay low prices for the produce.

**Outlooks**

Table 7 shows forecasted market volume of fruit and vegetables in France from 2011 to 2016. By year 2016, the market is forecasted to have a value of US$42.5 billion representing 52.9% growth from 2011. The predicted compounded annual growth rate is 8.9%.

**Table 7: France Fruit and Vegetable Market Value Forecast (2011 to 2016) (US$ Billion)**

<table>
<thead>
<tr>
<th>Year</th>
<th>$ Billion</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>27.8</td>
<td>-3.3</td>
</tr>
<tr>
<td>2012</td>
<td>31.5</td>
<td>13.2</td>
</tr>
<tr>
<td>2013</td>
<td>33.9</td>
<td>7.9</td>
</tr>
<tr>
<td>Year</td>
<td>$ Billion</td>
<td>% Growth</td>
</tr>
<tr>
<td>------</td>
<td>-----------</td>
<td>----------</td>
</tr>
<tr>
<td>2014</td>
<td>36.6</td>
<td>7.8</td>
</tr>
<tr>
<td>2015</td>
<td>39.5</td>
<td>7.8</td>
</tr>
<tr>
<td>2016</td>
<td>42.5</td>
<td>7.7</td>
</tr>
</tbody>
</table>

Source: Marketline, 2012

Figure 28 represents forecasted market volume of fruit and vegetables at the French fruit and vegetable market from 2011 to 2016. Forecast shows that 2012 is expected to have a sharp increase in market volume by 5.7% and there off stable market volume up until 2016.

![Figure 28: France Fruit and Vegetable Market Forecast (2011-2016)](image)

Source: MarketLine, 2012

By 2016, France is expected to have 9 453.6 thousand tonnes of fruit and vegetables at the market. The compounded annual growth rate for the period 2011 to 2016 is 1.2% per annum.
<table>
<thead>
<tr>
<th><strong>Strengths:</strong></th>
<th><strong>Weaknesses:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>France is the world's second largest exporter of agricultural-food products after the US.</td>
<td>Low entry barriers in France fresh produce market coupled with inferior conditions of sale is not conducive for local suppliers.</td>
</tr>
<tr>
<td>France is one of the biggest producers of fruits, sugar beet, wine and livestock in EU.</td>
<td>France is amongst countries in EU with highest public sector debt load.</td>
</tr>
<tr>
<td>French food products are said to have good quality and the country is known for its national cuisine.</td>
<td>While the country is likely to retain market confidence, the size of the debt load will maintain heavy pressure on the government to tighten fiscal policy.</td>
</tr>
<tr>
<td>France public and private sector institutions are corrupt free.</td>
<td></td>
</tr>
<tr>
<td>The legal system in France is supportive of doing business.</td>
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<table>
<thead>
<tr>
<th><strong>Opportunities:</strong></th>
<th><strong>Threats:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>France's increasing non-competitiveness in global trade need to be addressed.</td>
<td>Threats of oligopoly.</td>
</tr>
<tr>
<td>This is likely to drive labour market reform issue to the forefront of the political agenda in the near future.</td>
<td>Buyer power is too weak and need to be addressed.</td>
</tr>
<tr>
<td>Growing trend in Europe of a healthier diet can pose potential for expanding the fresh produce business.</td>
<td></td>
</tr>
<tr>
<td>Rising levels of immigration due to free flow regime within EU may enhance local demand, thus benefiting producers.</td>
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</tbody>
</table>


Spain
Overview

Spain fresh produce market is known for its substantial contribution to the economy in terms of its sales figures and job creation both by production companies and auxiliary services. The market contributes (inter alia) around 50% of the final vegetable production and 32% of the total agricultural production (Martinez and Poole, 2004). According to FAO data in 2007, Spain remained the world’s leading fruit and vegetable exporter with a market share of 9% of the total (CTA, 2013). The fruit and vegetable exports accounted for 9% of total sales in 1980 and by 2009 the sector represented over 56% showing the growing significance in the foreign sales (Cajamar, 2009). Over the years, the Spanish fresh produce market continued to grow until 2007. The market contributed $ 25.6 billion to the economy representing an annual growth of 6.9% between 2007 and 2011 as shown in Figure 29. (MarketLine, 2011).
However, the market consumption volumes declined between 2007 and 2011 though projections show that it will pick up by the end of 2016. On overall market performance, Spanish fresh produce market has decelerated from 2007 to 2011 and projections show that the market will continue to decelerate from 2011 to 2016 (MarketLine, 2012).

**Volumes and Current Trend Issues**

In 1995 Spain was rated as the world’s largest exporter of fresh oranges and mandarins by far, accounting for over 40% of world exports (Poole, 2000). Over the years, fresh produce production in Spanish market has been fractuating and eventually declined. In 2007, the market reported to have produced 10 647 600 tons of fresh produce, then in 2008 the production increased by 2%. By 2011, the market reported an decrease in production by 5.9% as illustrated in Figure 30.
The aggregate annual % change in growth of fresh produce was said to be -1.5% from 2007 to 2011.

**Market Segmentation and Channels**

The vegetable market was reported to be the most profitable in 2011 with total revenue of US$ 16.4 billion representing 64.2% of the overall fresh produce market’s value. The fruit market contributed 35.8% of the market’s aggregate value which is equated to US$ 9.2 billion (MarketLine, 2012).

**Ownership Structure and Institutional Framework**

Spain, as most countries, has a wholesale market system with 65% of the fresh produce sold through the wholesale. Research shows that the existence of large wholesale markets for fresh produce in these countries is highly associated with cultural preferences for national/ regional specific cuisines. For instance, the Rungis market which is in the urban centres of France, offers
materials for the full range of regional cuisines (ibid) Gibbon (2003). Wholesale market system is said to drastically reduce the transaction costs that would have been incurred if supermarkets were to source separately from all regions. Much transition has happened within the wholesales markets in some countries. Spanish wholesale have evolved and become terminal wholesale known as Unidades Alimentarias (AU) (Gibbon, 2003). The wholesale markets still remain the primary distributor in the food chain only that they have expanded and become terminal wholesalers which leads to development of the AUs (Louw et al, 2006).

The Spanish wholesale markets are owned by a formal network which is a public regulatory body and institution called Empresa Nacional Mercados Centrales de Abastecimientos (MERCASA) (Gibbon, 2003). MERCASA was formed by government in 1966 with the aim of replacing the old central markets in the major cities by modern network of wholesale facilities. Since then, MERCASA looks after the operation of the market and also appoints market staff whilst the government has majority support in its management structure (Louw et al., 2006).

**Market Shares and Trends**

MERCASA in Spain has set up a network of 23 Mercas with 2 600 wholesale markets that mainly trade fresh produce to more than 50 000 customers in the entire food chain and having revenue of over £ 10 000 million per annum. The MERCASAs network sells 50% of all fresh produce consumed in Spain as wholesale and these fresh produce includes: fish and sea food, which is estimated to sell volumes of approximately 700 000 tons. The total coverage of market area in Spain is approximately over 700 ha of land area and the country’s 86% of the population is influenced by the Mercas. The market space accommodates almost 3,600 companies including 2 600 wholesale firms and yearly, approximately 16 million vehicles visits the site making it around 44 000 cars per day (Mallorca, 2010).

Over the years, the fruit and vegetable sector introduced autochthonous model which helps connect the marketing channels. The model has two modes which are complementary and
competitive in nature. The initial phase of sale is by auction and the second phase is by selling directly to consumer markets through the producer’s marketing groups. Ever since, there have been continuous improvements in the autochthonous marketing channels. These improvements coupled with the prospect market in the EU allowed swift, continuous incorporation of fruits and vegetables for exports (Carlos and Mesa, 2007).

Supply Chains

In today’s dynamic world, food supply chains are more complex. Creating a pathway from producer to consumer involves production, handling, processing, distribution as well as disposal of the product. The high demand of fresh produce by consumers throughout the year has helped enhancing globalisation of food markets (Monteiro, 2007). For instance, Spain is more of an exporting country of fresh produce than it sells locally. The country exports most of its produce to Russia, Poland, Germany, France and Central America (Solovyen, 2010). The long marketing chain from producer to consumer coupled with international competition puts increasing pressure on the integration of food chains and hence new challenges on the food supply chain (Ahumada and Villalobos, 2009).

Food supply chains are different from any other supply chain due to the on-going change and transformation in the quality of the food product throughout the chain until consumption. This gets even more intense with fresh produce due to its perishable in nature and still need to retain its freshness and with all the process it goes through, fair pricing should be maintained (Aiello et al, 2012). In this regard, Spain is opting on use of logistical centres that have modern facilities with technology which helps with the retention of freshness of fresh produce to its destination markets and consumers (Solovyen, 2010). This is said to reduce transaction costs as well as minimise losses and uncertainty.
The MERCASAs provided a public service which has a vital and efficient social purpose role in the food chain model. This was done by enhancing the emergency and support of all retail formats\(^8\) (Mallorca, 2010).

**Food safety and Traceability**

As a safety measure for fresh produce market, proper cleaning and selection of the health good quality products is done by the producer. The best quality fruits are packaged, in accordance with the European Union (EU) quality standards for export or local marketing. The fruits which are not selected are usually sent to the local market for juice production or other uses. A company will usually have a brand name and/ or can create another brand name if customer needs arise. This helps to have a place in the Spanish fresh produce market (Solovyev, 2012).

As mentioned already, EU has standard rules and regulation for food safety. Spain shares its concerns on food safety with neighbouring countries like France and Italy. Generally, Spanish consumers are concerned about ensuring health and better quality life by consuming enough fresh fruit and vegetables. As such, consumers opt for practical food and drinks as well as fresh, natural low-fat and low calorie food which are considered to be health and prevent illness (Comellas and Agut, 2009).

European Union (EU) regime which allows free flow of goods among the member countries is currently facing challenges as far as Sanitary and Phyto Sanitary (SPS) measures of food passing through the boarders is concerned. In Spain, the supplier who in most cases is a farmer takes responsibility of safety of his fruits and vegetables. No restricted chemicals are supposed to be used on the fresh produce (Solovyev, 2012). Packaging of fresh produce is important for protection against damage and contamination, it should furthermore provide space for advertisement and labelling of the product whilst fulfilling consumer needs. Environmental

---

\(^8\) These are specialised retailers and municipal markets in the main.
friendly packaging material which is biodegradable or recycled is a vital consideration (Comellas and Agut, 2009).

Systems of traceability in food industry have improved in Spanish market especially with the use of information and new technologies on communication. This has simplified labelling, code marking and tracking of all food products, inclusive of fresh produce (Comellas and Agut, 2009).

**Price Formation and Discovery**

In wholesale markets, prices are formed through forces of demand and supply. The wholesales which have overtime evolved and expanded provide a good environment for demand and supply to effectively determine prices with open competition and transparency. Buyers and sellers make sure that there is fair trade hence prices paid and received at the market are realistic (Gibbon, 2003; Louw et al, 2006).

**Infrastructure**

Wholesalers pay a lease fee and a monthly rent to the market authorities. This money is used for maintenance and operation expenses of the market. The market fee is charged depending on the size occupied by the tenant. In some instances, an agreement is made between the market authorities and the tenants on a maximum annual adjusted fee usually based on independent official indicator like consumer price index. Most Spanish markets follow this set up though there are a few markets that have fixed rentals for a specific period of time (Louw et al, 2006).

The fruit and vegetable market sector in Spain developed structures which enhance offer of constant considerable amount of supply in the market and retain a good amount of the added value guaranteed in this phase (Aznar-Sánchez and Galdeano-Gómez, 2011). The development
of Complementary Activity Zones\(^9\) has helped in development of several new developments including; set of specific support equipment and infrastructures, new operators’ emergence, service providers\(^{10}\) for wholesale and various other services\(^{11}\) (Mallorca, 2010).

**Logistics and Distribution**

Being the world’s leading export country of fruit and vegetables, Spain’s most exported vegetable is tomato with 880, 630 tons annually and in fruits, the most exported in tangerine with volumes of 1.6 million tons annually (CTA, 2013). The most common export countries for Spanish fresh produce is Germany and Holland. With Finland, there is potential for trade but not much trade is currently being done to poor road networks between the two countries. There are different ways through which producers distribute their produce to destination markets. Some use direct exporting which implies an arrangement by the producer and the buyer. This can be cost effective if produce are taken care of properly. The second way of exporting fresh produce is through logistical centres. This can also be cost effective since produce can reach any destination whilst retaining their quality and freshness. The advantages of the logistical centres are, among other, that they have good facilities like refrigerated trucks, facilities to load and unload goods and good storage. Sometimes logistical centres offer services like packaging, bulking, stock management and delivery (Solovyev, 2010).

Europe has a number of logistical centres but the convenient ones for Spain are Netherlands, as it is a good place for trade, and Germany, due to its geographical position (central Europe). Both countries can be used as a medium for exporting goods between Spain and Finland. Among the aforementioned countries plus others, Spain exports its fresh produce to Russia, Poland, Germany, France and Central America (Solovyev, 2010).

**Forces Driving in the Spanish Fresh Produce Market**

\(^9\) Grouping nearly 1 600 companies in more than 2.3 million m\(^3\), exclusive of parking and roads.
\(^{10}\) Cold storage rooms, transportation, logistics and washing boxes.
\(^{11}\) Like consultancy, training centres, banks, IT, laundromats.
The forces driving competition in the Spanish fresh produce market were found to be; buyer powers, degree of rivalry, new entrants, produce substitutes and supplier power.

The large supermarket dominating the fresh produce market in Spain is Carrefour and E. Leclerc. These supermarket chains use their bargaining power and brand strength to dominate the fresh produce market. The key suppliers (farmers) of the market are generally small, characterised by a small supply of products. These suppliers are especially vulnerable when retailers decide to opt for substitute produce from competing suppliers. What is more, the leading supermarkets with brand loyalties offer low prices due to their monopoly powers. It can therefore be said that buyer power within this market is weak. On the other hand, the presence of large supermarket chains exercise high bargaining power, this pose a threat and is a barrier to new entrants. The capital requirements to venture into food retail markets are however, relatively low which poses a risk to new players wanting to enter the market (MarketLine, 2011).

The key drivers of buying power in fruit and vegetable market in Spain include: backwards integration, buyer independence, buyer size, financial muscle, low-cost switching, oligopoly threats, price sensitivity, product dispensability, tendency to switch and undifferentiated product (MarketLine, 2011).

<table>
<thead>
<tr>
<th>SWOT Analysis for Spain Fresh Produce Market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths:</strong></td>
</tr>
<tr>
<td>• Produces good quality regionally diverse</td>
</tr>
<tr>
<td>products.</td>
</tr>
<tr>
<td>• Use of new technologies has led to greater</td>
</tr>
<tr>
<td>expectations in the field of food safety.</td>
</tr>
<tr>
<td>• Private companies, research centres and</td>
</tr>
<tr>
<td>universities all work together to ensure</td>
</tr>
<tr>
<td>food safety.</td>
</tr>
<tr>
<td>• Has a strong research network in food</td>
</tr>
<tr>
<td>industry.</td>
</tr>
<tr>
<td>• Spain is the largest exporter of citrus</td>
</tr>
<tr>
<td>fruits (oranges and mandarins).</td>
</tr>
<tr>
<td>• Local consumers are willing-to-pay for a</td>
</tr>
<tr>
<td>good</td>
</tr>
<tr>
<td><strong>Weaknesses:</strong></td>
</tr>
<tr>
<td>• Spain unlike the other neighbouring EU</td>
</tr>
<tr>
<td>countries has a relatively low population</td>
</tr>
<tr>
<td>density hence domestic supply and demand</td>
</tr>
<tr>
<td>of fresh produce is quite limited.</td>
</tr>
<tr>
<td>• Similarly, the domestic food and drink</td>
</tr>
<tr>
<td>production is quite advanced but still the</td>
</tr>
<tr>
<td>scope for large output supply from domestic demand is still low.</td>
</tr>
<tr>
<td>• Farming sector which is characterised by</td>
</tr>
<tr>
<td>smallholder farmers has been supported for</td>
</tr>
<tr>
<td>more than 10 years hence high levels of</td>
</tr>
</tbody>
</table>
### SWOT Analysis for Spain Fresh Produce Market

<table>
<thead>
<tr>
<th>Opportunities:</th>
<th>Threats:</th>
</tr>
</thead>
<tbody>
<tr>
<td>quality, value-added and health foodstuffs, making the agricultural sector a strong driver of local demand.</td>
<td>inefficiency and dependency syndrome among farmers.</td>
</tr>
<tr>
<td>• Can improve on logistics and distribution of fresh produce if fully adopt use of logistical centres.</td>
<td>• Price fluctuation of fresh produce due to unstable fuel prices may reduce demand with obvious associated negative results.</td>
</tr>
<tr>
<td>• Growing trend in Europe of healthier diet can pose potential for expanding the fresh produce business.</td>
<td>• Other producers from other countries can take over Finland market if a solution is not reached fast.</td>
</tr>
<tr>
<td>• Rising levels of immigration due to free flow regime within EU may enhancement local demand, thus benefiting producers.</td>
<td>• Oligopoly threats.</td>
</tr>
<tr>
<td></td>
<td>• Spanish producers may come under increased threat from more efficient nations</td>
</tr>
<tr>
<td></td>
<td>• competing for a share of the local market Employment law remains burdensome in Spain hence country’s competitiveness is restricted due to collective bargaining procedures</td>
</tr>
<tr>
<td></td>
<td>• There are threats affecting competitiveness of MERCASAs.</td>
</tr>
</tbody>
</table>

Source: BMI, 2013; Mallorca, 2010; MarketLine, 2012

### Market Outlook

The outlook for Spanish fresh produce market value seems promising. Projections show that the market will recover from the 2011 shock and by 2012, 1.5% growth rate will be achieved. The market will continue to increase though at a decreasing rate from 2013 up until 2016. In 2016, the fresh produce market will grow up to rate of 5.5% with a value of US$ 32 001.5.
The compounded annual growth rate is forecasted to be 4.6% for the period 2011-16. Outlook in terms of volumes of fresh produce at the Spanish market, projections show that the quantity of fresh produce will continue to decline except for 2012 which registered a positive growth rate of 4.1% amounting to 10 424 000 tons. By 2016, the growth rate will be -0.2% amounting to 10 367 200 tons.

**Table 8: Spanish Fresh Produce Quantity Projections (Tons)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Thousand Tons</th>
<th>% Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>10 014 900</td>
<td>-5.9</td>
</tr>
<tr>
<td>2012</td>
<td>10 424 000</td>
<td>4.1</td>
</tr>
<tr>
<td>2013</td>
<td>10 411 800</td>
<td>-0.1</td>
</tr>
<tr>
<td>2014</td>
<td>10 398 100</td>
<td>-0.1</td>
</tr>
<tr>
<td>2015</td>
<td>10 382 800</td>
<td>-0.1</td>
</tr>
<tr>
<td>2016</td>
<td>10 367 200</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

Source: MarketLine, 2012
The aggregate annual growth rate for the quantities produced at the market is predicted to be 0.7% annually.

**Challenges Faced in Spanish Fresh Produce Marketing**

MERCASAs which is a network that manages the main Spanish fresh produce wholesale outlet has been facing the following challenges as listed below (Mollorca, 2010):

- There is need for improvement of value addition services for customers towards the fresh food service channels:
  - Suppliers need to be certified; and
  - Clear information on price.
- Promotion of value addition, specialisation and differentiation remains a challenge in the Spanish fresh produce market, through:
  - Techniques in product innovation like processing, treatment and preservation; and
  - Strengthening research through collaboration with research and development centres, universities (public and/ or private institutions).
- Need for improved installations and services for wholesalers:
  - Maintenance of the refrigeration systems;
  - Innovations in logistics like packaging and pallets;
  - Processing for instance; gutting, filleting and dosing; and
  - Availability of shared infrastructures for Internet sales and online price information.

**Concluding Remarks**

Fresh produce trade is a substantial business worldwide and the customer is becoming more aware of its health benefits. Therefore, the marketing and distribution of fresh produce becomes more and more important as consumers develop and demand better and fresher products.
Fresh produce markets worldwide fulfil an important role in the distribution of fresh produce. However, it is not the only marketing channel for fresh produce and therefore, they have to continuously renew their facilities and systems.
The South African Fresh Produce Industry

Overview

Horticultural production has an essential role in the South African agriculture. Horticultural production refers to the production of fresh fruits and vegetables. Observations of the production of fruits and vegetables in South Africa, shows an increase in the share of total agricultural output (Kirsten et al. 2010; Barrientos and Visser, 2012). Fresh fruit in particular is a prominent export sector, whilst vegetable production is largely for the domestic market. The domestic market comprised mainly of local retail outlets (supermarkets, green-grocers, informal traders (hawkers) and the processors), wholesalers and the fresh produce markets.

Fruit Production and Consumption

Fruits produced in South Africa are classified into deciduous and subtropical fruits with regard to their adaptability to certain climatic conditions.

Figure 32 indicates an increase in fruit production over the last decade. Approximately 6 165 958 tons of fruit were produced of which 779 926 tons were sold on local fresh produce markets during 2011/12. Deciduous fruit production increased by 2.9%, from 1 653 million tons in 2010/11 to 1 701 million tons in 2011/12 with apricots being the biggest contributor, increasing at 31.6%, followed by peaches and nectarines with 13.2%. Table grapes and apples showed an increase in production of 4.1% and 3.0% respectively and the production of plums and pears indicated a decrease of 9.2% and 4.2% respectively (DAFF, 2012a and DAFF, 2012b).

It is evident from Figure 32 that throughput (tonnages sold) at fresh produce markets did not keep up with the increase in national fruit production over the time measured.
Figure 32: South African Total Fruit Production\textsuperscript{12} (Ton)

Source: DAFF, 2012a

Figure 33 indicates the share of fruits in terms of tonnage sold on the fresh produce markets. From the pie chart it is clear that apples, bananas and citrus make up about 70\% of fresh fruit sold at fresh produce markets. Other fruit includes, amongst others: pears, table grapes, peaches, apricots, plums, pineapples, figs, mangoes, papaya, granadilla, litchi and avocado.

\textsuperscript{12} From 1989/90, sales on the 15 national fresh produce markets. From 1994/95, sales on the 15 major fresh produce markets. From 1996/97, sales on the 16 major fresh produce markets. From 2001/02, sales on the 17 major fresh produce markets. From 2003/04, sales on the 19 major fresh produce markets. From 2004/05, sales on the 20 major fresh produce markets. From 2010/11, sales on the 19 major fresh produce markets.
Deciduous Fruit

The main deciduous fruit producing areas in South Africa are the Western and Eastern Cape provinces. It is estimated that about 2,114 deciduous fruit producers produce fruit for fresh consumption: 1,053 stone fruit producers, 916 grape producers and 683 pome fruit producers. In general, deciduous fruit adapt to areas with warm, dry summers and cold winters.

<table>
<thead>
<tr>
<th>Fruit Type</th>
<th>2007/08</th>
<th>2008/09</th>
<th>2009/10</th>
<th>2010/11</th>
<th>2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apples</td>
<td>755 960</td>
<td>799 683</td>
<td>752 177</td>
<td>766 535</td>
<td>789 770</td>
</tr>
<tr>
<td>Pears</td>
<td>336 588</td>
<td>340 287</td>
<td>365 650</td>
<td>351 747</td>
<td>336 867</td>
</tr>
<tr>
<td>Table grapes</td>
<td>269 910</td>
<td>270 094</td>
<td>279 675</td>
<td>263 083</td>
<td>273 869</td>
</tr>
<tr>
<td>Peaches and nectarines</td>
<td>174 413</td>
<td>152 519</td>
<td>155 474</td>
<td>160 354</td>
<td>181 537</td>
</tr>
<tr>
<td>Apricots</td>
<td>55 507</td>
<td>43 455</td>
<td>46 742</td>
<td>44 126</td>
<td>58 079</td>
</tr>
<tr>
<td>Plums</td>
<td>62 720</td>
<td>59 961</td>
<td>56 009</td>
<td>67 087</td>
<td>60 925</td>
</tr>
</tbody>
</table>
Apples are the most common deciduous fruit sold on South African fresh produce markets. Figure 34 shows that South African apple production increased over the last decade to reach a decade high during 2003/04 and a decade low during 1999/2000. Apple sales on fresh produce markets in the last 10 years remained steady ranging between 100 000 tons and 200 000 tons. Evident from Figure 34 is the fact that apples sold on fresh produce markets did not keep up with the growth in national production over the time measured.

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Sold on FPM</th>
<th>Average Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999/00</td>
<td>1 655 098</td>
<td>1 665 999</td>
<td>1 655 727</td>
</tr>
<tr>
<td>2000/01</td>
<td>1 655 727</td>
<td>1 652 932</td>
<td>1 701 047</td>
</tr>
</tbody>
</table>

Source: DAFF, 2012b

Figure 34: Apples Production, Fresh Produce Market Sales and Average Price

Source: DAFF, 2012a

---

13 From 1989/90, sales on the 15 national fresh produce markets.

From 1994/95, sales on the 15 major fresh produce markets.

From 1996/97, sales on the 16 major fresh produce markets.

From 2001/02, sales on the 17 major fresh produce markets.

For 2003/04, sales on the 19 major fresh produce markets.

From 2004/05, sales on the 20 major fresh produce markets.

From 2010/11, sales on the 19 major fresh produce markets.
Per capita and total consumption of deciduous fruits from 2007/08 to 2011/12 is summarized in Table 10.

Table 10: Deciduous Fruit Consumption

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Per capita consumption (kg/year)</strong></td>
<td>12.19</td>
<td>12.78</td>
<td>11.96</td>
<td>12.35</td>
<td>11.80</td>
</tr>
<tr>
<td><strong>Total consumption (tons)</strong></td>
<td>593 000</td>
<td>630 000</td>
<td>598 000</td>
<td>640 000</td>
<td>619 000</td>
</tr>
</tbody>
</table>

Source: DAFF, 2012b

Subtropical Fruit

Subtropical crops are adaptable to specific areas of the country because of their preference of particular climatic conditions. Most subtropical fruit crops require warmer conditions and are sensitive to high temperature fluctuations and to frost. The main production areas in South Africa are parts of the Limpopo, Mpumalanga and KwaZulu-Natal provinces. Granadillas and guavas are also grown in the Western Cape, while pineapples are cultivated in the Eastern Cape and KwaZulu-Natal. The subtropical fruit industry earned R2 361 million in 2011/12 in terms of value production an increase of 0.6% from R2 348 million in 2010/11. The estimated total production areas during 2011/12 of avocados, pineapples, bananas, mangoes and litchis are 15 388ha, 12 195ha, 5 800ha, 7 003ha and 1 731ha respectively. The total subtropical fruit production decreased by 4.9%, from 680 618 tons in 2010/11 to 647 505 tons in 2011/12. Production of granadillas dropped by 54.5%, guavas by 28.3%, pineapples by 11.3%, bananas by 5.9% and avocados by 3.3%. Litchi and mango production, on the other hand, increased by 25.8% and 23.0% respectively. Bananas, pineapples and avocados were the biggest contributors to subtropical fruit production with 57.6%, 13.5% and 12.2% respectively (DAFF, 2012). Table 11 shows the subtropical fruit production in South Africa.
Table 11: Subtropical fruit production in South Africa (tons)

<table>
<thead>
<tr>
<th>Fruit Type</th>
<th>2007/08</th>
<th>2008/09</th>
<th>2009/10</th>
<th>2010/11</th>
<th>2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avocados</td>
<td>72.1</td>
<td>95.9</td>
<td>64.0</td>
<td>81.8</td>
<td>79.1</td>
</tr>
<tr>
<td>Bananas</td>
<td>334.2</td>
<td>405.0</td>
<td>382.3</td>
<td>396.1</td>
<td>372.9</td>
</tr>
<tr>
<td>Pineapples</td>
<td>144.8</td>
<td>117.4</td>
<td>110.2</td>
<td>98.5</td>
<td>87.4</td>
</tr>
<tr>
<td>Mangoes</td>
<td>90.6</td>
<td>48.4</td>
<td>55.2</td>
<td>52.7</td>
<td>64.8</td>
</tr>
<tr>
<td>Papayas</td>
<td>17.4</td>
<td>13.7</td>
<td>13.5</td>
<td>12.7</td>
<td>12.6</td>
</tr>
<tr>
<td>Granadillas</td>
<td>0.7</td>
<td>0.6</td>
<td>0.6</td>
<td>1.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Litchis</td>
<td>6.5</td>
<td>5.6</td>
<td>6.1</td>
<td>6.2</td>
<td>7.8</td>
</tr>
<tr>
<td>Guavas</td>
<td>27.5</td>
<td>26.3</td>
<td>25.9</td>
<td>31.4</td>
<td>22.5</td>
</tr>
<tr>
<td>Total</td>
<td>693.8</td>
<td>712.9</td>
<td>657.8</td>
<td>680.5</td>
<td>647.6</td>
</tr>
</tbody>
</table>

Source: DAFF, 2012b

The most common subtropical fruit sold on South African fresh produce markets are bananas. Figure 35 shows that South African banana production was quite volatile over the last decade. Banana production reached a decade low during 2003/04 when less than 300 000 tons was produced and reached a decade high during 2008/09 and 2010/11 when more than 400 000 was produced. Banana sales on fresh produce markets in the last 10 years ranged from between 200 000 tons to 250 000 tons with the exception of 2003/04 where less than 200 000 tons were traded. From the two trend lines it can be seen that, apart from the low banana production in 2003, banana production and banana’s sold on the fresh produce markets remained relatively stable with a slight upward trend over time – with production growing at a somewhat higher tempo than the growth in fresh produce market banana sales.
Figure 35: Banana Production, Fresh Produce Market Sales and Average Price
Source: DAFF, 2012a
Citrus Fruit

Citrus fruit is mainly grown in Limpopo, Mpumalanga, Eastern Cape, Western Cape and KwaZulu Natal in subtropical warm to hot summers and mild winters. The production area of citrus is estimated at 60 355ha. Citrus production increased from 2 151 342 tons in 2010/11 to 2 340 405 tons in 2011/12 (8.8% higher). Oranges contributed 63.9% of total South African citrus production in 2011/12 (DAFF, 2012a and DAFF, 2012b). Table 12 shows the citrus fruit production in South Africa over the past five years and Figure 36 illustrates the trends in citrus production, sales on the markets as well as average rand per ton. From the figure it can be seen that even though citrus production increased over time, citrus sales on the fresh produce markets remained relatively constant. This gap between citrus production and sales on the fresh produce markets are increasing as can be seen on the figure.

Table 12: Citrus Fruit Production in South Africa (tons)

<table>
<thead>
<tr>
<th>Fruit Type</th>
<th>2007/08</th>
<th>2008/09</th>
<th>2009/10</th>
<th>2010/11</th>
<th>2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oranges</td>
<td>1 407 830</td>
<td>1 523 203</td>
<td>1 367 706</td>
<td>1 415 447</td>
<td>1 496 171</td>
</tr>
<tr>
<td>Grapefruit</td>
<td>388 785</td>
<td>340 787</td>
<td>406 694</td>
<td>343 028</td>
<td>415 572</td>
</tr>
<tr>
<td>Lemons</td>
<td>195 176</td>
<td>230 757</td>
<td>203 080</td>
<td>216 202</td>
<td>260 385</td>
</tr>
<tr>
<td>Naartjies</td>
<td>35 380</td>
<td>30 289</td>
<td>32 625</td>
<td>30 909</td>
<td>28 855</td>
</tr>
<tr>
<td>Soft citrus</td>
<td>143 331</td>
<td>158 726</td>
<td>141 297</td>
<td>145 755</td>
<td>139 425</td>
</tr>
<tr>
<td>Total</td>
<td>2 170 502</td>
<td>2 283 762</td>
<td>2 151 402</td>
<td>2 151 341</td>
<td>2 340 408</td>
</tr>
</tbody>
</table>

Source: DAFF, 2012b
Per capita and total consumption of citrus fruits from 2007/08 to 2011/12 is summarized in Table 13.

Table 13: Citrus Fruit Consumption

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>consumption</td>
<td>12.73</td>
<td>12.51</td>
<td>11.73</td>
<td>12.88</td>
<td>11.83</td>
</tr>
<tr>
<td>(kg/year)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: DAFF, 2012b

Vegetables Production and Consumption

Vegetables are produced in most parts of the country. However, farmers in certain areas tend to prefer planting specific crops: green beans are mainly grown in Marble Hall, Kaapmuiden and Tzaneen, green peas are grown mainly in George and Vaalharts, onions are mainly grown in Caledon, Pretoria and Brits and asparagus mainly in Ficksburg and Krugersdorp. The total production of vegetables (excluding potatoes) increased from 2 551 580 tons in 2010/11 to...
2 664 329 tons in 2011/12 – a 4.4% increase. Production of major vegetables such as potatoes, tomatoes, onion and carrots increased annually. Table 14 summarizes vegetable production in South Africa from 2007/08 to 2011/12.

Table 14: Vegetable Production in South Africa (tons)

<table>
<thead>
<tr>
<th>Fruit Type</th>
<th>2007/08</th>
<th>2008/09</th>
<th>2009/10</th>
<th>2010/11</th>
<th>2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>'000 Tons</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potatoes</td>
<td>1 979</td>
<td>1 927</td>
<td>1 955</td>
<td>2 165</td>
<td>2 215</td>
</tr>
<tr>
<td>Tomatoes</td>
<td>500</td>
<td>515</td>
<td>575</td>
<td>523</td>
<td>540</td>
</tr>
<tr>
<td>Onions</td>
<td>445</td>
<td>472</td>
<td>489</td>
<td>563</td>
<td>625</td>
</tr>
<tr>
<td>Green mealies and sweet corn</td>
<td>324</td>
<td>337</td>
<td>339</td>
<td>340</td>
<td>347</td>
</tr>
<tr>
<td>Cabbages</td>
<td>150</td>
<td>141</td>
<td>141</td>
<td>153</td>
<td>142</td>
</tr>
<tr>
<td>Pumpkins</td>
<td>230</td>
<td>229</td>
<td>234</td>
<td>237</td>
<td>244</td>
</tr>
<tr>
<td>Carrots</td>
<td>144</td>
<td>164</td>
<td>151</td>
<td>152</td>
<td>177</td>
</tr>
<tr>
<td>Other</td>
<td>563</td>
<td>570</td>
<td>592</td>
<td>584</td>
<td>589</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4 335</td>
<td>4 355</td>
<td>4 476</td>
<td>4 717</td>
<td>4 878</td>
</tr>
</tbody>
</table>

Source: DAFF, 2012b

Figure 37 shows a definite increase in vegetable production over the last decade. More than 53% of the volume of vegetables produced and approximately 49% of potatoes produced in South Africa are traded on the fresh produce markets. The total volume of vegetables sold in these markets during 2011/12 amounted to 2 321 400 tons (DAFF, 2012). Although the sales of vegetables on fresh produce markets show an increasing trend, it is not keeping up with the production trend.
The share of vegetables in terms of tonnage sold on the fresh produce markets are shown in Figure 38. From the pie chart it is clear that Potatoes, onions and tomatoes makes up about 94% of fresh vegetables sold at fresh produce markets. Other vegetables include, amongst others; cabbage, pumpkins, carrots, green mealies and sweet corn.
Figure 38: Vegetable Tonnage Share on National Fresh Produce Markets
Source: DAFF, 2012a

Figure 39 illustrates the various distribution channels for vegetables as well as the volume share destined for a specific channel. Approximately 47% of produced vegetables are destined for fresh produce markets, this is 1% lower than the 2010/2011 figures. Exports also increased from 3% to 4% from 2010/2011. The remaining distribution channels’ share remained the same.

Figure 39: Distribution Channels of South African Vegetables (2011/12)
Source: DAFF, 2012b

Vegetables remain an important component of a healthy diet. Annual per capita consumption of fresh vegetables amounted to 44.79kg for the 2011/2012 season this is about 2.5% higher than the 43.7kg in the 2010/11 season.

Tomatoes

In total 540 166 tons of tomatoes were produced during 2011/12, an increase of 3.2% from the 523 275 tons of the 2010/11 season. The gross value of tomato production increased by 2.6% to R1 589 million. Of total tomato sales, 69.2% occurs on fresh produce markets. The majority of
Tomatoes are produced year-round for the local market to supply in daily demand with a limited volume going to the Seychelles, Zambia, Zimbabwe, and Mozambique. Tomato sales on the fresh produce markets increased with approximately 4.2% from 2010/11 to 2011/12. The average price of tomatoes decreased by 2.0% to reach R4 251.92 per ton in 2011/12 mainly because of higher volumes traded (Figure 40) (DAFF, 2012). The trend lines both show increasing production and sales on the fresh produce markets although it is evident that absolute production volume increases are substantially higher than fresh produce market volume increases.

![Figure 40: Tomato Production, Fresh Produce Market Sales and Average Price](source: DAFF, 2012a)

**Onions**

Onions are produced in most of the South African provinces. Approximately 624 535 tons of onions were produced during 2011/12, 11.0% more than the previous season. Fresh produce markets remain a significant marketing channel for onions. About 58% of the total production during 2011/12 was sold on fresh produce markets, while 10% was exported. The remainder includes producers’ own consumption, direct sales to supermarkets and chain stores (31%), and a small quantity (1%) sold to processors. From 2007/08 to 2011/12, onion sales on the fresh
produce markets increased by an average annual rate of 5.7% to reach 361,511 tons, with an increase of 8.3%, from 333,724 tons to 361,511 tons, from 2010/11 to 2011/12. The average market price of onions sold decreased by 8.5%, from 2010/11 to reach R2 191 per ton in 2011/12. This was mainly as a result of an increasing onion volumes supplied on the markets. Figure 41 illustrates onion production, volumes sold on fresh produce markets as well as average prices of onions. From the figure it is clear that both onion production and onion fresh produce market sales are on an upwards trend. However, in 2000 union sales at fresh produce markets were approximately two-thirds of total production whilst in 2012 the sales of unions on fresh produce markets were closer to 50% of production.

Figure 41: Onion Production, Fresh Produce Market Sales and Average Price
Source: DAFF, 2012a

Potatoes

The main potato producing regions are situated in the Free State, Limpopo, Western Cape and Mpumalanga provinces. Potatoes are available throughout the year due to the differences in climate in these production areas. Close to 80% of all potatoes are produced under irrigation. Potatoes made up about 38% of the total gross value of vegetables produced during 2011 and potato production increased by 1.5% from 2010 to 2011. Sales of potatoes on fresh produce
markets increased by 7.4% from 2010 to 2011 with Johannesburg being the front runner followed by Tshwane, Cape Town and Durban. Market prices of potatoes increased with 6% annually, increasing from R2 164/t in 2007 to R2 591/t in 2011, between 2010 and 2011 prices decreased by 0.3% mainly due to the higher potato volumes supplied at fresh produce markets. Figure 42 shows the average price as well as the volumes produced and volumes sold at fresh produce markets in South Africa (DAFF, 2012). The volume of potatoes produced and sold on fresh produce markets increased slightly over the last couple of years with potato production and sales volumes almost remaining constant over the last two years. It is evident that potato production grows at a higher tempo than potato sales at fresh produce markets.

Per capita and total consumption of citrus fruits from 2007/08 to 2011/12 is summarized in Table 15.

Table 15: Potato Consumption

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita consumption (kg/year)</td>
<td>33.59</td>
<td>33.45</td>
<td>32.14</td>
<td>35.67</td>
<td>36.20</td>
</tr>
</tbody>
</table>
Imports and Exports

More than 50% of the fruits produced in the country are exported, and less than 20% goes directly into the domestic market, local retailers and fresh produce markets. According to Barrientos and Visser (2012), the value of fresh fruit exports has increased significantly over the past decade (2001 – 2011). Deciduous fruit exports are a major earner of foreign exchange for South Africa. During the 2011/12 season approximately 46.6% of deciduous fruit produced was exported and about 73.0% of the gross value from deciduous fruit came from foreign exchange earnings. Total exports amounted to 793 507 tons—an increase of 1.6% from the 780 690 tons exported during 2010/11 (DAFF, 2011). South African deciduous fruits are mainly destined for European Countries followed by East Asia and the Pacific and Western Africa and the Southern African Development Community (SADC) countries (Figure 43).

<table>
<thead>
<tr>
<th>Total consumption (tons)</th>
<th>1608</th>
<th>1628</th>
<th>1585</th>
<th>1783</th>
<th>1874</th>
</tr>
</thead>
</table>

Source: DAFF, 2012b

Figure 43: South African Deciduous Fruit Export Destinations

Source: DAFF, 2012a
Total exports of subtropical fruit increased by 2.0% from 55311 ton in 2010/11 to 56531 ton in 2011/12 and the average price for exports increased from R7 854 per ton to R8 264 per ton (5.2% upwards). Avocados were the main subtropical fruit destined for exports and during 2011/12 avocado exports contributed 87.9% to the total subtropical fruit export value. Other fruits included pineapples and litchis (Figure 44).

![Figure 44: Quantity and Average Price of Subtropical Fruits Exported](image)

Source: DAFF, 2012a

The South African citrus industry is mainly export focussed and is one of the major citrus fruit exporters in the world. During 2011/12 the Netherlands was South Africa’s largest trading partner for citrus fruit exports. From 2010/11 to 2011/12 citrus exports increased by 4.4% from 1 321 369 tons to 1 379 383 tons, of these exports 914 711 tons were oranges (Figure 45).
About 3% of the vegetables produced in the country in 2011 were exported, and the largest share of vegetables was sold in on the national fresh produce markets (45% in 2011) (DAFF, 2012b).

Tomato exports increased by 2.2% to reach 51,969 tons in 2011/12. Approximately 99% of total 2011/12 tomato exports were destined for Mozambique, Zimbabwe, Angola, Seychelles and the Democratic Republic of the Congo (DAFF, 2012b).

Onion exports amounted to 10% of the total onion crop in 2011/12. The export volumes increased by 43.6% to reach 64,685 ton in 2011/12 (DAFF, 2012b).

Approximately 4.3% of the potato crop was exported during 2011. This is a reduction of 12.6% from 2010. From 2007 to 2011 potato exports increased by 23.5% annually. The main importing countries of South African potatoes are the Eastern, Southern and Western African countries (DAFF, 2012b).
### Table 16: Fruit and Vegetable Exports (Value And Volume) 2001, 2007, 2011 and % Change

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FRUIT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Production ('000 tons)</td>
<td>4 481.228</td>
<td>4 510.859</td>
<td>4 392.453</td>
<td>-1.98</td>
</tr>
<tr>
<td>Exports (USD Million)</td>
<td>515.152</td>
<td>1 421.619</td>
<td>2 072.608</td>
<td>302.33</td>
</tr>
<tr>
<td>Export Vol. ('000T)</td>
<td>1 579.461</td>
<td>2 482.475</td>
<td>2 366.915</td>
<td>49.86</td>
</tr>
<tr>
<td>% of production exported</td>
<td>35.25</td>
<td>55.03</td>
<td>53.89</td>
<td>52.88</td>
</tr>
<tr>
<td>Quantity of Fruits sold in Fresh Produce Market ('000T)</td>
<td>871.242</td>
<td>631.31</td>
<td>849.852</td>
<td>-2.46</td>
</tr>
<tr>
<td>% of total produce sold in Fresh Produce Market</td>
<td>19.44</td>
<td>14</td>
<td>19.35</td>
<td>-0.48</td>
</tr>
<tr>
<td><strong>VEGETABLES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Production ('000 tons)</td>
<td>3838</td>
<td>4335</td>
<td>4722</td>
<td>23.03</td>
</tr>
<tr>
<td>Exports (USD Million)</td>
<td>16.6</td>
<td>40.14</td>
<td>64.93</td>
<td>291.23</td>
</tr>
<tr>
<td>Export Vol. ('000T)</td>
<td>66</td>
<td>109.16</td>
<td>142.5</td>
<td>142.5</td>
</tr>
<tr>
<td>% of production exported</td>
<td>1.72</td>
<td>2.52</td>
<td>3.02</td>
<td>75.48</td>
</tr>
<tr>
<td>Quantity of vegetables sold in Fresh Produce Market ('000T)</td>
<td>1 959.3</td>
<td>2 009.8</td>
<td>2 122.9</td>
<td>8.35</td>
</tr>
<tr>
<td>% total produce sold in National Fresh Produce Market</td>
<td>51.05</td>
<td>46.36</td>
<td>44.96</td>
<td>-6.09</td>
</tr>
</tbody>
</table>

Source: Barrientos and Visser, 2012 and DAFF, 2012a

### Concluding Remarks

South African fresh produce production is on an upward curve, but the volume of produce sold at fresh produce markets does not reflect the same upward curve. It can be advised that fresh produce markets are losing market share towards other marketing channels.
Fresh Produce Markets in South Africa

Introduction

In South Africa, fresh produce markets started as being a centrally located place where producers and consumers could meet, where they could trade under the control of a governing body and where prices were formed and determined on a day by day basis. Due to economic development that gave rise to urbanization of a significant portion of the rural population local markets were replaced by central markets that served two or more towns. Back in 1967 the Department of Agricultural Economics published a report, recommending the development of national markets and during this time 14 national fresh produce markets were established. The South African fresh produce markets are made up of National Produce Markets and privately owned markets not controlled in terms of bylaws (NAMC, 2005). The four biggest fresh produce markets are Durban, Johannesburg, Cape Town and Pretoria, in all the major cities of South Africa with four medium markets being Bloemfontein, East London, Pietermaritzburg, and Port Elizabeth. The six smaller fresh produce markets comprise of Kimberly, Klerksdorp, Springs, Uitenhage, Vereeniging and Welkom (Louw, Chikazunga, van Deventer and Deall, 2008). Since 1967 Witbank, Umtata, George, Mpumalanga and Nelspruit was added and today we have a total of nineteen fresh produce markets in South Africa (NAMC, 2005).

The next sections aim to provide an overview of fresh produce markets in South Africa and more detail regarding the Tshwane Fresh Produce Market.

The Role of Fresh Produce Markets

This fresh produce market’s functions of being a meeting place for buyers and sellers and being a place where prices are discovered by means of supply and demand ensured market access to all (NAMC, 2005). However, due to the price formation mechanism’s dependence on supply and
demand and due to the characteristics of fresh produce, as mentioned below, which makes the supply and demand volatile, prices of fresh produce are also volatile.

The role of the produce markets in South Africa includes: providing the necessary facilities to commercial, growing and emerging markets. Provide equal opportunities of trade between large scale, commercial and small scale producers, through initiatives that allow trade without discrimination on size or origin. In addition to the meeting place and price formation function the market also provides; modern infrastructure and technologies as well as ripening facilities. Fresh produce markets provide an easily and accessible market for small scale and emerging producers to sell their produce (Louw et al., 2008).

Figure 46 shows the current value chain of fresh fruit and vegetables in South Africa. It represents the different stages from inputs, production, post-harvest activities, distribution channels and logistics which is the role of the fresh produce markets, followed by domestic markets which includes selling to supermarkets, independent stores and food services. Lastly the global export and retail market is also catered for (Barrientos and Visser, 2012).
Figure 46: South African Fresh Fruit and Vegetable Value Chain

Source: Barrientos and Visser (2012)
Market Shares and Trends

The gross income from horticultural products amounted to R39 623 million in 2012. The income is attributed to an increase of 13.5% in vegetable production from R12 457 to R14 138 million in 2012. Deciduous fruits increased by 7.6% from R9 346 million to R10 060 million, while subtropical fruit was 0, 8% from R2 348 million to R2 367 million. Income from citrus fruit increased by 5.2% from R6 593 million to R6 934 million (Mankwane, 2012). The main fruits produced in South Africa are grapes, oranges, lemons, apples, avocados and mangoes. The main vegetables produced are potatoes, tomatoes, onions and cabbages (NAMC, 2012).

Table 17 summarizes the annual produce turnover, volume and average price at the 19 fresh produce markets. Cape Town Fresh Produce Market’s figures are figures for turnover, volume and average price for April to June 2013 due to the lack of information on Cape Town Fresh Produce Market. Therefore, the Cape Town Market figures are distorted and not taken account of in the comment below.

It is evident from the table below that the Johannesburg Fresh Produce Market is returning the highest rand value per ton (R 3 743) with Tshwane, Durban, East London and Bloemfontein Fresh Produce Markets at approximately R 3 400 per ton.

Table 17: Total Value, Volume and Price of Produce Sold on National Fresh Produce Market (Dec 2011 – Nov 2012)

<table>
<thead>
<tr>
<th>Market</th>
<th>Turnover</th>
<th>Volume (Tons)</th>
<th>Rand per Ton</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bloemfontein</td>
<td>R 331 553 705</td>
<td>96 129</td>
<td>R 3 449.05</td>
</tr>
<tr>
<td>Cape Town*</td>
<td>R 170 307 707</td>
<td>56 649</td>
<td>R 3 006.37</td>
</tr>
<tr>
<td>Durban</td>
<td>R 1 113 755 676</td>
<td>327 108</td>
<td>R 3 404.86</td>
</tr>
<tr>
<td>East London</td>
<td>R 317 670 246</td>
<td>93 098</td>
<td>R 3 412.21</td>
</tr>
<tr>
<td>Market</td>
<td>Turnover</td>
<td>Volume (Tons)</td>
<td>Rand per Ton</td>
</tr>
<tr>
<td>-----------------</td>
<td>----------------</td>
<td>---------------</td>
<td>--------------</td>
</tr>
<tr>
<td>George</td>
<td>R 26 260 852</td>
<td>12 946</td>
<td>R 2 028.49</td>
</tr>
<tr>
<td>Johannesburg</td>
<td>R 4 834 928 718</td>
<td>1 291 892</td>
<td>R 3 742.52</td>
</tr>
<tr>
<td>Kimberley</td>
<td>R 73 344 935</td>
<td>23 690</td>
<td>R 3 096.03</td>
</tr>
<tr>
<td>Klerksdorp</td>
<td>R 301 894 537</td>
<td>97 574</td>
<td>R 3 094.01</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>R 103 275 646</td>
<td>35 611</td>
<td>R 2 900.11</td>
</tr>
<tr>
<td>Nelspruit</td>
<td>R 15 726 605</td>
<td>7 753</td>
<td>R 2 028.45</td>
</tr>
<tr>
<td>Pietermaritzburg</td>
<td>R 312 356 815</td>
<td>100 452</td>
<td>R 3 109.51</td>
</tr>
<tr>
<td>Port Elizabeth</td>
<td>R 300 568 672</td>
<td>99 692</td>
<td>R 3 014.97</td>
</tr>
<tr>
<td>Springs</td>
<td>R 315 250 176</td>
<td>111 660</td>
<td>R 2 823.30</td>
</tr>
<tr>
<td>Tshwane</td>
<td>R 2 217 933 468</td>
<td>641 404</td>
<td>R 3 457.94</td>
</tr>
<tr>
<td>Uitenhage</td>
<td>R 27 037 397</td>
<td>11 836</td>
<td>R 2 284.34</td>
</tr>
<tr>
<td>Umtata</td>
<td>R 15 656 356</td>
<td>6 426</td>
<td>R 2 436.41</td>
</tr>
<tr>
<td>Vereeniging</td>
<td>R 140 303 771</td>
<td>51 712</td>
<td>R 2 713.18</td>
</tr>
<tr>
<td>Welkom</td>
<td>R 171 323 933</td>
<td>55 733</td>
<td>R 3 074.01</td>
</tr>
<tr>
<td>Witbank</td>
<td>R 51 167 036</td>
<td>17 206</td>
<td>R 2 973.79</td>
</tr>
</tbody>
</table>

* Cape Town values (April to June 2012)

Source: DAFF, 2012a and DAFF, 2012c

Table 18 shows that the Johannesburg Fresh Produce Market sold approximately R672 116 849 worth of vegetables in 2012, followed by Tshwane Fresh Produce Market with R305 654 432.

Table 18: Total Value, Volume and Price of Vegetables Sold on National Fresh Produce Market: Apr to Jun 2012

<table>
<thead>
<tr>
<th>Market</th>
<th>Rand</th>
<th>Tons</th>
<th>Rand/Ton</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tshwane (Pretoria)</td>
<td>305 654 432</td>
<td>110 111</td>
<td>2 776</td>
</tr>
<tr>
<td>Market</td>
<td>Rand</td>
<td>Tons</td>
<td>Rand/Ton</td>
</tr>
<tr>
<td>----------------------</td>
<td>------------</td>
<td>-----------</td>
<td>----------</td>
</tr>
<tr>
<td>Johannesburg</td>
<td>672 116 849</td>
<td>224 414</td>
<td>2 995</td>
</tr>
<tr>
<td>Bloemfontein</td>
<td>40 621 831</td>
<td>15 291</td>
<td>2 657</td>
</tr>
<tr>
<td>Kimberley</td>
<td>10 407 337</td>
<td>3 705</td>
<td>2 809</td>
</tr>
<tr>
<td>Cape Town</td>
<td>170 307 707</td>
<td>56 649</td>
<td>3 006</td>
</tr>
<tr>
<td>Port Elizabeth</td>
<td>45 637 959</td>
<td>17 747</td>
<td>2 572</td>
</tr>
<tr>
<td>East London</td>
<td>43 177 725</td>
<td>14 680</td>
<td>2 941</td>
</tr>
<tr>
<td>Durban</td>
<td>141 536 789</td>
<td>50 342</td>
<td>2 812</td>
</tr>
<tr>
<td>Pietermaritzburg</td>
<td>39 237 432</td>
<td>15 975</td>
<td>2 456</td>
</tr>
<tr>
<td>Welkom</td>
<td>24 610 291</td>
<td>8 978</td>
<td>2 741</td>
</tr>
<tr>
<td>Klerksdorp</td>
<td>40 308 113</td>
<td>15 301</td>
<td>2 634</td>
</tr>
<tr>
<td>Vereeniging</td>
<td>24 141 080</td>
<td>10 605</td>
<td>2 276</td>
</tr>
<tr>
<td>Springs</td>
<td>41 846 723</td>
<td>17 734</td>
<td>2 360</td>
</tr>
<tr>
<td>Uitenhage</td>
<td>6 510 357</td>
<td>2 788</td>
<td>2 335</td>
</tr>
<tr>
<td>Witbank</td>
<td>8 390 137</td>
<td>3 196</td>
<td>2 625</td>
</tr>
<tr>
<td>Nelspruit</td>
<td>2 880 930</td>
<td>1 125</td>
<td>2 561</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>19 809 890</td>
<td>7 798</td>
<td>2 540</td>
</tr>
<tr>
<td>Kei (Mthatha)</td>
<td>4 262 694</td>
<td>1 689</td>
<td>2 524</td>
</tr>
<tr>
<td>George</td>
<td>5 766 397</td>
<td>2 067</td>
<td>2 790</td>
</tr>
</tbody>
</table>

To be updated to annual figures

Source: DAFF, 2012c

Table 19 shows that the Johannesburg Fresh Produce Market sold approximately R328 061 837 worth of fruit in 2012, followed by Tshwane Fresh Produce Market with R152 129 966.
<table>
<thead>
<tr>
<th>Market</th>
<th>Rand</th>
<th>Tons</th>
<th>Rand/Ton</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tshwane (Pretoria)</td>
<td>152 129 966</td>
<td>40 781</td>
<td>3 730</td>
</tr>
<tr>
<td>Johannesburg</td>
<td>328 061 837</td>
<td>78 421</td>
<td>4 183</td>
</tr>
<tr>
<td>Bloemfontein</td>
<td>27 050 300</td>
<td>6 825</td>
<td>3 963</td>
</tr>
<tr>
<td>Kimberley</td>
<td>5 715 744</td>
<td>1 478</td>
<td>3 867</td>
</tr>
<tr>
<td>Cape Town</td>
<td>63 982 070</td>
<td>14 911</td>
<td>4 291</td>
</tr>
<tr>
<td>Port Elizabeth</td>
<td>18 304 071</td>
<td>4 068</td>
<td>4 500</td>
</tr>
<tr>
<td>East London</td>
<td>25 338 704</td>
<td>6 282</td>
<td>4 034</td>
</tr>
<tr>
<td>Durban</td>
<td>90 712 398</td>
<td>25 053</td>
<td>3 621</td>
</tr>
<tr>
<td>Pietermaritzburg</td>
<td>29 084 793</td>
<td>8 689</td>
<td>3 347</td>
</tr>
<tr>
<td>Welkom</td>
<td>10 713 505</td>
<td>3 338</td>
<td>3 210</td>
</tr>
<tr>
<td>Klerksdorp</td>
<td>23 936 530</td>
<td>7 275</td>
<td>3 290</td>
</tr>
<tr>
<td>Vereeniging</td>
<td>8 870 654</td>
<td>2 893</td>
<td>3 066</td>
</tr>
<tr>
<td>Springs</td>
<td>26 109 702</td>
<td>7 516</td>
<td>3 474</td>
</tr>
<tr>
<td>Uitenhage</td>
<td>3 35 475</td>
<td>144</td>
<td>2 330</td>
</tr>
<tr>
<td>Witbank</td>
<td>2 779 366</td>
<td>896</td>
<td>3 102</td>
</tr>
<tr>
<td>Nelspruit</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>45 477</td>
<td>14</td>
<td>3 248</td>
</tr>
<tr>
<td>Kei (Mthatha)</td>
<td>2 147 667</td>
<td>967</td>
<td>2 221</td>
</tr>
<tr>
<td>George</td>
<td>68 702</td>
<td>30</td>
<td>2 290</td>
</tr>
</tbody>
</table>

To be updated to annual figures

Source: DAFF, 2012c

Figure 47 provides detail on the market share of the 19 national fresh produce markets in terms of turnover and tonnage both in the 2010/11 and 2011/12 seasons. Very small markets such as George, Kimberley, Mpumalanga, Nelspruit, Uitenhage and Umtata are not included in the pie...
These markets have less than 2% market share, with some of their individual market shares even less than 0.5%. The Cape Town Fresh Produce Market is still one of the four biggest market players and showed an annual turnover in 2011 at R99 376 916.15 and annual volume sales at 303 163.50 tons. Between 2010/11 and 2011/12 both Johannesburg and Tshwane showed a 1% increase in terms of volumes traded and turnover. Klerksdorp on the other hand showed a 2% decrease.
Figure 47: Market Share December 2010 – 2011 and 2011 – 2012
Source: Tshwane Fresh Produce Market, 2013

From Figure 48 it is clear that even though fresh produce markets showed an increase in turnover on a year by year basis it is clear that tonnage remained relatively constant over the last decade.
This is in contradiction with production of fruit and vegetables that increased annually (Figure 32 and Figure 37). The alternative marketing channels that cut into the market share of fresh produce markets will be evaluated in a later section.

![Figure 48: Total Tonnage and Turnover of Fresh Produce on all Fresh Produce Markets](source)

Figure 48 again indicates that the turnover of the top four fresh produce markets showed a definitive increase over the past decade even though the tonnage increased at a relatively constant rate. It is clear from the figure that Johannesburg Fresh Produce Market is the trend setter with increases of approximately 234% in terms of turnover and 141% in terms of tonnage during the last decade. Tshwane Fresh Produce Market showed an increase of 157% in terms of turnover and 140% in terms of tonnage in the previous decade (2002 to 2012).
Figure 49: Total Tonnage and Turnover of the Top Four Fresh Produce Markets
Source: Tshwane Fresh Produce Market, 2013

Pricing Structures

All the produce markets in South Africa follow the commission process whereby farmers deliver produce to market agents who then sell it to the buyers. The Johannesburg Fresh Produce
Market makes a 5% non-negotiable commission, from all fresh produce sold and the market agents make an approximate 7.5% negotiable commission, (Johannesburg Fresh Produce Market, 2013).

Market prices are predominantly determined by supply and demand factors. The factors that influence supply include: climate, seasonal production, transport cost, other marketing channels, perishability of products, and the reaction of producers to prices realised in previous period. Demand factors include consumer preferences, substitution between products and per capita income. The prices of all horticultural products increased by 5.9%, vegetables increased by 9.1% while fruits increased by 4.6% for 2012 (DAFF, 2012).

Comparing South African Fresh Produce Markets

The Johannesburg Fresh Produce Market

The Johannesburg Fresh Produce Market is not only the largest fresh produce market in South Africa, but also in Africa. The Johannesburg Fresh Produce Market is characterised as a Municipal Entity as it is 100% owned by the City of Johannesburg Metropolitan Municipality (City of Johannesburg), trading as the Johannesburg Fresh Produce Market, (Johannesburg Fresh Produce Market, 2011).

The operating model of the Johannesburg Fresh Produce Market consists of three key role players according to Figure 50. The supply side includes farmers associations, producers, cooperatives and transporters, these role players utilises the market, which is the Johannesburg Fresh Produce Market and all its governing bodies, to supply in the demand of wholesalers, retailers, informal sectors and the final consumer (Johannesburg Fresh Produce Market, 2011).
The Cape Town Fresh Produce Market

The Cape Town Fresh Produce Market has been in operation for 50 years and is the oldest and is one of the largest markets in South Africa. The market provides facilities to over 4 000 producers who deliver their fresh produce to the Cape Town Fresh Produce Market, which is then bought by over 8 000 registered buyers. The cold rooms at the Cape Town Fresh Produce Market can store over 800 pallets of produce, and the banana ripening rooms can hold up to 55 000 cartons of bananas.

After Cape Town Fresh Produce Market’s acquisition from the City of Cape Town, in 2004 the Cape Town Fresh Produce Market become the only privatised fresh produce market operating in the country. The market is also the first to include agents and buyers as shareholders and they hold a 26% share in the business as of 2007. In 2010 the market was announced the first market in the world to sign a service level agreement between the market and market agents.
Tshwane Fresh Produce Market

Please note that the Tshwane Fresh Produce Market is discussed in detail in Report 3. This section provides a comparative overview only.

The Tshwane Fresh Produce Market provides secure facilities and services such as loading, cold storage, ripening and wholesale for the purchase and selling of fresh produce to buyers and the general public on behalf of the producers and suppliers. The market is characterised by the following key role players: suppliers, market agents, customers and external stakeholders.

The players in the market consist of market agents (currently eight agents) who sell on behalf of the suppliers operating and trading fresh fruit and vegetables in market Hall A and B. The markets agents earn a commission based on the number of sales (Foley and Meyer, 2013).

The customers or buyers on the Tshwane Fresh Produce Market range from the general public, fresh produce wholesalers, the hospitality industry, informal traders and retailers. The Tshwane Fresh Produce Market caters for local, regional as well as international consumers from Botswana, New Zealand and Israel. Customers are not bound to a specific agent but are free to buy from different agents on the market increasing competitiveness on the market. The main determinants for a purchasing transaction include: quality, variety, price of the produce and trust or the customer-agent relationship. Informal buyers\(^\text{14}\) contribute 35% of the Tshwane Fresh Produce Market’s income (2011). This is 2% more than in 2011. When considering the other client segmentations and comparing the statistics of 2011 to 2008 (Figure 51 and Figure 52) it can be concluded that the informal buyers and the contract buyers increased from 2008 to 2011. However, the retailers, wholesalers and chain stores decreased while processors and final consumers remained constant.

\(^{14}\) This will be discussed in more detail in Part 3.
Figure 51: Client Segmentation of Tshwane Fresh Produce Market (2011)
Source: Dodds and Sedulta, 2012

Figure 52: Client Segmentation of Tshwane Fresh Produce Market (2008)
Source: Dodds and Sedulta, 2012
The market has several external stakeholders who assist the market to develop and maintain its full functionality. The stakeholders include the Department of Agriculture, Forestry and Fisheries, the Tshwane Economic Development, Department of Health and Safety, National Agricultural Marketing Council (NAMC) and the Department of Transport.

According to a report by Foley and Meyer (2013) some of the objectives of the Tshwane Fresh Produce Market include the:

- promotion of food security to the region;
- promotion of food safety to the region;
- promotion of the market as a distribution channel;
- development of the market as the preferred distribution channel of the region;
- provision of state of the art infrastructure and support services;
- protection of the integrity of the fresh produce marketing system;
- complementation of urban management initiatives to clean up and maintain the Tshwane Fresh Produce Market;
- conveyance of the message investors and fresh produce market users that the market is open for business; and
- market is a viable investment location in which future value returns are not at risk.

**Fresh Produce Infrastructure and Location**

The Tshwane Fresh Produce Market is situated in the North West of the Pretoria Central Business District (CBD) which makes it easily accessible for both the domestic and international markets. The market has the following operational facilities including, market Hall A which is mainly used to store fresh fruit, potatoes and onions. Market hall B is used for vegetables. The market also offers, banana ripening facilities, watermelon facilities, market agent office block, market management office, pre-packing and processing facilities, the flower market and the housewives market which is accessible for buyers to purchase produce on racks just like in
normal cold chains (Foley and Meyer, 2013). Other supporting facilities and structure include security management; waste management; facilities management and market operations services (Figure 53).

Figure 53: Location of the Tshwane Fresh Produce Market
Source: Foley and Meyer, (2013)
Challenges

Some of the challenges faced by the Tshwane Fresh Produce Market as found in the literature by Foley and Meyer (2013) are:

- traffic and parking problems, there is no allocated space for the different types of vehicles;
- lack of pick-up facilities for informal traders who are dependent on public transport; and
- insufficient facilities to deliver outside Hall A and B during rainy weather conditions.

Volumes and Current Trends

Figure 54 illustrates the contribution share of selected fresh produce to the total volumes of fresh produce sold on the Tshwane Fresh Produce Market. It is clear that potatoes is the biggest contributor with 27%.

Figure 54: Fresh Produce Volume Share on Tshwane Fresh Produce Market
Concluding Remarks

It is important to note that the City of Cape Town discontinued providing their trading statistics to the Tshwane Market who keeps record of fresh produce market sales statistics.

The South African fresh produce markets turnover is approximately R11 billion (excluding Cape Town Market) and more than 75% of the sales are done through Johannesburg (45%), Tshwane (20%) and Durban (10) Markets. These markets have higher sales volumes as it is situated in the higher populated areas where there is higher demand. Therefore, a high population with substantial buying power definitely has an influence on the performance of a fresh produce market.

It is also evident from the analysis that a great portion of the produce with a longer shelf life and which are quite lumpy are sold at fresh produce markets.
Developments regarding Fresh Produce Market Ownership and Management in South Africa

In this section of the Report the existing ownership and management models applicable to fresh produce markets in South Africa are identified and discussed within the context of the current legislative and operational framework of local government. The background to each of these is given as a possible option for the future of all fresh produce markets in South Africa.

“Markets” is a municipal functional area as per the local government matters listed in Part B of Schedule 5 of the Constitution of the Republic of South Africa, 1996 (Constitution), therefore a municipality has executive authority in respect of, and has the right to administer these matters.

For the purposes of this section of the Report and to ensure that everyone understands fresh produce markets in the same way, we provide the following definition of a fresh produce market:

A fresh produce market is a place where fresh produce is traded through the involvement of fresh produce agents, where an ad valorem commission is charged by both the business operator and the fresh produce agent on the gross value of the trade in payment for providing the premises and related fresh produce market services and where the business owner’s transaction recording system is used to record sales transactions.

This section covers the following:

- ownership and management models of fresh produce markets currently in operation;
- departmental markets;
- municipal controlled, but externalised;
- private markets; and
- new developments.
Ownership and Management Models of Fresh Produce Markets Currently in Operation

The following three ownership and management models are currently in operation in the South African fresh produce market context, namely:

**The Departmental/Business Unit/Administrative Unit ownership and management model.** Neither of these internal service delivery mechanisms are defined in the Local Government: Municipal Systems Act No. 32 of 2000 (Municipal Systems Act). These models’ main differentiating characteristic from an external service delivery mechanism is that the market operates as an internal service delivery mechanism within the administration of a municipality. This means that the municipality has executive authority over it and has the right to administer it. This in effect means that the municipality manages the fresh produce market business and owns the land and all developments thereon.

**The Municipal Entity ownership and management model** is defined in terms of ownership in the Municipal Systems Act. This model differentiates itself by the fact that a corporatised (municipal) entity (a private company) is externally incorporated into the parent municipality by the municipality, but it remains under the control of the municipality. While the municipality administers the function and has executive authority over it, the Municipal Entity manages the business. The land and developments thereon can be owned by either of the parties, the municipality or the Municipal Entity.

**The private ownership and management model** falls outside the confines of the Municipal Systems Act as well as the confines of Part B of Schedule 5. This is where the business of the fresh produce market business is owned and managed by private operators, while the land and developments thereon can be owned by either the municipality or the private sector. Therefore, the business owner may not necessarily be the land owner. This is in line with the view of the separation of ownership and management as promoted in the NAMC Section 7 Report. Further, in this instance a municipality can use its executive authority and elect not to exercise its right to administer the fresh produce market through its by-laws.
Departmental Markets

The Departmental/business Unit/Administrative Unit option will henceforth be called the Departmental Option as the Municipal Systems Act does not provide for any legal distinction between the three sub-options. Since they are all internal to a municipality it does not make any difference for purposes of this Part 2 of the Report. Consequently, the Departmental Option is an internal service delivery mechanism in terms of the Municipal Systems Act and is subject to local government legislation and administration. The following 12 fresh produce markets are managed as internal Departments of their respective municipalities:

- Tshwane Fresh Produce Market;
- Durban Fresh Produce Market (eThekwini);
- Springs Fresh Produce Market (Ekurhuleni);
- Msunduzi Fresh Produce Market (Pietermaritzburg);
- East London Fresh Produce Market (Buffalo City);
- Mangaung Fresh Produce Market (Bloemfontein);
- Klerksdorp Fresh Produce Market (Matlosana);
- Port Elizabeth Fresh Produce Market (Nelson Mandela);
- Welkom Fresh Produce Market (Nala);
- Vereeniging Fresh Produce Market (Sedibeng);
- Sol Plaatje Fresh Produce Market (Kimberley); and
- Witbank Fresh Produce Market (Emalahleni).

The features and challenges of these fresh produce markets that are managed in terms of the Departmental Option as discussed above are as follows:
No Service Delivery Agreement (SDA) and/or Service Level Agreement(s) (SLA(s)) exist between the municipality and the fresh produce markets, as is the case with an external service delivery mechanism.

These fresh produce markets are normally managed by an internally appointed manager who does not necessarily have a clear understanding of the fresh produce sector and its dynamics.

Substantially limited annual business plans are prepared by Departmental fresh produce markets. Their business plans normally consist of an income and expenditure budget as well as a capital budget if any capital spending is allowed.

These fresh produce markets don’t have their own fresh produce related management information and financial system as they rely on the municipality’s internal financial system to run their business. This has its limitations as these internal information management and financial systems are developed from a municipal financial management and not a fresh produce market management perspective.

All these fresh produce markets make use of the FreshMark transaction processing system.

These fresh produce markets report quarterly on their performance against budget. This is mainly to ensure that no over expenditure occurs. Very little emphasis is placed on income generated and/or efforts to improve revenue.

The municipalities are audited annually by the Auditor-General and little importance is attached to the business of fresh produce markets. As a result fresh produce market related business challenges are as a rule not specifically addressed in the Auditor-General’s report. To this end it can be reported that the Tshwane Market was recently audited by the City of Tshwane internal auditors.

In most instances the finances of these Departmental fresh produce markets are not ring-fenced properly and therefore no separate financial statements exist for the fresh produce market function. In the absence of financial statements little financial performance measurements can be implemented and managed by management of the municipality and the fresh produce markets.
The capital programmes of fresh produce markets are not necessarily viewed as a priority in terms of the capital expenditure programmes of municipalities. Municipalities are known for their inability to timeously plan for capital projects, be it for expansion or renewal purposes. The institutional reasons for the latter fall outside the scope of this Report. However, fresh produce markets operate in a highly competitive environment and the loss of market share, as discussed in earlier sections of this report, can be directly attributed to the lack of investment in infrastructure.

The maintenance programmes of fresh produce markets are also neglected. Under-spending on maintenance is a common phenomenon in municipalities. This leads to an inappropriate understanding of the real cost of managing services and is no different for fresh produce markets.

When municipalities see their way open to allocate capital for capital projects, these funds are normally used for capital maintenance as insufficient funds were allocated to the repair and maintenance of the property and equipment in previous years.

With the exception of Tshwane Fresh Produce Market and possibly Springs Fresh Produce Market all municipal owned fresh produce markets have severe capital expenditure and repair and maintenance backlogs.

All departmental fresh produce markets, except Tshwane Fresh Produce Market and possibly Springs Fresh Produce Market, have serious repair and maintenance backlogs.

The surplus (if any) generated by these fresh produce markets is transferred to the general funds of the municipality except in the case of Springs Fresh Produce Market, where the Ekurhuleni Metropolitan Municipality implemented a Market Development Fund which is to be cash backed in terms of provisions of the Local Government: Municipal Finance Management Act No. 56 of 2003 (Municipal Finance Management Act). Only Tshwane Market and Springs Fresh Produce Markets generate a relatively significant operating surplus. However, these surpluses may not be correct as the finances of the Departmental fresh produce markets are not ring-fenced properly and not all costs are correctly allocated to the service. Therefore, those fresh produce markets that generate losses may generate even bigger losses if their finances are ring-fenced properly. To the best of the knowledge of the Advisor and based on real experience, the financial position of most
fresh produce markets is worse with ring-fenced financials. Ring-fenced financials provide a more accurate reflection of the financial position of fresh produce markets.

Archaic fresh produce market bylaws are still in force at most Departmental fresh produce markets and it does not necessarily address the challenges fresh produce markets currently face. Tshwane Fresh Produce Market has developed new bylaws which are currently under review as it is already not addressing the contemporary issues of the rapid changing fresh produce industry. The relevance of a bylaw as the only tool to manage the relationship between agents and the fresh produce markets within the modern-day fresh produce market environment is questionable. As can be vouched by Tshwane Fresh Produce Market, bylaw making within the confines of the Municipal Systems Act and other municipal statutes is a protracted and cumbersome process.

Agents still trade under their original permits/licences issued in terms of the current archaic ineffective bylaws. These permits/licences provide for neither expiry (which means agents have a licence for life to trade on fresh produce markets), nor for any performance measures and/or any national and local policy related compliance matters such as Broad-Based Black Economic Empowerment (BBBEE). History with the introduction of new Black Economic Empowerment (BEE) does not have real success stories. It seems as if it is very difficult to introduce Historic Disadvantaged Individuals (HDI) into the fresh produce market system. The difficult does not lie with the BEE agents per se, but it is merely a matter of the business model implemented by existing agents where sales people have the relationship with the producer and not necessarily the agent. Therefore anyone who would like to start a new fresh produce agency without a salesperson with firm supplier relationships is doomed to fail. It is reiterated that the implementation of new agencies are difficult for every new comer to the industry.

Municipalities do not always understand the operation and functioning of fresh produce markets and this leads to uninformed and suboptimal decisions.

In general and as indicated by the preceding sections of this Part 2 of the Report, fresh produce markets lose market share and although Tshwane Fresh Produce Market performs the best of all Departmental fresh produce markets, it still loses market share measured against the industry performance.
Departmental fresh produce markets are jurisdictionally bound, which limit opportunities to grow organically (throughput/real income) and makes business expansion by takeover impossible. Municipalities can enter into arrangements with other municipalities, but no such arrangements have been effected yet. Such possible arrangements still remain jurisdictionally bound and therefore, may not open up substantial new opportunities other than possible improved management performance. The parent municipality still has to fund the business operation and capital expenditure of the market.

In addition to the aforementioned, fresh produce markets being operated as municipal Departments, are not allowed to explore commercial business opportunities because of the legislative constraints as provided for in Section 164 of the Municipal Finance Management Act. For example, municipal legislation is written for and focused on Basic Municipal Services and Municipal Services in the narrower sense where there is limited competition, and not for functions and services, like fresh produce markets, that compete with the private sector. For example, fresh produce production is seasonal, yet pricing decisions are made in terms of annually approved tariff structures that do not allow for sudden changes in price due to the availability profile of produce.

Departmental fresh produce markets do not participate in the sale of produce as the produce is delivered from the producer through the agent who sells the produce on behalf of the farmer to a buyer. As a result fresh produce markets don’t have any control over either their throughput and hence their ever-fluctuating income.

Neither the Departmental fresh produce market nor its agents take ownership risk in the transfer of fresh produce. Departmental fresh produce markets are never in control of the volume, quality and/or price of the produce. It is reiterated that Departmental fresh produce markets are not in control of their main income stream.

Although the producer pays the fresh produce market its 5% ad valorem commission and although they are seen as the primary client, fresh produce markets do not have any direct relationship with such producers.

Furthermore, agents operate at the market premises, but have no legal nexus with the municipality (the operator) other than the mostly archaic bylaw approved permit to trade
on the market. This relationship seems to be dysfunctional or may be inappropriate for enhanced fresh produce market performance.

Departmental fresh produce markets do not separate the management and operation of the business from the ownership, management and operation of the property. They see it as one indivisible business, which may lead to some misguided decisions.

Fresh produce markets and agents do not necessarily have a common and an aligned business strategy to improve their business.

**Municipal Controlled, but Externalised**

The following fresh produce markets are managed as municipal entities:

- Uitenhage Fresh Produce Market;
- Kei Fresh Produce Market (Mthatha); and
- Johannesburg Fresh Produce Market.

Johannesburg Fresh Produce Market was incorporated as a private company in 2000 and Kei and Uitenhage Fresh Produce Markets respectively in Mthatha and Uitenhage were created as Section 21 Companies in terms of the previous Companies Act No. 61 of 1973. These were and are viewed as Municipal Entities in terms of the provisions of the Municipal Systems Act. The Municipal Systems Act disallowed the creation of new Section 21 Companies.

The new Companies Act No. 71 of 2008 (New Companies Act) was implemented from 1 April 2011. Section 21 Companies are no longer in use and are now called non-profit companies in terms of the New Companies Act.

**Uitenhage Fresh Produce Market**
Uitenhage Fresh Produce Market (Uitenhage Market) was established in 1993 by the Municipality as a Section 21 Company in terms of the previous Companies Act. It is therefore by default a Municipal Entity.

**Kei Fresh Produce Market (Mthatha)**

The Kei Fresh Produce Market provides a hub for trading and market access for fresh produce from commercial and small scale farmers through its market agents operating on the sales floor. The market has appointed agents who operate from the sales floor and are instrumental in the sale of produce on behalf of the farmers. They earn 7.5% commission and Kei Fresh Produce Market earns 5% commission for this service.

The Market is a R34 million facility which was a brain child of the Presidential Project Trust (PPT) and was handed over to Ntinga O.R. Tambo Development Agency to oversee its management in 2004 (Kei Fresh Produce Market, 2013).

**Johannesburg Fresh Produce Market**

The key events leading to the creation of the Johannesburg Fresh Produce Market are discussed below:

**Background to the Johannesburg Fresh Produce Market Corporatisation**

The Johannesburg Fresh Produce Market was corporatised in July 2000 as part of the City of Johannesburg’s iGoli 2002 plan. iGoli 2002 was essentially a three-year strategic turnaround plan for the City of Johannesburg that commenced in 1999. It involved the structural transformation of the then Metropolitan Municipality’s functions with a view to ensuring enhanced and more cost-effective service delivery. The City of Johannesburg achieved the aforementioned by reducing fragmentation, eliminating duplication, improving accountability,
focusing on human resources development and providing performance incentives. From an organisational perspective, iGoli sought to put in place “sensible” structures to deliver services at greater levels of efficiency than in the past.

iGoli 2002 envisaged that the City of Johannesburg would work through a combination of new political governance structures, a core administration, regional administrations, as well as utilities, agencies and corporatised entities.

Corporatising the Johannesburg Fresh Produce Market was intended to preserve and improve it in two ways:

In the first place, it was estimated that at least R50 million in infrastructure investment was needed at the time to keep the Johannesburg Fresh Produce Market attractive to wholesalers, wholesale-retailers, other buyers and producers over the following few years. It was believed that corporatisation would protect the available surplus and guarantee that resources were invested in much-needed extensions and upgrading.

Secondly, it was supposed that corporatising the Johannesburg Fresh Produce Market would allow for better focused management and would bring in a board of directors with fresh ideas and business acumen. Plans included the improvement of operating systems. A long-overdue upgrading of the market’s all-important information technology system was to be undertaken.

**Corporatisation with Specific Reference to Johannesburg Fresh Produce Market**

Corporatisation is a generic concept often used to refer to the “ring-fencing” and commercialisation of government businesses. Broadly defined, it encompasses all that the City of Johannesburg has done with its utilities and agencies. iGoli, however, reserved a particular meaning for the term. In the City of Johannesburg, corporatisation entailed turning a number of existing Metropolitan Municipality functions into legal business units. Unlike agency services, these functions are able to raise some of their own revenue. However, unlike utility services,
they may never completely recover their own costs and will continue to draw on Municipal subsidies for the foreseeable future. Like utilities and agencies, these units have a separate legal identity as a private company or, in some instances, a Section 21 (not for gain) company (City of Johannesburg, 2001). As explained above, the use of Section 21 Companies were disallowed by the Municipal Systems Act. Further, on a point of clarity the Johannesburg Fresh Produce Market was incorporated before the promulgation of the Municipal Systems Act, but with good knowledge of what the Municipal Systems Act would entail. Therefore, it was not created in a policy or legislative void.

At the time it was thought that corporatised units offer a number of distinct advantages over normal administrative structures. Listed below are some of the advantages:

First and most importantly, corporatised units were expected to act like businesses. By being more fastidious about raising revenue and cutting costs, they reduced the burden on the City of Johannesburg’s rates account steadily over time. It was envisaged that many of the corporatised units established under iGoli would eventually be able to manage with greatly reduced, or in some cases, no subsidies. This allowed the City of Johannesburg to invest these savings in more urgent priorities.

Secondly, corporatisation has been applied to functions that often require specialised management capacity. Previously, Johannesburg ran a number of unique services as part of a broader line department within the bureaucracy. Specialised management for a particular service was not always seen as a priority and appropriate skills were not always secured. It is not surprising that staff with no experience whatsoever or detailed knowledge of fleet and route management were unable to run a commercial bus service operating in a highly competitive public transport market. Corporatised units allow dedicated management capacities to be applied to a number of specialised City of Johannesburg activities.

Finally, some services were often seen as the “Cinderella” functions of the Municipalities. In times of financial crisis, they risk being labelled as ‘non-core’ and are given low priority in the allocation of scarce capital resources. A poor financial system and low credit rating took their toll on a number of Johannesburg’s services. The Johannesburg
Fresh Produce Market, for example, was at risk of losing large numbers of producers and buyers for want of desperately needed infrastructure extension and maintenance. Its revenue went into a central fund where it had to compete with numerous other priorities. Corporatising these services was supposed to remove these risks as they have control over their own revenue and are able to leverage their own capital funding.

Like agencies and utilities, each corporatised unit has a board of directors and a managing director or chief executive officer. The board of directors is accountable to the company shareholder, the City of Johannesburg. As the sole shareholder, the Municipal Council is responsible for setting policy and tariffs and directing the unit’s activities through a SDA. The agreement was, at the time, administered by the City of Johannesburg’s Contract Management and Shareholder Units, which holds the company responsible for delivering on specified key performance indicators and see to the corporate governance arrangements between the parties. The Municipal Manager remains the final accountable party.

As with agencies, accountability to the public is also a feature of the corporatised units. Within six months of its establishment, each unit established a user forum of stakeholders and provided the Municipal Council with regular progress reports.

In this way, managers are supposed to be released from the structures of bureaucratic “red tape” and committee approval, and could concentrate on the effective marketing and promotion of services within an environment of “customer service excellence”. The result, as believed by the Municipal Manager at the time, would be seen in a better quality of service for the customer and greater innovation in the design and delivery of Municipal products. It seems that when measured against the latter the utilities, agencies and corporatised entities were relatively successful.

*The Johannesburg Fresh Produce Market in Perspective at the Time of Corporatisation*
Johannesburg Fresh Produce Market was the largest fresh produce market of its kind in the
country, with an annual turnover of well over R1 billion at the time. Traditionally, R 950 million
of this goes to the producers, and R50 million to the Johannesburg Fresh Produce Market
through a 5% ad valorem commission on turnover. The greater part of this income was spent on
operations and maintenance, leaving a surplus of approximately R20 million. However, from
1995 to 2000, surpluses were siphoned off and spent on other Municipal activities. There was
consequently virtually no investment in the Johannesburg Fresh Produce Market during the
aforementioned years, which began operating at diminished capacity. The City of Johannesburg
originally intended to privatise the market, but later retreated from this plan.

The Johannesburg Fresh Produce Market in Perspective Post Corporatisation

Since its corporatisation the Johannesburg Fresh Produce Market has improved its image,
facilities and systems. However it is still far from where it should be and wants to be, but it is
slowly but surely moving into the right direction. A definite improvement in service quality and
the general condition of facilities cannot be denied.

The features of the Johannesburg Fresh Produce Market arrangements at the time of
corporatisation and beyond are as follows:

Upon the incorporation of the Johannesburg Fresh Produce Market, it entered into a SDA and
Sale of Business Agreement with the City of Johannesburg.

The Sale of Business Agreement provided for the transfer of the business of the
Johannesburg Fresh Produce Market, the assets (including the market property) and the
staff to the company, the Johannesburg Fresh Produce Market.

The SDA prescribed the services to be rendered by the Johannesburg Fresh Produce Market
to the City of Johannesburg as well as certain corporate governance and contract
management procedures.
The City of Johannesburg appointed its own board of directors and Chief Executive Officer for the Johannesburg Fresh Produce Market, who has to perform in terms of certain performance criteria.

Johannesburg Fresh Produce Market prepares an annual business plan covering a three-year forward planning period. This annual business plan is evaluated by the Shareholder Unit (which considers corporate financial and governance matters) and the Contract Management Unit (which considers operational performance matters). The business plan is aligned to the City of Johannesburg’s Growth and Development Strategy (GDS) and Integrated Development Plan (IDP).

The Johannesburg Fresh Produce Market also participates in the development of the City of Johannesburg GDS and IDP.

Johannesburg Fresh Produce Market has its own financial and management information system as well as its own trading system, i.e. it is run separately from the financial systems of the City of Johannesburg. It does not make use of the FreshMark system used by most departmental fresh produce markets.

Johannesburg Fresh Produce Market’s performance is measured on a quarterly basis against the agreed business plan.

The business is audited annually by the Auditor-General as it has its own set of financial statements separate from those of the City of Johannesburg. Its financials are incorporated (consolidated) into the group financial statements of City of Johannesburg as it is a 100% owned subsidiary of the City of Johannesburg. It can be said that Johannesburg Fresh Produce Market is the most audited fresh produce market in South Africa.

The Johannesburg Fresh Produce Market’s funds (loans and surpluses) are controlled by the Finance Department of the City of Johannesburg through various inter-company arrangements. The operations of the company are not as independent as originally envisaged, but neither are the other companies incorporated by the City of Johannesburg as part of its iGoli 2002 restructuring process.
Although Johannesburg Fresh Produce Market, as evidenced in the graphs discussed in the previous sections of Part 2 of this Report, performs better than any other fresh produce market, it still cannot keep up with the challenges of a contemporary, fast-developing, very competitive and demanding fresh produce sector.

Johannesburg Fresh Produce Market, by virtue of the fact that it is a Municipal Entity, is jurisdictionally bound. (This is confirmed by a Senior Counsel opinion obtained on behalf of the NAMC) (Kennedy, 2007). Therefore, it is not allowed the freedom to explore business opportunities as and when they occur because it is hampered by a legislative burden. As mentioned earlier, municipal legislation is written to control and administer “monopolistic” Basic Municipal Services\(^\text{15}\) and Municipal Services\(^\text{16}\), and not for fresh produce market functions that compete with the private sector marketing channels.

The bylaw of the City of Johannesburg is de-linked from the Johannesburg Fresh Produce Market as the existing bylaw (1978) does not make provision for the Johannesburg Fresh Produce Market. To make things worse, this bylaw refers to an Act that has been repealed. Be that as it may the Johannesburg Fresh Produce Market performed well and is continuously improving its performance as indicated below.

Like all fresh produce markets the Johannesburg Fresh Produce Market, is mainly a specialised fresh produce property facilitation business and it reports into the Economic Development Department of the City of Johannesburg.

Johannesburg Fresh Produce Market suffered a leadership challenge as it was managed by three CEOs in a very short period of time before Mr. Kgosiensito Ramokgopa (now the mayor of the City of Tshwane) was appointed and since stabilised and turned the market around. It is believed that the Johannesburg Fresh Produce Market generated a net profit before tax of R95 million for the 2012/2013 financial year.

The business suffered severe operational challenges in the first seven years post corporatisation. Conditions have however improved since.

\(^{15}\) As defined in the Municipal Systems Act.

\(^{16}\) As defined in the Municipal Systems Act.
The operational cost of Johannesburg Fresh Produce Market did not show any significant improvement in the early years after its incorporation. It however succeeded and has a much improved handle over costs lately. The main cost item was and still is labour.

Capital expenditure increased dramatically and some facilities were upgraded and expanded. The Johannesburg Fresh Produce Market is currently implementing a major upgrade and expansion of approximately R700 million.

The actions and performance of Johannesburg Fresh Produce Market are under more scrutiny than that of other fresh produce markets that operate as Municipal Departments.

In 2007/2008 Johannesburg Fresh Produce Market faced a very real threat which relates to the creation of a direct competitor in its area of jurisdiction which, if established, may render the future sustainability and viability of Johannesburg Fresh Produce Market a challenge. The City of Johannesburg and the market management successfully managed to halt the investment into a competitor.

Johannesburg Fresh Produce Market resorts under the Economic Development Department of the City of Johannesburg because it is seen as a local economic development instrument.

As a Municipal Entity Johannesburg Fresh Produce Market does not participate in the sale of produce and therefore does not have any control over throughput and consequently has little control over its ever-fluctuating income. In fact the business model did not change with corporatisation. The business model is currently changing to incorporate more fixed income stream business such as rental income.

Neither Johannesburg Fresh Produce Market nor its agents take ownership risk in the transfer of fresh produce and Johannesburg Fresh Produce Market is never in control of the volume, quality and price of the produce. We put forward that fresh produce markets managed as Municipal Entities are not in control of their main income stream. As stated above, the Johannesburg Fresh Produce Market put in place measures to reduce its reliance on the ever fluctuating ad valorem income.
Although the producer pays the Johannesburg Fresh Produce Market its 5% *ad valorem* commission and although it is seen as the primary client, Johannesburg Fresh Produce Market does not have any direct relationship with producers.

In addition agents operate at the market premises, but have no legal nexus with either Johannesburg Fresh Produce Market (the operator) or the City of Johannesburg other than the bylaw of the City of Johannesburg. This relationship seems to be dysfunctional or may be inappropriate for enhanced performance.

Johannesburg Fresh Produce Market funds transactions in which it does not participate, which is a contravention of the provisions of Section 164 of the Municipal Finance Management Act.

Johannesburg Fresh Produce Market does not split the management and operation of the business from the ownership, management and operation of the property.

In general it can be said that the Johannesburg Fresh Produce Market has improved substantially on its accountability, its service offer, the marketing of the business, the quality of its facilities and its administration. Unfortunately it has not been able to maintain its portion of the fresh produce business due to an inflexible institutional structure and the incorrect internal focus of the business. One should not be bamboozled by the increase in turnover, as the tonnage throughput has not grown at the same rate as the national fresh produce production, which has outdistanced Johannesburg Fresh Produce Market by far.

In order for Johannesburg Fresh Produce Market to participate in the growth in the fresh produce sector, the market business in general and the property aspect will have to be addressed and a more industry responsive institutional and ownership structure may be needed.

A Municipal Entity institutional structure is more difficult to move to the private sector than the Departmental Option. A Municipal Entity is a taxable entity and introduces its own transaction dynamics to the restructuring process. It is costly to run a Municipal Entity due to all the reporting requirements under the Municipal Systems Act and Municipal Finance Management
Act and in addition it is costly to unwind. There is no example of such unwinding of a Municipal Entity in South Africa.

Private Markets

A private market is a private fresh produce market that is not managed by a municipal by law. The agents on the private markets take the 5% ad valorem and the 7.5% commission (i.e. 12.5%) as they are fulfilling the market management and the agent function. They normally own or rent the market buildings.

The following are private markets known to the consultant:

- Cape Town Market (Epping Fresh Produce Market);
- Nelspruit Fresh Produce Market (Nelspruit Market);
- Mpumalanga Fresh Produce Market (Mpumalanga Market);
- George Fresh Produce Market (George Market);
- Ugu Agricultural Market (Ugu Market);
- Noord-einde Market;
- Philippi Market;
- Butterworth Fresh Produce Market (Butterworth Market); and
- King Williams Town Fresh Produce Market (King Williams Town Market).

Cape Town Market (previously Epping Fresh Produce Market), being the third largest market and previously owned by the City of Cape Town, was sold to the private sector through a competitive bidding process. The features of the transaction are discussed in more detail below.
Nelspruit Market

Nelspruit Market is a very small private market with Mpumalanga Market being its main local competitor. The opening of Mpumalanga Market reduced the sales of Nelspruit Market substantially. Nelspruit Market is actually an extension of a transport business.

There are developments in the Nelspruit area with the development of a “new Market”. This is being dealt with below under the section New Developments.

Nelspruit Market is sending its sales statistics to Tshwane Market on a monthly basis to be incorporated in the national fresh produce market statistics.

Mpumalanga Market

Mpumalanga Market was previously NLK Market and approximately seven years ago the agents broke away from NLK to form Mpumalanga Market. The market is mainly handling potatoes and onions.

Mpumalanga Market is sending its sales statistics to Tshwane Market on a monthly basis to be incorporated in the national fresh produce market statistics.

George Market

The George Market is looking for opportunities to expand and they are in protracted negotiations with the municipality for land to expand the business. There were some positive developments lately with the possible development of a “new Market”. This is being dealt with below under the section New Developments.

George Market is sending its sales statistics to Tshwane Market on a monthly basis to be incorporated in the national fresh produce market statistics.
Ugu Market

The Ugu Market was commissioned by the Ugu District Municipality and supported by the Hibiscus Local Municipality, the KwaZulu-Natal Department of Agriculture, ESKOM and the Development Bank of SA in 2002. MBB Consulting was appointed for the design and building of the market with the purpose of providing trading facilities for emergent farmers. The site was an 18 ha plot outside Port Shepstone located close to the town’s informal settlements and the N2 highway.

Phase 1 of the development was completed in 2006 and provided a fresh produce wholesale hall, a banana ripening and refrigeration centre, 18 retail outlets, a public drop-off point, a composting facility and an administration building.

Phase 2 provided for a pack house for the emerging farmers, a food processing plant, another wholesale market hall, 18 more retail outlets and a dry goods and groceries warehouse (MBB Consulting, 2007).

However, the market has been fraught with issues since the start and was closed in 2012, with only one tenant continuing to rent the ripening section. Problems arose from the ownership of the land, which belonged to Province and would have to be transferred to the Local Municipality and then to Ugu District Municipality (Ndovela, 2012). In addition, there were not sufficient emergent farmers to cater for the anticipated supply at the market. Even when the market had opened its doors to commercial farmers, its track record worked against it. As a result the market didn’t generate sufficient income to sustain itself. For example, Ugu Market’s monthly budget statements for August 2011 stated that the market was generating R 28 000 while its expenditure amounted to R 600 000 (Mchunu, 2011).

Ugu Market did not send its sales statistics to Tshwane Market.
Noord-einde Market

Noord-einde Market is a private market with no agents. Noord-einde Market in Port Elizabeth is also not a true fresh produce market in terms of the above definition.

Noord-einde Market does not send its sales statistics to Tshwane Market.
Philippi Market

Philippi Market does not have any agents. Its business plan states that it is supposed to have a wholesaler that is supposed to sell directly to the public but currently there is no wholesaler on the market. The only operations running on the market premises at the moment are packaging, processing and an export company. These facilities are rented out to different tenants.

Philippi Market commenced business two years after the sale of Epping Fresh Produce Market. However, Philippi Market is not a true fresh produce market and the name is viewed as misleading in terms of the definition of a fresh produce market as set out in this Report. It used to purchase most of its fresh produce from Cape Town Market, which produce was used for processing. The Philippi Market provides facilities to wholesalers and wholesale-retailers. If it were to participate in the fresh produce market statistics, it would have inflated the figures artificially as it may result in a double count. Furthermore, it is the prerogative of the owners of each fresh produce market to decide to participate in the national fresh produce market statistics.

We quote below two articles regarding the developments of Philippi Market. The one deals with the initial development of the Philippi Market and the other with the failure of the Philippi Market.

“Ultra-Modern Fresh Produce Market for Western Cape

A brand new multi-million rand fresh produce market is to be built at Philippi East on the Cape Flats as part of the City of Cape Town's strategy to stimulate much needed economic growth in the area.

The Philippi Fruit and Vegetable Market will be funded by the City of Cape Town and the Western Cape Provincial Government at a total cost of R21,5 million.
The private sector, including several BEE companies, will collectively invest more than R8 million in packing, processing, cold storage and ripening equipment.

"Philippi Market is the City's first major commercial investment in the Greater Philippi area and one of the largest public private partnership projects in the Western Cape," says Alderman Clifford Sitonga, Mayoral Committee Member for Economic & Social Development and Tourism.

Identified long ago as a key development node in the Metropolitan Spatial Development Framework, Philippi is strategically located in terms of air, road and rail links. It also has a ready supply of local labour.

The Market itself will be located on a six hectare site on the corner of Market Street and Stock Road, across the new Joe Gqabi Station Transport Interchange, close to the N2 and R300.

"Cape Town's rapid population growth has led to increasing consumer demand for fresh produce and the Philippi Market will fill a special niche in the market place," says Alderman Sitonga, who played a key role in the negotiations between the City and the private sector partners.

The Market will be managed by the Philippi Market Operating Company, consisting of MBB Consulting Engineers (Project Co-ordinators), the Muslim Judicial Council, Forktech Logistics, Baccarat Corporation Export Agents, Emthonjeni Caterers, Tamarron Trading, Torre Maintenance Group and Kuyabanda Refrigeration.

"Although small (4 000 m² floor area) in comparison to the national markets, Philippi Market will be designed and built according to international food safety standards. This will enable it to be much more than just a fresh produce market. It will in fact boast some of the most modern on-site processing facilities, thus creating a unique value-adding food production chain," says Mr Thys de Wet of MBB.

The Market will consist of a main sales hall for wholesalers and brokers, as well as rooms for some 20 retailers and 40 mobile traders. A central packhouse, banana ripening centre, dairy outlet, large processing facilities, composting plant, seedling nursery, transport system
and BEE enterprises such as wholesalers, retailers and hawkers will be established on the market site. The banana ripening facility will be the first in Africa to be organically certified.

"Plans are under way to link Philippi Market with other district markets in George, Port Elizabeth, East London, Umtata, Port Shepstone and even Maputo, in order to secure year-round supply of fresh produce such as bananas, potatoes, onions, fresh fruit, herbs and other essential agricultural produce," says Mr de Wet.

According to Mr Cobus Dowry, Western Cape Minister of Agriculture, Philippi Market would create the "suction force" for the establishment of more than 2 500 emerging farmers and the development of more than 5 000 hectares of farm land over a five year period.

"It is estimated that the Philippi supply base will activate further Government funding for the emerging farmer sector in the Western Cape at a tempo of more than R50 million per annum for at least a five year period.

"The Market was designed to cater for the needs of this sector and contract farming will play an important role - from supplying the necessary seed, fertilisers and mentoring up to the final collection and marketing of the produce.

"My department is proud to be associated with the Philippi Market as we are settling and supporting more and more emerging farmers. This market will create the necessary platform and opportunity for them to market their produce and enter the mainstream activities of agriculture," says Mr Dowry.

"Commercial farmers, especially those wishing to incorporate empowerment in their production units, will be encouraged to send produce to the Philippi Market and to interact directly with the various value adding and trading groups at the market," More than 160 on-site permanent jobs are to be created by the middle of 2006, leading to a further 300 informal downstream opportunities.

However it is among emerging farmers, where significant job creation opportunities exist, says Mr Charl Pienaar of AgriExpert, project co-ordinator of the Philippi Market Supply Base project, a five year programme funded by the Western Cape Department of Agriculture.
"By 2011, we should see at least 2 500 rural families actively and sustainably involved in the production of mainly cash crops for the market. By then, the Market plans to have an annual throughput of more than 60 000 tonnes," says Mr Pienaar.

"The Muslim Judicial Council is proud and enthusiastic to be part of this initiative," says Ms Moulina Hendricks of the MJC. "Our training farm near the market, Orient, will play an active role in the areas of public participation, training and mentoring new and emerging farmers."

The market will be constructed during the next few months 2005, and is set to open its doors for business by December. A widespread public participation programme will be conducted beforehand to inform the public as well as identify potential business partners. Tender documents for the construction phase are currently available from the City of Cape Town.

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"Emerging farmers ‘as elusive as Kruger’s gold"
Last week saw the introduction of a turnaround strategy developed in a collaboration between the Philippi Market Operating Company (PMOC) and First Business South Africa (FBSA) but the emerging farmers, in the words of one senior City official, are as elusive as “the Kruger millions”.

The city official, who could not be named as he was bypassing official media liaison channels, said in the original planning phases for the market, which took place “about ten years ago”, the Department of Agriculture was to have established 5 000 emerging farmers to supply market produce.

The official said the emerging farmers were to constitute about 40 per cent of the fresh produce supplied, the remaining 60 per cent being established commercial farmers who would “anchor” the market.

Neither the commercial nor emerging farmers have used the market. However, the PMOC plans to change this.

At a three-day exhibition held at the market from 10 to 12 March, to which stakeholders were invited to meet and attend presentations, FBSA managing director Tim White outlined the new strategy.

This included supplying the approximately 25 000 small retailers on the Cape Flats with fast moving consumables at “the same low price large retailers such as Pick ’n Pay and Shoprite/Checkers paid”.

PMOC marketing strategist Ebrahim Isaacs said a fresh produce supply and distribution network would “piggyback” this system, with trucks delivering goods to retailers picking up fresh produce on their return journey.

Isaacs said the market would also do away with an agency fee, normally in the region of 13 percent.

But while the PMOC talks of “accelerating the development of 2 500 new farmers in the Western Cape by 2012”, Provincial Department of Agriculture director of food security
Mogale Sebopetsa said a lot of planning was based on assumptions that the “pace of land reform would move faster than it has”.

Sebopetsa said there weren’t 2 500 emerging farmers in existence, although there were a “significant” number.

But existing emerging farmers had their own distribution networks which excluded the Philippi market.

Some supplied to the established commercial market in Epping, while other, smaller operations, had private networks.

He said it was assumed emerging farmers would “automatically supply” the Philippi market, but there was now a realisation that incentives were needed.

And two successful ‘emerging’ farmers operating in greater Cape Town were dismissive of the Philippi market and were not aware of the new turnaround strategy.

Alwyn Jephta, 29, who came second in the development category of the 2006 SAB Kickstart Awards and farms 1.5 ha of vegetables near Stellenbosch, said he knew nothing of last week’s exhibition.

Jephta, who was highly critical of the bureaucracy he encountered when trying to access state-owned land, and has been forced to rent high-priced private land, said he sold his produce at the Epping market.

He said he was interested in the Philippi market’s new strategy but asked the question: if the market was serving the interests of both the retailers – in trying to get them the lowest wholesale price possible – and the suppliers, “what’s going to motivate them to get me (as a supplier of fresh produce) a higher price”? — West Cape News17

Philippi Market did not send its sales statistics to Tshwane Market.

**Butterworth Market**

Butterworth Market is a Closed Corporation in terms of the previous Companies Act. It is privately owned on private land. There is no government involvement at all in the market. There is a single agent, Rob Sparks, who works on a commission basis.

It does not send its sales statistics to Tshwane Market.

**King Williams Town Market**

King Williams Town Market is a private market with no agents. It does not send its sales statistics to Tshwane Market.

These markets operate as companies and the shares in these market companies are held by the private businesses and individuals. Normally the market business operation is owned by the aforementioned private companies and the land is rented from the private sector or a local municipality.

**Divestiture of the Epping Fresh Produce Market**

Epping Fresh Produce Market was managed as a traditional city-owned fresh produce market and reported into the Trading Services Department of the City of Cape Town. After an internal restructuring process at the City of Cape Town in 2001, the Epping Market was identified as “non-core” to the City of Cape Town’s operations. Consultants were appointed with funding and supervisory support from the Municipal Infrastructure Investment Unit (MIIU) to investigate the future institutional options for Epping Fresh Produce Market. One of the authors of this Report was the project director and lead advisor to the City of Cape Town as regards the Epping Fresh Produce Market business sale and property lease process.
The Divestiture Process

MIIU granted funding to the amount of R600 000 to the City of Cape Town on a cost-sharing basis with the Municipality providing a 50% share of project costs. These funds were used to meet the costs of engaging a consultant and transaction adviser to conduct an institutional options analysis on Epping Fresh Produce Market and to fund the execution/implementation of the recommended option.

This investigation included an in-depth industry overview explaining developments in the fresh produce sector affecting the operation of fresh produce markets outside the domain of municipalities. At a meeting between City of Cape Town officials, consultants and MIIU staff in Cape Town on 5 February 2002, the following options regarding the future of Epping Fresh Produce Market were identified for further investigation and analysis:

- corporatisation;
- sale of the business operation with a lease of land and building;
- sale of the business operation with a separate sale of the land and buildings; and
- sale of the business operation combined with the sale of the land and buildings.

Results of the analysis led to a recommendation that the most appropriate option was a sale of the business operation and assets coupled with a lease of land and buildings as one indivisible transaction. The feasibility process leading up to the final sale of Epping Fresh Produce Market was divided into two phases: a Preparatory Phase and an Implementation Phase (Municipal Infrastructure Investment Unit, 2006)

Phase 1: Preparatory Phase

The following functions were performed in the preparatory phase:
- financial, technical and legal due diligence;
- development of guidelines and objectives for the transaction;
preparation of transaction documents;

development of bid evaluation criteria; and

the preparation of a call for Expression of Interest – where a two-stage tender process was followed.

**Phase 2: Implementation Phase**

The following functions were performed in the implementation phase:

- evaluation of Expression of Interest;
- finalisation of the sale of business agreement and lease agreement;
- tender evaluation and selection of preferred bidder(s);
- preparation of documentation for the Municipal Council’s consideration;
- negotiations with preferred bidder;
- agreement on finance terms and conditions with preferred bidder; and
- assistance with the signing of the sale of business and lease agreements.

**The Project Scope**

The scope of the project included the following:

**Financial Restructuring** — The business had to be substantially restructured since it generated a surplus of only R3.5 million per annum, which was the only income the City of Cape Town received from Epping Fresh Produce Market. This surplus was accumulated in a closed account to be used for future capital expenditure. Although the facility provided for its own future capital expenditure, the City of Cape Town did not enjoy any direct benefit from operating and owning the facility as the capital investment needed used the surplus funds. Epping Fresh Produce Market experience serious
management challenges and city management spent up to 30% of their time on dealing with issues at Epping Fresh Produce Market.

**Communication with key stakeholders** — Epping Fresh Produce Market, unlike normal municipal services in South Africa where the major role-players are the unions, employees, community groups, *etc.*, had in addition to these a variety of other interested parties, including farmers, organised agricultural agents, national government agencies and buyers (of all varieties, *e.g.* informal trade, institutional trade, retailers, wholesale-retailers and wholesalers). All of these stakeholder groups needed to be informed regarding the process and motivated regarding the rationale of the transaction.

**Valuation of assets** — because of the time lapsed from commencement to completion of the transaction, the business valuation needed to be updated several times.

All repairs, maintenance and insurance as well as development and expansion risk relating to the lease of the property was transferred to the new owner. On the effective date the outstanding amount owed to the City of Cape Town by traders at the Epping Fresh Produce Market was approximately R29 million. The new owner of Epping Market was appointed to collect the monies, at no cost to the City of Cape Town, on behalf of the City of Cape Town.

The new owner of Epping Market employed approximately 100 new staff — this was consistent with the City of Cape Town’s job creation goals.

**Highlights of the Project**

The transaction was completed on February 23, 2004 and the effective date was March 1, 2004. The City of Cape Town benefited from the transaction in the following ways:

All the objectives set by the City of Cape Town for the transaction, including all socio-economic objectives, were met by the successful bidder.

No employees were retrenched.
The successful bidder was a management-led consortium back by an financial institution. All employees who were not part of the bid were redeployed within the administration of the City of Cape Town. The cost of redeployment was taken into account when options were valued.

The accumulated surplus of approximately R29 million remained with the City of Cape Town.

A 20-year lease agreement was entered into with an initial lease amount of R6 million per annum, escalating at CPIX plus one third of CPIX. The NPV of the lease equates to R100 million.

The remainder of the cash stream in the business was sold for R16 million. The NPV of the overall transaction was approximately R174m.

The operating entity is more than 65% BEE owned.

Following this transaction the City of Cape Town is the only municipality that has worked out its fresh produce market credit facilities in order to be compliant with the provisions of the Municipal Finance Management Act.

The project won an international prize – “African Investor – AI Investments Awards 2004” where the sale of Epping Market was the winner of the Privatisation Programme of the Year category. The transaction was described as innovatively packaged and executed.

Suddenly the City of Cape Town changed an annual R3.5 million cash inflow, from which it had to do the capital projects at Epping Fresh Produce Market and take all risk associated with owning the business, into a situation where they met all their transaction objectives. In addition they received a cash injection of R74 million as well as an annual lease income of R6 million escalating at a predetermined rate, employed 100 new staff members, achieved a 65% BEE ownership structure for the business and transferred all operational, technical and financial to the operating company.
The additional benefits and value flowing from what is discussed below in section 4.5.6 were not taken into account in the transaction value calculation and benefits to the City of Cape Town. At the time of the transaction the City of Cape Town was not aware of the quantum and exact nature of the possible investment as each bidder had his own view regarding the future of the business. Nevertheless the immediate value creation was sufficient for the City of Cape Town to take a decision, which now will create substantial additional economic value to the City of Cape Town.

The Epping Fresh Produce Market after Divestiture

The following are some of the results following the divestiture of Epping Fresh Produce Market:

The new owners took the commission system and the agents trading at Epping Fresh Produce Market over without the bylaw (as it was not under local authority anymore) and/or any replacement agreements. Therefore there were no legal nexus between the new market owners and the agents operating at the Epping Fresh Produce Market.

The Cape Town Market is the first Market that was able to successfully negotiate performance based agreements with its agents. As stated above, since inception and up to the signing of the performance based agreements, Cape Town Market operated without any agreement with its agents.

The new owners of Cape Town Market have bought into the commission system and vigorously defend and safeguard it.

The role of agents is now well understood and enthusiastically promoted to the benefit of both parties.

At the time of the Epping Fresh Produce Market transaction, the City of Cape Town, in a joint venture with the Western Cape Provincial Government, acting as the transaction adviser, was faced with the absurd fact of the development of Philippi Market whilst Epping Fresh Produce Market was being sold to the private sector. The development was cofounded by the Western Cape Provincial Government and the City of Cape Town. It now seems as if the Philippi Market will not make the grade as a pure fresh produce
market. The main reason is the fact that Cape Town Market was able to keep all its buyers, producers and agents.

The new owners were not very successful in collecting outstanding debt as they did not have their credit facilities in place upon implementation of the transaction. The latter was the major reason, but definitely not the only reason, for the difficulty they experienced with the collection of the debt. One of the main subordinate driving forces for the difficulty to collect debt for Cape Town Market was because some members of the losing bid were debtors and it was most probably more of a positioning exercise than anything else.

Soon after the transaction Cape Town Market developed its own credit facilities as the provisioning of credit was seen as an essential part of the future success of the fresh produce business.

Producers and agents alike were part of an equally good but unsuccessful opposing bid. After conclusion of the transaction opposing parties traded at the market, which did not render the inception period easy for the new owners. However, the new owners managed their way through the difficult inception phases and Cape Town Market is now running a successful business.

The fresh produce market statistics indicate that no real fireworks took place at Cape Town Market for the first two years after the transaction, but signs of improvement were seen in the third year of operation and management projects a progressive upward trend in the performance of the business. Where Cape Town Market usually achieved approximately R200 to R300 per ton less than Johannesburg Fresh Produce Market for fruit trade, its annual average rand per ton value exceeded that of Johannesburg Fresh Produce Market for the 2006/2007 financial year. Cape Town Market and its agents are entering the export market which may be the most important reason for the improvement in the average rand per ton value of their fruit trade. Export transactions are over and above the normal trade, and as a result it does not take away from the normal business of Cape Town Market, but it rather adds to and complements the business of Cape Town Market.

The business generated a handsome cash flow from day one, which placed the new owners in a position to renegotiate the ownership structure of the business. The farming fraternity and agents were not part of the original ownership structure as it was part of an
opposing/losing bid. The farming fraternity hold its shares through some industry producer bodies.

Originally management together with investors owned the shares in the new entity – it was a management buy-out transaction. Management was bought out within the first two years after incorporation.

Producers and agents bought into the business as from 1 March 2007. Their combined shareholding is set at 26% of Cape Town Market.

Epping Fresh Produce Market experienced a serious loss of business due to hawkers that trade on the pavement and not even a court case could stop them. We advised the City of Cape Town to sell the business with the challenge (outstanding court case) and leave it to the private sector to develop a solution. The new owners advised that the land occupied by the hawkers would be incorporated into the Cape Town Market land and the new development would take care of hawkers. To date this did not materialise.

A huge portion of the property is under- and undeveloped and Cape Town Market, through its investment arm Altius Investment Holdings (Pty) Ltd, made plans to develop the property into a fresh produce trading and fresh produce value-add hub. Their aim is to bring most of the fresh produce trade, downstream and upstream fresh produce businesses, as well as complementary business, to the premises and through that diversify business income by increasing property related income and increase the income relating to fresh produce trade.

Certain contract conditions are reviewable upon the extension of the lease for a further nine years and 11 months. The contract stipulates that the contract extension be negotiated six months prior to expiry on 31 January 2014. Therefore, the negotiations will start soon and it is expected that the positioning exercises by the parties commenced some time ago as part of negotiation strategy and tactics.

It is understood that the City have lost most of its institutional knowledge, which may render the contract review and extension negotiations a challenge for the City.

It is also understood that the City did not managed the contract effectively with many matters that were not implemented.
Lessons Learned

The following lessons were learned in the Cape Town Market transaction:

The legislative environment to complete a transaction of this nature is extremely complex and a Municipal Systems Act Section 78 process would not have rendered the required results for the City of Cape Town – the City of Cape Town transaction objectives could not have been met by a Municipal Systems Act Section 78 process. Upon the implementation of the transaction the City of Cape Town effectively elected not to render the fresh produce market service any further.

Labour should be informed early on in the process and they should participate where applicable. It is important that their fears are addressed beforehand and with due care.

The role-players (producers, agents and buyers) have to be well-informed about progress with the transaction process and regular feedback is needed.

The municipality must be clear on what it wants from the transaction – therefore clear goals and objectives should be set as it will inform the overall transaction process, strategic direction and timelines.

There are not many interested investors in municipal fresh produce markets other than those directly involved in the production of fresh produce. With the sale of Epping Fresh Produce Market’s operations, the transaction adviser had to market the transaction substantially and intensively. Prospective investors as well as the municipal decision-makers need to be well-informed about the operations and sale process of the relevant fresh produce market.

There is the unambiguous risk of collusion among sector players in a divestiture process and this phenomenon is even more relevant for fresh produce markets due to the relatively small interest pool.

In order to facilitate a Municipal Council decision with regard to the future of the fresh produce market, the municipality has to be educated and guided about the operation of
the fresh produce market and sector dynamics and the role it will play in the performance of the specific fresh produce market in a new dispensation.

The transaction adviser should be involved in the handover process (provide post-transactional support) and should not discontinue its involvement after the signing of the transaction documents. The transaction adviser cannot determine this as it is a municipal decision to keep the services of the transaction adviser during the implementation phases of the transaction.

Ensure that due practice is followed throughout the transaction process as it is almost certain that the municipality will be challenged in court on some or other transactional matter.

The municipality has to understand the transaction to monitor the lease agreement provisions and conditions properly. In other words, the municipality must have the capacity to manage the lease to its full benefit.

When a business owner like a municipality sells a fresh produce market business to a purchaser, it should not reinvest in another market development shortly thereafter, especially when the feasibility of the market sold indicated that the future for fresh produce markets as questionable. The question can be asked why did the City of Cape Town (and the Western Cape Province) not invested the monies invested in Philippi Market in the property of the Epping Fresh Produce Market?

**Concluding Remarks on Private Markets**

Unlike Departmental fresh produce markets and to a lesser extent municipal controlled fresh produce markets, private fresh produce markets will not exist if they are not profitable and generate positive cash flow for sustained periods. In the case of Departmental fresh produce markets as already discussed, not all costs to manage these markets are allocated to such markets. For example, security and insurance related costs are in many instances not allocated to the market expenditure budget. In the case of Departmental and municipal controlled fresh produce markets, the parent municipality can always step in as a lender or rescuer of last resort. In the case of the Maitland Abattoir, it took the City of Cape Town more than eight years of
continuous increased annual loss-making to recognise that it will not be in a position to turn the abattoir around.
New Developments

Developments at National Government Level

*Presidential Infrastructure Coordination Commission*

Government recently adopted an Infrastructure Plan that is intended to transform the economic landscape of South Africa, create a significant numbers of new jobs, strengthen the delivery of basic services to the people of South Africa and support the integration of African economies (Presidential Infrastructure Coordination Commission, 2012).

The Presidential Infrastructure Coordinating Commission (PICC) was established by Cabinet to integrate and coordinate the long term infrastructure build

Seventeen Strategic Integrated Projects (SIPs) have been developed and approved to support economic development and address service delivery in the poorest provinces.

Each SIP comprises of a large number of specific infrastructure components and programmes.

SIP 11 deals with Agri-logistics and rural infrastructure and deals with:

“Improve investment in agricultural and rural infrastructure that supports expansion of production and employment, small-scale farming and rural development, including facilities for storage (silos, fresh-produce facilities, packing houses); transport links to main networks (rural roads, branch train-line, ports), fencing of farms, irrigation schemes to poor areas, improved R&D on rural issues (including expansion of agricultural colleges), processing facilities (abattoirs, dairy infrastructure), aquaculture incubation schemes and rural tourism infrastructure.”
Department of Agriculture, Forestry and Fisheries

The Department of Agriculture, Forestry and Fisheries (DAFF) commenced with the implementation of SIP 11 and as far as fresh produce markets are concerned, it is currently gaining information on fresh produce market infrastructure needs covering maintenance backlog, general upgrade and expansion. This process is starting to gain some momentum.

Developments in Mpumalanga

The Mpumalanga Provincial Government: Department Agriculture, Rural Development and Land Administration commenced with the development of an agricultural marketing hub and progressed well. The article quoted below provide an update on the progress made with the development.

“New fresh produce market and agricultural hub look set to grow Mpumalanga provincial economy

20 May 2013

Both the construction industry and fresh produce farmers in Mpumalanga look set to receive a welcome boost following the announcement by the provincial government that it has finalised the site for a new regional fresh produce market and agricultural hub.

The Mpumalanga Department of Agriculture, Rural Development and Land Administration (DARDLA) signed a land availability agreement with local farming, property and investment business, HL Hall and Sons, to locate the new agricultural hub on the Sabie/Mashishing road close to Nelspruit and the Riverside Park mixed-use regional node.

Construction of bulk services for the fresh produce market, a key strategic project for the province, is expected to start in October 2013. The approved site, adjacent to the interchange with the N4 bypass, is large enough to accommodate additional government projects such as value addition projects.
The selection of the site for the new market and agricultural hub followed a comprehensive and competitive evaluation process that assessed factors such as access to bulk services and major transport routes, size and potential for expansion, environmental impact, pricing and other criteria. Preliminary environmental and geotechnical investigations have confirmed the agreed site’s suitability for the intended use.

“The Halls site was preferred not only because of its superior performance in the evaluation process, but also because we view Halls as an important strategic partner in this project. Their extensive knowledge and experience in the local and international fresh produce business, and specifically the marketing and logistics associated with transporting and selling fresh produce locally and internationally, will be a key success factor,” says Ms Nelisiwe Sithole, Head of Department at DARDLA.

One of the main reasons for the development of a regional fresh produce market and agricultural hub in Mpumalanga is to develop new markets and strengthen existing outlets both locally and internationally for the province’s commercial and emerging growers.

“The region has great potential for the production of subtropical fruit and nuts, and has already established itself as an important region of origin for produce such as avocados, citrus, mangoes, litchis, pecan and macadamia nuts,” says the MEC for DARDLA, Ms Voilet Siwela.

“We firmly believe that this project will greatly assist emerging growers and put the Lowveld and Mpumalanga firmly at the forefront of developing new international fresh produce markets for locally grown produce,” says MEC Siwela.

Detailed planning for the new site’s facilities and the structure for the ownership and management of the fresh produce market and agricultural hub is well advanced. DARDLA has sought specialist advice on the development, and has visited leading international markets such as Rungis in Paris, to ensure that the facility is designed and built fit for purpose.

“It is envisaged that the detailed design and plans will be completed by September 2013 and the commencement of construction of the first phase of the development will commence at the end of October 2013 and be completed and open for operations within approximately 12
months”, says Mr Andre van Niekerk, Director: Special Projects, DARDLA, who is overseeing this project.

Halls have grown over the years into a significant diversified business and are known locally for their fresh produce business and property development business. They also have an investment arm that has investments in a number of financial services and veterinarian pharmaceutical businesses.

“While we typically don’t sell large pieces of land due to the nature of our farming and property development business, we saw the approach by the Department as an opportunity to partner with government and support this exciting strategic project for the region and province,” says Dr Rob Snaddon, managing director of Halls.

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Issued by: Mpumalanga Agriculture, Rural Development and Land Administration
20 May 2013” (Mpumalanga Agriculture, Rural Development and Land Administration, 2013)

An article that is not as optimistic as the above article about the proposed new Mpumalanga fresh produce market is quoted below.

“Viability of proposed Mpumalanga fresh produce market questioned

07:42 (GMT+2), Fri, 18 November 2011
Concerns have surfaced in Mpumalanga that a planned large, formal fresh produce market will turn into a white elephant as has happened to similar markets elsewhere in the country.

Fresh produce growers in Mpumalanga believe that the province’s Department of Agriculture, Rural Development and Land Administration (MP DARDLA) needs to conduct detailed consultations with stakeholders at all stages of the region’s fresh produce value chain before going ahead with plans to develop the market.

Derek Donkin, CEO of the SA Subtropical Fruit Growers’ Association, said that the government had proposed a similar market for Limpopo’s Tzaneen area and it had never materialised. Another market had been developed in Limpopo’s Polokwane area and Donkin was unsure if this was even functioning properly.

Asked for his comments on the proposed Mpumalanga market, Donkin said: “This is the first time that I’ve heard of it. I think that whoever wants this market built must first do a proper viability study. There’s also very little reason why informal fresh produce traders would stop buying directly from farmers for less than they would be paying to market agents.”

Attempts by Farmer’s Weekly to obtain clarity on the proposed Mpumalanga market from the MP DARDLA appeared to have been ignored. However, the African Eye News Service (AENS) reported that a feasibility study into the proposed market would be commissioned this month and that it was planned to have the market built by August next year.

The AENS also quoted MP DARDLA spokesman, André van Niekerk, as saying that the Mpumalanga market would do away with the need for the province’s fresh produce growers to deliver their products to Gauteng markets. If the market was situated near Kruger Mpumalanga International Airport, fresh produce could be air-freighted to international markets in Asia and the Middle East, or shipped from nearby Maputo harbour in Mozambique.
Jason Moonsamy, senior manager for business services and systems control at the Durban Fresh Produce Market in KwaZulu-Natal, said that he too had seen regional fresh produce markets failing or running uneconomically due to improperly carried out feasibility studies. An example was the Ugu fresh produce market on the South Coast, which is no longer functioning. “If the Mpumalanga market does not have enough demand from buyers, then it won’t work,” Moonsamy explained. “I’d also be interested to know if Mpumalanga has a sufficient range of products to draw buyers away from the markets they currently use.

“Buyers prefer markets where they can buy everything they need in one go.” – Lloyd Phillips.” (Phillips, 2011)

Developments in George

The George Local Municipality is in the process of facilitating the development of a new fresh produce market. This was a long and tedious process, but it is understood that the project has moved towards a phase where final plans can be prepared and funding for the project can be considered. It is understood that DAFF indicated a willingness to consider funding the capital requirements of the project.

It is further understood that the current George Market will move to the new premises.

Below is a short article that was published in the George Herald newspaper on the development of the new fresh produce market.

“Large fresh produce market for George

13:34 (GMT+2), Fri, 22 July 2011

Large fresh produce market for George
GEORGE NEWS - George Mayor Charles Standers announced today that tenders are being invited for the lease of five serviced commercial plots where a large fresh produce market for George is to be established.

The plots are situated opposite Stanmar Motors on the corner of York Street and PW Botha Boulevard.” (George Herald, 2011).

Concluding Remarks

Each one of the three fresh produce market ownership and management models in operation brings its own dynamics to the fresh produce sector. This is the result of each municipality having authority over the fresh produce market operating within its own jurisdiction. As a result these markets are not regulated in the same manner although similar “rules of the game” are applicable.

It is evident that each of the models has a track record with specific features and cognisance of these features should be taken when the future of fresh produce markets is considered.

It seems fresh produce markets are losing market share if measured against industry developments. The Johannesburg Fresh Produce Market performs best of all fresh produce market.

It seems that the name “fresh produce market” is not always properly understood and it may be prudent to develop a proper definition for a fresh produce market as a lot of piggybacking is taking place (i.e. some business people is taking advantage of the description and classify fresh produce trading facilities as fresh produce markets). It is important to understand that municipal and municipal controlled fresh produce markets do not directly participate in the trade of fresh produce and that it only provides a platform (facilities and systems) where the trade in fresh produce takes place.
produce takes place. However, private fresh produce markets do participate in the trade of fresh produce (as agents) and provide the trading facilities and systems as well.


Dodds, M. and Sedulta, S. 2012. Agriculture and environmental management department (Fresh produce market). Internal client segmentation study.


Euromonitor International. 2012. Fresh Food in Brazil: Country Reports.


Foley, R. & Meyer, A. 2012. Tshwane Market Master Plan. Dodds, T. (tinusd@tshwane.gov.za) [E-mail to:] van der Merwe, M. (Melissa.vandermerwe@up.ac.za) 2013-05-16.


Tshwane Fresh Produce
Market
Status Quo and Needs Analysis
PART 3

The Tshwane Fresh Produce Market

Document Status: Final prior to union inputs
9/18/2013
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Foreword

Part 3 focusses on the positioning of the Tshwane Fresh Produce Market in the City’s policies, strategies and plans. This volume also discussed the Tshwane Fresh Produce Market’s operations, activities and functions in detail.
1. Prepared by:

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  - Mr K. Murwisi
  - Mr. J. Louw
  - Mrs A. Benseler
City of Tshwane Analysis

This section of the analysis commences with some national government performance outcomes that has an influence on local government (including the City of Tshwane), insights into the strategies and policies guiding the City of Tshwane and how these impact on the Tshwane Market.

South African Government Outcomes to Facilitate Performance and Better Service Delivery

In 2010, the South African government adopted 12 outcomes as the basis for the country’s programme of action and to facilitate measurable performance and better service delivery. These outcomes focus on basic education, health, safety and security, employment, skills, infrastructure, rural development, human settlements, local government, environment, international relations, and public service to facilitate measurable performance and enhance service delivery performance.

In terms of the local government outcome which address a responsive, accountable, effective and efficient local government seven outputs have been formulated. These local government outputs are as follows:

- to implement a differentiated approach to municipal financing, planning and support;
- to improved access to basic services;
- the implementation of the Community Works Programme;
- to implement actions supportive of the human settlement outcome;
- to deepen democracy through a refined Ward Committee model;
- to strengthen administrative and financial capability; and
to implement a single window of coordination.

The implement a differentiated approach to municipal financing, planning and support and excellent administrative and financial capability is of specific importance and relevance to this Tshwane Market Systems Act Section 78(1) assessment as this function has a multi-faceted, wide-ranging and cross-cutting impact on the overall development of the City of Tshwane and in reaching its Tshwane 2055 Growth and Development Strategy (Tshwane 2055) goals and objectives, discussed below.

The City of Tshwane addressed these matters in its latest revision of the Integrated Development Plan (IDP).

**City of Tshwane Insights**

The section focuses on positioning the Tshwane Market in the policies, strategies and plans of the City.

**Strategies and Policies**

*Alignment with City of Tshwane Strategic Objectives*

Since the Tshwane Market is part of the administration of the City of Tshwane a thorough understanding of the City’s mission, vision and strategies is required to determine if they speak to the functions of the Market. The City of Tshwane’s Vision, Mission and Strategic Objectives are as follows:
**Vision:** Tswane - The African Capital City of Excellence.

**Mission:** To sustainably enhance the quality of life of all people in Tshwane through a developmental system of local government and by rendering efficient, effective and affordable services.

### City Development Strategy

The City of Tshwane developed its first long-term City Development Strategy (CDS) in 2004. This was a bold initiative aimed at influencing the development path of the City over the next 20 to 30 years.

The CDS 2004 identified seven key areas of focus as listed in Table 1 below (City of Tshwane, 2004):

### Table 1: Seven Key CDS 2004 Areas of Focus

<table>
<thead>
<tr>
<th>Focus Number</th>
<th>Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus I</td>
<td>Infrastructure-led expansion of development potential of the North to tackle poverty.</td>
</tr>
<tr>
<td>Focus II</td>
<td>Continued sound management and development of the established urban areas (Pretoria Central, Centurion, South-eastern Pretoria, Mamelodi and Atteridgeville/ Laudium) by maintaining services and supporting market-driven initiatives to support the overall development of the City of Tshwane.</td>
</tr>
<tr>
<td>Focus III</td>
<td>Strengthening key economic clusters to gain leverage from growth trends in manufacturing, government and business services.</td>
</tr>
<tr>
<td>Focus IV</td>
<td>Celebrating the National Capital and Repositioning the Inner City as a vibrant cultural and government centre.</td>
</tr>
<tr>
<td>Focus Number</td>
<td>Focus</td>
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<td>--------------</td>
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</tr>
<tr>
<td>Focus V</td>
<td>Building high levels of social cohesion and civic responsibility to maximize development opportunities.</td>
</tr>
<tr>
<td>Focus VI</td>
<td>Ensuring a Solid Foundation – modernizing the administration for developmental service delivery through phased restructuring and institution building.</td>
</tr>
<tr>
<td>Focus VII</td>
<td>Ensuring a Solid Foundation: Ensuring municipal financial fundamentals as platform for services and development.</td>
</tr>
</tbody>
</table>

Focus VI which focuses on ensuring a Solid Foundation – modernizing the administration for developmental service delivery through phased restructuring and institution building is of specific relevance to this Tshwane Market Municipal Systems Act Section 78(1) assessment.

**Tshwane 2055 Growth and Development Strategy**

In 2012 the City of Tshwane made a decision to update and improve upon its CDS and developed *Tshwane 2055*. It is a long-term living strategy aimed at improving the quality of living across the City of Tshwane metropolitan area, revitalising the City, and boosting economic development and attracting investment.

Based on the foundations laid in the City of Tshwane CDS of 2004, *Tshwane 2055* takes into account the global economic recession and the predicted future expansion of the Tshwane Metropolitan area and aligns the CDS with these in order to “*align its transformation agenda to current realities while building a foundation for the future*”.

*Tshwane 2055* articulates the City’s vision, game changing strategic interventions, indicators and outcomes.
Tshwane 2055 emphasises the following key indicators for the long-term development of the City of Tshwane (City of Tshwane, s.a):

- A resilient City, able to absorb shocks and changes within the global context while maintaining or improving its service delivery performance.

- Resource efficient City, managing consumption needs and the demand and supply of limited resources to a quality and quantity that ensures service delivery and the wellbeing of residents.

- An inclusive, diversified and competitive City that is highly productive and labour-absorbing. At the same time, the City will create an entrepreneur-driven economy that allows for youth development; an economy that acknowledges the formal and informal sector; that builds private and public partnerships; and that is driven by innovation.

- A liveable City that has quality infrastructure that is convenient, efficient and cost-effective for work and play – providing the basis for happy and healthy residents.

- A City noted for being a global benchmark for innovative and excellent governance incorporating a smart City and e-governance. It should become a City that enables its residents to cultivate a culture of self-expression, self-activity and self-reliance as the ultimate guarantor of a democratic life.

- South Africa’s Capital with an activist citizenry aware of their rights and being partners in tackling social challenges.

The first five bullets above are of specific relevance to the Tshwane Market Municipal Systems Act section 78(1) assessment.

One of the areas of opportunity identified in the discussion document is the leveraging of agricultural land to ensure food security. With ample land available for agricultural production, it needs to be more effectively used to combat low food security since the City has been identified by the Integrated Food Security Phased Classification system as Moderately/
Borderline Food Insecure (City of Tshwane, 2012 d). In addition, agricultural development is identified as playing a significant role in economic development. Investments in:

“agro-processing and value added services by integrating farmers throughout the value chain and maximizing all open spaces available for agricultural development” (city of Tshwane, 2012 d).

are identified. While not identified as such in the 2055 Strategy, the Tshwane Market could play a significant role in achieving these goals.

**Integrated Development Plan**

The theme of the 2011/2016 five-year IDP is:

“Consolidating service delivery, accelerating service delivery and strengthening the foundations for a new Tshwane: a city of excellence”.

The latest revision of the IDP of the City of Tshwane incorporates the short term measures to successfully implement the envisaged outcomes of Tshwane 2055.

In an effort to support the long-term goals and objectives of the City of Tshwane the City put in place measures to redesign its institutional and organisational structure. Therefore, in 2011, the City of Tshwane approved the new macro-structure aimed at restructuring the municipality to better perform its functions as a developmental local government.

A noticeable characteristic of the new institutional arrangements is the introduction of the Regional Services Model through which the City aims to bring government closer to the people and to improve service delivery throughout the regions of the City. Various functions were
devolved to the Regional Services Centres. The Tshwane Market resorts under the Department of Agricultural and Environmental Management and is not devolved to the Regional Service Centres.

Further, in 2012, the City of Tshwane embarked again upon an intensive community participation exercise which was aimed at developing a clear vision for the aspirational City in 2055. The discussions that took place were about the following six themes:

- economic development;
- governance;
- health and poverty;
- liveability;
- smart city;
- sustainable natural environment and transportation.

The outcome of the exercise was the articulation of clear outcomes that the City should work towards based on sound developmental principles. These five principles are:

- service delivery excellence and innovation;
- diversified and shared economic growth;
- promoting a safe and healthy City;
- social cohesion, inclusion and diversity and participation, collaboration and partnerships.
Based on the above principles, six outcomes for Tshwane 2055 were developed and these are balanced between social, economic and the environmental spheres of sustainability. The outcomes are listed in Table 2 below:

Table 2: Tshwane 2055 Outcomes

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Focus</th>
</tr>
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<tbody>
<tr>
<td>Outcome 1</td>
<td>A resilient and resource efficient City.</td>
</tr>
<tr>
<td>Outcome 2</td>
<td>A growing economy that is inclusive, diversified and competitive.</td>
</tr>
<tr>
<td>Outcome 3</td>
<td>Quality infrastructure development that supports liveable communities.</td>
</tr>
<tr>
<td>Outcome 4</td>
<td>An equitable City that supports human happiness, social cohesion, safety and healthy citizens.</td>
</tr>
<tr>
<td>Outcome 5</td>
<td>An African Capital City that promotes excellence and innovative governance solutions.</td>
</tr>
<tr>
<td>Outcome 6</td>
<td>South Africa’s Capital with and activist citizenry that is engaging, aware of their rights, and presents themselves as partners in tackling societal challenges.</td>
</tr>
</tbody>
</table>

Outcome 2, 3, 4 and 5 are specifically relevant to the Tshwane Market Municipal Systems Act Section 78(1) assessment.

The City of Tshwane agreed upon seven strategic objectives that will guide its work during the 2011/2016 term. These were used to plan the work and report on the outputs in the 2011/2012 and 2012/2013 financial years. Since the City seeks to continually improve its processes and stay in line with national policy guidance and the delivery of services, the latest IDP revision proposes an amendment to the strategic objectives based on the following:
“Change in focus to respond to some of the emerging issues that the City must address. For example, while the focus in the first two years of the term has been on the provision of basic services, in the remainder of the term it will swing towards the maintenance and refurbishment of infrastructure to ensure reliability of services. On the other hand, the City needs to clearly articulate its programmes on social development in line with the NDP and the Tshwane 2055 Outcomes.

A better understanding of the City’s mandate especially in relation to housing provision and the formalisation of informal settlements. Whilst the City is committed to formalisation of informal settlements and the provision of basic services to all settlements regardless of their status, the City has committed to distinguish between interventions that aim at regularisation, which includes among others provision of services, and the ones that are focused on formalisation with an end goal.

The necessity to lay a needs foundation for the City to achieve some of the long terms goals that it has set for itself and therefore the remainder of the term seeks to put these ‘building blocks’ with a long term view”(City of Tshwane, 2013 b).

Based on the above Table 3 below outlines the latest approved enhancement to the strategic objectives previously approved in May 2011 by the Council.

Table 3: Enhancement of Strategic Objectives

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Basic services, roads and storm water</td>
<td>Provide Sustainable Service Infrastructure and Human Settlement Management</td>
</tr>
<tr>
<td>Economic growth and development and job creation</td>
<td>Promote Shared Economic Growth and Job Creation</td>
</tr>
</tbody>
</table>
## 2013/2014 (2013/2018) Realigned Strategic Objectives

<table>
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<tbody>
<tr>
<td>Sustainable communities with clean, healthy and safe environments and integrated social services</td>
<td>Ensure Sustainability, Safer Cities and Integrated Social Development</td>
</tr>
<tr>
<td>Foster participatory democracy and Batho Pele</td>
<td>Promote Good Governance and Active Citizenry</td>
</tr>
<tr>
<td>Promote sound Governance</td>
<td></td>
</tr>
<tr>
<td>Financial stability</td>
<td>Improved financial sustainability</td>
</tr>
<tr>
<td>Organisational development</td>
<td>Continued institutional development, transformation and innovation</td>
</tr>
</tbody>
</table>

During the 2013 State of the Nation Address, the President issued several statements regarding the direction that the country is to take in ensuring its optimal transformation and sustainability. The rise of urbanisation has set the scene for all other subsequent developments, as the 2011 Census statistics have indicated that by 2030, 70% of the population is likely to be living in urban areas.

The importance of the intergovernmental synergy has been especially highlighted in the State of the Nation Address as the dissolution of Apartheid spatial patterns and their effects need to be dealt with in a holistic manner.

In creating a new urban face for the country, and in keeping within the tenets of the National Development Plan, the President highlighted the following priorities which should be the basis for planning and implementation at all levels of government:

- integrated transport systems;
- renewable energy;
electricity for all;
corruption clampdown;
expansion of the broadband network;
strengthening efforts on gender equality and other vulnerable groups in society; and
improving the alignment of efforts between the three spheres of government towards achieving the national 2030 vision.

The City of Tshwane is well underway to support the commitments of the national government and as is the case with the national government the City of Tshwane identified certain “game changing” strategic projects and this Tshwane Market Municipal Systems Act Section 78 assessment supports government strategies as already discussed in Part 2 (SIP 11) of this Report, the earlier sections of Part 3 of this Report that deals with the NAMC Section 7 Committee Report Outcomes and the legal section of Part 3 of this Report.

Table 4 below indicates capital projects identified in the revised IDP (2013/2018).

Table 4: Tshwane Market Capital Projects as per the IDP Review 2013 – 2018

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Project Descriptions</th>
<th>Project Number</th>
<th>Budget 2013/2014 R’000</th>
<th>Budget 2014/2015 R’000</th>
<th>Budget 2015/2016 R’000</th>
<th>Ward and regional benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upgrading and Extension of</td>
<td>These projects will have an impact on economic development.</td>
<td>710276</td>
<td>2 500</td>
<td>13 000</td>
<td>15 000</td>
<td>The market is located in Ward 3. It benefits wards in</td>
</tr>
<tr>
<td>Facilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upgrading of Existing Processing</td>
<td>The more modern</td>
<td>710277</td>
<td>3 000</td>
<td>2 000</td>
<td>3 500</td>
<td></td>
</tr>
<tr>
<td>Project Name</td>
<td>Project Descriptions</td>
<td>Project Number</td>
<td>Budget 2013/2014 R’000</td>
<td>Budget 2014/2015 R’000</td>
<td>Budget 2015/2016 R’000</td>
<td>Ward and regional benefits</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------</td>
<td>------------------------</td>
<td>------------------------</td>
<td>------------------------</td>
<td>----------------------------</td>
</tr>
<tr>
<td>Facilities</td>
<td>and efficient the facilities are, the more supportive the market is to traders.</td>
<td>710420</td>
<td>500</td>
<td>500</td>
<td>650</td>
<td>the entire city.</td>
</tr>
<tr>
<td>Reparation to and Resurfacing of Roads</td>
<td>This would include things like replacing several valve stations, condensers, low-tension electrical distribution networks and cooling towers and resurfacing the main entrance and exit road surfaces for the daily loading and off-loading of produce</td>
<td>711561</td>
<td>900</td>
<td>2 000</td>
<td>2 000</td>
<td>The market is located in Region 3, but is designed to service and benefit the entire city.</td>
</tr>
<tr>
<td>Upgrading of Cold Rooms</td>
<td></td>
<td>712585</td>
<td>8 000</td>
<td>2 000</td>
<td>2 000</td>
<td></td>
</tr>
<tr>
<td>Upgrading and Extension of Market Office Block</td>
<td></td>
<td>712827</td>
<td>1 200</td>
<td>650</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specialised Vehicles Market</td>
<td></td>
<td>712868</td>
<td>800</td>
<td>600</td>
<td>1 000</td>
<td></td>
</tr>
<tr>
<td>Upgrading of the Market Trading System</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>712868</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>15 700</td>
<td>21 300</td>
<td>24 800</td>
<td></td>
</tr>
</tbody>
</table>

These investments will stand the Tshwane Market in good stead and assist it to align with the requirements of the fresh produce industry. Considering the provisions of the master plan investment at a higher order is needed.
However, no mention is yet made of reviewing the Tshwane Markets service delivery mechanism, as the mayoral decision in this regard was only taken after the 2012 Reviewed IDP had been approved.
Spatial development: Pretoria West

The Integrated Compaction and Densification Strategy (ICDS) aims to:

“ensure harmonious, co-ordinated and integrated residential development in and around Pretoria West”. The strategic objectives are to “provide basic services and develop infrastructure, encourage economic growth and development, build safer, viable and sustainable communities and provide caring and effective government” (City of Tshwane, 2010).

Since Pretoria West is experiencing:

“strong development pressure to convert its historic residential function to other land-uses.” (City of Tshwane, 2013 c),

the aim is to protect the residential area and simultaneously provide for mixed land use along activity streets, including Von Hagen Street. While the Strategy does not include the Tshwane Market as it focuses on residential development aspect, the urban renewal initiatives will have a positive impact on the locational environment of the Market.

The Tshwane Market borders on the inner city precinct as identified in the Tshwane Precinct Masterplan for inner city regeneration projects. While the Market is not directly affected by the activities planned for the precinct, it will benefit from the spin-off and multiplier effects of a cleaner, upgraded and safer environment.

The Pretoria West Spatial Development Framework (SDF), recently reviewed in 2011 from its predecessor in 2003, does not include the Tshwane Market as the northern border is Vom Hagen Street. However, Vom Hagen Street features strongly in the SDF. The consolidation of the commercial zones in Pretoria West, particularly along said street, through further densification
and infill is one of the strategies of the SDF. In addition, the street is identified as one of the major approach routes into the Tshwane CBD from the west and the north, and thus the aesthetic quality of developments along the route should be of high standard. (City of Tshwane, 2011).

The spin-off effects from the development initiatives bordering on the Market, will have an overall positive impact on the area.

The *Metropolitan Spatial Development Framework*, 2012, does not make reference to the development of the Pretoria West Area as this is reserved for the *Regional Spatial Development Frameworks*. The Market falls under Region 3 and is identified as a “prominent land use of strategic significance to the local as well as the broader urban environment of Tshwane”. Similarly, it has been identified as a strength in the SWOT analysis of the region strategic land use. (City of Tshwane, 2013 b)

In addition, the Strategy highlights the renewal of retail development along the Vom Hagen arterial route.

*Transport Related Developments*

Vom Hagen Street is, as elaborated on above, identified as a commercial spine, which will assist in unlocking the economic potential of the area. Another major key to unlocking the area is the proposed PWV 9, which lies approximately four kilometre west of Region 3. Not only will the road improve north/south regional connectivity but it will also provide for much needed economic upliftment of Pretoria West.
**Tshwane Market Master Plan**

The Tshwane Market developed a Master Plan aimed at:

> “developing a state of the art fresh produce market which will be a business epicentre for the City of Tshwane, creating an urban environment that facilitates in the social upliftment for people from all social and economic classes and that accommodates developments and facilities needed for stimulating economic growth within the city.” (City of Tshwane, 2012 c).

Based on various upgrades, extension and development of new infrastructure the Tshwane Market aims at creating a “business friendly work environment through the establishment of a network of integrated spaces.” (City of Tshwane, 2012 c). As per the Tshwane Market Master Plan, the upgrades aim to achieve the following:

> “Promote food security to the region;
> Promote food safety to the region;
> Promote the Market as a distribution channel;
> Develop the market as the preferred distribution channel of the region;
> Provide state of the art infrastructure and support services;
> Protect the integrity of the marketing system;
> Complement urban management initiatives to clean up and maintain the Tshwane Market; and
> Convey to investors and fresh produce market users that the Tshwane Market is a viable investment location in which future value returns are not at risk.” (City of Tshwane, 2012 c).

The Market is planning on implementing the recommendations made in the Master Plan in a phased approach as funds become available.
Financial Assessment

The objective of the financial component of the status quo report is to assess the historic financial position as presented in the City of Tshwane financial statements, the future financial position as presented by the City of Tshwane Medium Term Revenue and Expenditure Framework (MTREF) budgets and to identify the key features in the context of the Investigation: Alternative Service Delivery Structure for the Tshwane Fresh Produce Market. For this reason this financial assessment should not be viewed as a full and detailed standalone financial assessment but rather as a financial assessment, in sufficient depth, to provide guidance on the institutional service delivery mechanism to be selected for the execution of the Tshwane Market function.

The financial component of the status quo and needs analysis report aims to identify matters which may impact on the overall financial stability of the City of Tshwane and hence, the “to be” elected institutional service delivery mechanism for the execution of the Tshwane Market function. It also includes a historical analysis and assessment of the City of Tshwane financial results.

The reinstated audited annual financial statement data were used in this assessment and not the audited outcomes as indicated in the National Treasury Schedule “A” budget returns.

The status quo and needs analysis assessment was conducted after receipt of the latest financial statement and updated budgets. In this report the audited financial statements for 2011/12 and the MTREF budgets approved on 30 May 2013 was used in the assessment.

This assessment includes the following activities:
obtaining the annual financial statements of the City of Tshwane for the years ended 30 June 2009 to 30 June 2012;

obtaining the budget information for the years ended 30 June 2010 to 30 June 2016;

analysing the financial performance and financial position of the City of Tshwane; and

determining the high-level trends and the implications of the assessment and findings, including the financial opportunities and constraints facing the City of Tshwane.

It is important to note that a financial assessment is not about the once off actual financial numbers or ratios, but it is rather about the trend that is indicated by the financial numbers and ratios, historically and into the future.

**Financial Analysis**

*Analysis of Financial Performance*

A summary of the Statements of Financial Performance of the City of Tshwane for the financial years ended 30 June 2009 until 30 June 2012 are reflected in Annexure A of this Report.

Overall the City of Tshwane’s financial performance indicates that surpluses between R491 million to R2 billion were achieved during the past four years. These surpluses include contributions recognised for capital projects which from a pure operating surplus position should be deducted to determine the actual operating surplus generated in any given year.

In order to test the resilience of the revenue the capital grants and contributions were removed and it render the following results.
Table 5. Surplus after deducting of capital grants and contributions

<table>
<thead>
<tr>
<th>Description</th>
<th>AFS</th>
<th>AFS</th>
<th>AFS</th>
<th>AFS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
<td>2009</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>R'000</td>
<td>R'000</td>
<td>R'000</td>
<td>R'000</td>
</tr>
<tr>
<td>Surplus/(Deficit) Including Capital Transfers</td>
<td>497 726</td>
<td>490,888</td>
<td>804,522</td>
<td>2,025,848</td>
</tr>
<tr>
<td>Total Capital Grants and Contributions Add Back</td>
<td>865 689</td>
<td>878 146</td>
<td>631 049</td>
<td>1,467 864</td>
</tr>
<tr>
<td>Transfers Recognised - Capital</td>
<td>662 868</td>
<td>772,342</td>
<td>516,453</td>
<td>1,325,779</td>
</tr>
<tr>
<td>Public Contributions and Donations</td>
<td>202 821</td>
<td>105,804</td>
<td>114,598</td>
<td>142,085</td>
</tr>
<tr>
<td>Surplus/(Deficit) After Capital Grants and Contributions Add Back</td>
<td>(367 963)</td>
<td>(387 258)</td>
<td>173 473</td>
<td>557 984</td>
</tr>
</tbody>
</table>

The above table indicates a definite upward trend in the position after the removal of capital transfers and public contributions and donations from the revenue.

A comparison of the budget *versus* actual figures for the financial years ended 30 June 2010 until 30 June 2012 is set out in Annexure B of this Report.

It is important to note that the 2011/2012 budget referred to in this report relates to the 2011/2012 adjusted budget as reflected on pages 12 and 13 of the adjustments budget approved by Council on 23 February 2012. Budget variances are reflected on page 145 of the 2011/2012 audited financial statement which indicates that these relate to supplementary unaudited information. The comparison to budgets in this report is mainly to indicate trends that may require review or attention in the future. In addition to the comparison of past budgets, actual and percentage variances, the following key financial indicators have been calculated from the
financial performance of the City of Tshwane to reflect past trends and the scale of magnitude of certain items in relation to total budget

Table 6 Summary of key financial indicators

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in operating revenue</td>
<td>15.00%</td>
<td>11.40%</td>
<td>30.00%</td>
</tr>
<tr>
<td>Growth in operating expenses</td>
<td>15.70%</td>
<td>9.50%</td>
<td>23.20%</td>
</tr>
<tr>
<td>Government grants/ operating revenue</td>
<td>12.70%</td>
<td>13.00%</td>
<td>11.30%</td>
</tr>
<tr>
<td>Rates/ operating revenue</td>
<td>19.70%</td>
<td>19.10%</td>
<td>17.10%</td>
</tr>
<tr>
<td>Services/ operating revenue</td>
<td>51.80%</td>
<td>56.30%</td>
<td>53.80%</td>
</tr>
<tr>
<td>Salaries/ operating expenses</td>
<td>27.50%</td>
<td>30.20%</td>
<td>27.60%</td>
</tr>
<tr>
<td>Repairs and maintenance/ operating expenses</td>
<td>7.90%</td>
<td>7.30%</td>
<td>6.80%</td>
</tr>
</tbody>
</table>

The following can be concluded from the preliminary analysis of the audited financial performance and comparison to budgets:

The actual property rates were R69.8 million less than budgeted for in 2011/2012, which equates to 2% under the budgeted amount and in 2010/2011 property rates was R106.3 million less than budget, which equates to 3.5% under the budgeted amount.

The actual service charges were R0.7 million less than the budgeted for in 2011/2012, which were accurately budgeted for as it was only 0.01% under the budgeted amount. In 2010/2011 service charges were R143.6 million more than budget, which equates to 1.7% over the budgeted amount.
Remuneration expenditure (including councilors) was overspent by R57.8 million, which equates to an over expenditure variance of 1.2%.

Substantial budget variances on debt impairment occurred during the past three years, which indicate that this item requires careful consideration during the budgeting process. The actual amount was R993 million compared to the budgeted amount of R851 million for 2011/2012, which is exceeds the budgeted amount by 16.7%.

Budgeting for finance charges may also require attention in the budget process. The variance was R38.8 million, which equates to an under expenditure of 5.8% in the 2011/2012 financial year. The previous year variance was R110.5 million, which equates to an under expenditure of 15.5%. To under spend on finance charges may be not that bad, but it is recommended that budgets be more accurately prepared.

The employee related cost is 27.6% of total operating expenditure for the 2011/2012 financial year. This is above the Metropolitan Municipality norm of 25% but the ratio is steadily improving.

The rather low expenditure on repairs and maintenance may need attention to ensure that the necessary repairs and maintenance does not fall behind resulting in infrastructure decay and huge investments in future. Approximately 6.8% of the operating budget for the 2011/2012 financial year is spent on repairs and maintenance.

The budget and actual comparisons in 2011/2012 indicate that actual revenue was 2.9% higher than budgeted for and expenditure was 7.3% less than budgeted for. This resulted in a surplus of R1 879 million more than the budgeted amount of R1 220 million, which equates to a surplus that is 154% higher than the budgeted amount.

The above comparison highlights some items that may require attention in future budgeting processes and if addressed may change the current budget indicators for 2013/2014 to 2015/2016.
Analysis of Financial Position

To measure the financial viability and creditworthiness of the City of Tshwane a number of key ratios have been developed from best practice research. The Statement of Financial Position of the City of Tshwane for the financial years ended 30 June 2009 to 30 June 2012 is reflected in Annexure C of this Report.

A summary of the key ratios for the City of Tshwane based on the 2010/2011 and 2011/2012 financial statements is set out below:

Table 7 Financial ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Norm</th>
<th>Ratio for 2010/2011</th>
<th>Ratio for 2011/2012</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Debtors to Annual Revenue</td>
<td>Should not exceed 8.3%</td>
<td>41.3%</td>
<td>39.9%</td>
<td>This ratio improved slightly, but is substantially outside the norm. It is an indication that the revenue collection of the City of Tshwane can be improved upon. This is a national challenge and not confined to the City of Tshwane. There is no quick fix on this, but the positive is that the ratio is improving.</td>
</tr>
<tr>
<td>Gross Debtors Collection Period (Days)</td>
<td>Should not exceed 30 days.</td>
<td>150.8 days</td>
<td>145.5 days</td>
<td>This ratio improved slightly, but is substantially outside the norm and is an indication that the revenue collection could be improved upon. This is a national challenge and not confined to the City of Tshwane. There is no quick fix on this, but the positive is that the ratio is improving.</td>
</tr>
</tbody>
</table>
City of Tshwane. There is no quick fix on this, but the positive is that the ratio is improving.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Norm</th>
<th>Ratio for 2010/2011</th>
<th>Ratio for 2011/2012</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Debtors to Annual Revenue</td>
<td>Should not exceed 8.3%</td>
<td>22.3%</td>
<td>19.3%</td>
<td>The ratio is an indication that the provision for bad debt may require attention in future budgeting processes and should be in accordance with actual payment levels. Again this ratio is improving.</td>
</tr>
<tr>
<td>Net Debtors Collection Period (Days)</td>
<td>Should not exceed 30 days</td>
<td>81.2 days</td>
<td>70.5 days</td>
<td>The ratio is an indication that the provision for bad debt may require attention in future budgeting processes and should be in accordance with payment levels. This ratio is improving.</td>
</tr>
<tr>
<td>Annual Collection Rate</td>
<td>Should not be less than 90%</td>
<td>95.3%</td>
<td>93.9%</td>
<td>The ratio is an indication that the revenue collection can still improve; however, it is better than the norm, though declining.</td>
</tr>
<tr>
<td>Total Debt/Annual Operating Revenue</td>
<td>Should not exceed 45%</td>
<td>41.0%</td>
<td>37.2%</td>
<td>Although improving, this ratio puts the City of Tshwane at the high end of the ideal total debt to annual operating revenue ratio and may influence borrowing capacity in the future. Growth in the revenue base rather than tariff</td>
</tr>
<tr>
<td>Ratio</td>
<td>Norm</td>
<td>Ratio for 2010/2011</td>
<td>Ratio for 2011/2012</td>
<td>Remarks</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>---------------</td>
<td>---------------------</td>
<td>---------------------</td>
<td>----------------------------------------------</td>
</tr>
<tr>
<td>Tshwane has variable interest rate loans. If loans are raised and used to finance capital, there will be a need to generate cash to ultimately repay the loan. The lower the debtors’ payment rate, the greater the need to increase tariffs, which could be counterproductive.</td>
<td></td>
<td></td>
<td></td>
<td>increases will assist in improving leverage.</td>
</tr>
<tr>
<td>Net Asset Position – Indicates the wealth of the City of Tshwane and the extent to which lenders and creditors have financed the assets of the City of Tshwane relative to the extent to which the City of Tshwane has financed its assets. The smaller the ratio, the wealthier the City of Tshwane is.</td>
<td>Should be 50% or less.</td>
<td>55.5%</td>
<td>54.9%</td>
<td>The ratio is slightly above the norm, but is improving.</td>
</tr>
<tr>
<td>Liquidity Ratio (Current Ratio) – This ratio indicates the extent to which current (short-term) assets can be used to settle short-term liabilities. If current assets do not exceed current liabilities it means a liquidity problem exists i.e. insufficient cash to meet short-term financial obligations.</td>
<td>2:1</td>
<td>0.91:1</td>
<td>0.83:1</td>
<td>This ratio has decreased (weakened) slightly and is an indication that the cash flow position of the City of Tshwane may be tight and may result in a strain on its liquidity position.</td>
</tr>
<tr>
<td>Cash Coverage Ratio – Indicates the City of Tshwane's ability to meet at least three month’s fixed operating commitments.</td>
<td>Should not be less than 3 months.</td>
<td>0.45 months</td>
<td>0.48 months</td>
<td>The cash coverage ratio is a possible concern as the ratio indicates that only 50% of monthly fixed operating commitments may be met.</td>
</tr>
<tr>
<td>Personnel Costs to Total Operating Expenditure – Indicates the percentage of total expenditure is applied</td>
<td>Should not exceed 30% (for</td>
<td>30.2%</td>
<td>27.8%</td>
<td>The ratio has improved during the years assessed, but is still higher than the norm.</td>
</tr>
<tr>
<td>Ratio</td>
<td>Norm</td>
<td>Ratio for 2010/2011</td>
<td>Ratio for 2011/2012</td>
<td>Remarks</td>
</tr>
<tr>
<td>-------</td>
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</tr>
<tr>
<td>towards the payment of personnel related expenditure. It indicates the extent to which personnel expenditure relative to total operating expenditure is managed and the extent to which personnel cost increases impact on total budgeted expenditure.</td>
<td>Metropole Municipalities the Norm is 25%).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repairs and Maintenance to Property Plant and Equipment</td>
<td>Should not be less than 12%.</td>
<td>6.5%</td>
<td>6.1%</td>
<td>The ratio deteriorated and is an indication that relatively less monies are being spent on repairs and maintenance.</td>
</tr>
<tr>
<td>Service charges and Property Rates Revenue Budget Implementation Indicator</td>
<td>Good is between 95% and 100%.</td>
<td>100.3%</td>
<td>99.5%</td>
<td>The ratio is good and an indication of good budgeting techniques and efficient managing of the budget.</td>
</tr>
</tbody>
</table>

**Outcome of the Financial Status Quo Assessment**

The outcome of the financial *status quo* assessment reveals the following:
The financial performance indicates that operating surpluses have occurred and is improving over time. This practice is encouraging and should continue. On a point of clarity, the financial performance revenue includes capital contributions and as such reflects the surplus inclusive of capital grants and contributions. The operating surplus for 2011/12 including capital grants was R2.02 billion and after deducting the capital grants and contributions of R1.46 billion the operating surplus in respect of operations is indicated to be R557.9 million. This number, however little, is improving over the period of assessment.

The Debtor's ratios are normally a challenging one for municipalities and the City of Tshwane is no different in this instance. It is reported that all the debtor’s ratios are improving and the current efforts to improve this ratio should be continued.

The City of Tshwane has a high total debt to operating revenue ratio and this may impact on future borrowing capabilities and prohibit growth and expansion, but what is encouraging is that also this ratio is improving.

The cash and cash equivalents have increased considerably since 2009/2010. Investments are favourable at R324 million. It must be noted that this includes unspent grants of R320 million.

Debt impairment should receive attention as the results are somewhat off the mark. Financial statements deal with historical matters and it is therefore recommended that debt impairment receive attention during future financial planning and budgeting processes.

The expenditure on repairs and maintenance is relatively low and may need attention during future financial planning and budgeting processes in order to ensure that repairs and maintenance does not fall behind. The under expenditure on this item for may hold severe adverse long-term financial and service delivery consequences for the City. It is therefore recommended that close attention be paid to this expenditure item in order for it not to fall behind.
Financial Viability/ Modelling

Upon completion of the *status quo* assessment, resulting in an understanding of the City of Tshwane's financial position, an assessment was then done to determine the City of Tshwane’s financing need over the medium-term based on the latest approved budgets.
Budget Modelling

The assessment of the projected future financial viability of the City of Tshwane is based on information supplied by the City of Tshwane which is loaded in a financial model which prepares pro forma annual financial statements for the financial years up to 30 June 2016.

The projected statements of financial performance and position of the City of Tshwane are set out in Annexure A and C of this report.

A review of the adjusted 2012/2013 MTREF budget reflects the following:-

- the increased growth in operating revenue of 4.1% in 2013/2014 relates to increased revenue in respect of property rates and service charges;
- the increased growth in operating expenditure of 4.7% in 2013/2014 relates mainly to the increase in employee related costs of 12.5%; and
- the salaries and wages ratio of 28.3% in 2013/2014 is above the norm of 25%.

The table below summarises the operating surplus from the annual financial statements and the 2013/14 MTREF approved budget and then reflects the surplus or deficit after deducting capital grants and capital contributions. This surplus or deficit is then adjusted to indicate whether a particular year’s surplus is sufficient to fund own funded capital expenditure of that particular year.
### Table 8 Summary of Surplus/ (Deficits) – 30 June 2009 until 30 June 2016

<table>
<thead>
<tr>
<th>Description</th>
<th>AFS 2008/2009 R'000</th>
<th>AFS 2009/2010 R'000</th>
<th>AFS 2010/2011 R'000</th>
<th>AFS 2011/2012 R'000</th>
<th>Budget 2012/2013 R'000</th>
<th>Budget 2013/2014 R'000</th>
<th>Budget 2014/2015 R'000</th>
<th>Budget 2015/2016 R'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus (Decifit) Including Capital Transfers</td>
<td>497 726</td>
<td>490 888</td>
<td>804 522</td>
<td>2 025 848</td>
<td>2 224 761</td>
<td>2 192 939</td>
<td>2 835 328</td>
<td>3 225 607</td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus (Decifit) for the year</td>
<td>497 726</td>
<td>490 888</td>
<td>804 522</td>
<td>2 025 848</td>
<td>2 224 761</td>
<td>2 192 939</td>
<td>2 835 328</td>
<td>3 225 607</td>
</tr>
<tr>
<td>Less Capital Funded ex Grants and Subsidies</td>
<td>(662 868)</td>
<td>(772 342)</td>
<td>(516 453)</td>
<td>(1 332 779)</td>
<td>(2 178 686)</td>
<td>(2 097 039)</td>
<td>(2 442 326)</td>
<td>(2 498 532)</td>
</tr>
<tr>
<td>Surplus/(Deficit) for the Year Excluding Grants</td>
<td>(165 142)</td>
<td>(281 454)</td>
<td>288 069</td>
<td>700 069</td>
<td>46 075</td>
<td>95 900</td>
<td>393 002</td>
<td>727 075</td>
</tr>
<tr>
<td>and Subsidies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Contributions</td>
<td>(202 821)</td>
<td>(105 804)</td>
<td>(114 595)</td>
<td>(142 085)</td>
<td>(88 571)</td>
<td>(95 900)</td>
<td>(93 100)</td>
<td>(80 500)</td>
</tr>
<tr>
<td>Surplus/(Deficit) for the Year Excluding Capital</td>
<td>(367 963)</td>
<td>(387 259)</td>
<td>173 474</td>
<td>557 984</td>
<td>(42 496)</td>
<td>-</td>
<td>299 902</td>
<td>646 575</td>
</tr>
<tr>
<td>Contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Own Funded Capex</td>
<td>-</td>
<td>(1 307 461)</td>
<td>(1 746 446)</td>
<td>-</td>
<td>(206 611)</td>
<td>(552 317)</td>
<td>(586 150)</td>
<td>(574 100)</td>
</tr>
<tr>
<td>Surplus/(Deficit) for the Year</td>
<td>(367 963)</td>
<td>(1 694 719)</td>
<td>(1 572 972)</td>
<td>557 984</td>
<td>(249 107)</td>
<td>(552 317)</td>
<td>(286 248)</td>
<td>72 475</td>
</tr>
</tbody>
</table>

The table above indicates that after making provision for depreciation and debt impairment, the operating surplus generated in a particular year may not be sufficient to fund own funded capital expenditure as indicated in years 2013/2014 and 2014/2015. This however does not mean that the City of Tshwane does not have the cash to invest in its own funded capital expenditure.
projects as the monies allocated to depreciation (R1 035 million) is a non-cash expenditure item and can be applied towards own funded capital expenditure.

**Analysis of Outcomes/ Ratios**

The forecasts below take into account actual operating surpluses/deficits to 2011/2012 and the published surpluses/deficits as reflected in the City of Tshwane medium-term budgets from the 2013/2014 to 2015/2016 financial years. Surpluses are critical to increase the wealth of the City of Tshwane and to generate cash that can be used to part finance capital and critical operating expenditure. In recent years, surplus cash generated from operating surpluses has become an important source of financing portions of capital and critical operating expenditure.

The table below sets out a summary of key ratios and statistics that have been calculated based on past annual financial statements and the approved 2013/2014 to 2015/2016 budget.

**Table 9 Summary of key ratios – 30 June 2009 until 30 June 2016**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Capital Ratios</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Ratio</td>
<td>1,0</td>
<td>1,02</td>
<td>0,88</td>
<td>0,91</td>
<td>0,83</td>
<td>0,88</td>
<td>0,88</td>
<td>0,91</td>
<td>0,99</td>
</tr>
<tr>
<td>Cash Coverage Ratio</td>
<td>3</td>
<td>0,42</td>
<td>0,45</td>
<td>0,48</td>
<td>0,86</td>
<td>1,04</td>
<td>1,32</td>
<td>1,71</td>
<td></td>
</tr>
<tr>
<td>Gross Debtors to Annual Revenue</td>
<td>8,30%</td>
<td>47,9%</td>
<td>42,7%</td>
<td>41,3%</td>
<td>39,9%</td>
<td>38,8%</td>
<td>42,1%</td>
<td>43,5%</td>
<td>44,9%</td>
</tr>
<tr>
<td>Gross Debtors Days</td>
<td>30</td>
<td>174,9</td>
<td>156,0</td>
<td>150,8</td>
<td>145,5</td>
<td>141,7</td>
<td>153,7</td>
<td>158,7</td>
<td>164,0</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>-------------------</td>
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<td>-----------</td>
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<td>-----------</td>
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<td>-----------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Net Debtors to Annual Revenue</td>
<td></td>
<td>8,30%</td>
<td>32,1%</td>
<td>23,5%</td>
<td>22,3%</td>
<td>19,3%</td>
<td>16,4%</td>
<td>15,7%</td>
<td>14,4%</td>
</tr>
<tr>
<td>Net Debtors Days</td>
<td></td>
<td>30</td>
<td>117,1</td>
<td>85,6</td>
<td>81,2</td>
<td>70,5</td>
<td>59,8</td>
<td>57,3</td>
<td>52,5</td>
</tr>
<tr>
<td>Annual Collection Rate</td>
<td></td>
<td>90%</td>
<td>52,1%</td>
<td>97,1%</td>
<td>95,3%</td>
<td>93,9%</td>
<td>95,0%</td>
<td>95,1%</td>
<td>95,1%</td>
</tr>
<tr>
<td>Debtors Impairment</td>
<td></td>
<td>5,3%</td>
<td>11,0%</td>
<td>6,1%</td>
<td>6,9%</td>
<td>5,0%</td>
<td>4,9%</td>
<td>4,9%</td>
<td>4,9%</td>
</tr>
<tr>
<td>Creditors Payment Period</td>
<td></td>
<td>30</td>
<td>91,5</td>
<td>90,3</td>
<td>84,9</td>
<td>97,5</td>
<td>80,5</td>
<td>85,5</td>
<td>85,3</td>
</tr>
</tbody>
</table>

**Expenditure Efficiency Ratios**

<table>
<thead>
<tr>
<th>Cost of Capital (Interest and Depreciation) to Total</th>
<th>15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenditure</td>
<td>9,5%</td>
</tr>
<tr>
<td>Personnel Costs (Councillors Incl.) to Total Operating Expenditure</td>
<td>30%</td>
</tr>
<tr>
<td>Personnel Costs (Councillors excl.) Total Operating Expenditure</td>
<td>30%</td>
</tr>
<tr>
<td>Personnel Costs (Councillors excl.) to Total Operating Revenue</td>
<td>30%</td>
</tr>
<tr>
<td>Total Operating Expenditure to Total Operating Revenue</td>
<td>95,8%</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Repairs and Maintenance to Property, Plant and Equipment and Other Assets</td>
<td>12%</td>
</tr>
</tbody>
</table>

**Budget Implementation**

- Operating Expenditure Budget Implementation Indicator: >100% or <95%
  - 102,8% 97,4% 98,6%
- Operating Revenue Budget Implementation Indicator: >100% or <95%
  - 95,3% 98,1% 102,9%
- Capital Expenditure Budget Implementation Indicator: >100% or <95%
  - 79,7% 70,2% 40,2%
- Service Charges and Property Rates 100% or <95%

**Revenue Budget Implementation Indicator**

- 97,4% 100,3% 99,5%

**Debt Ratios**

- Non Current Liabilities to Revenue 45%
  - 48,9% 42,7% 46,7% 40,7% 42,5% 45,7% 45,6% 45,3%
- Total Debt to Annual Operating Revenue 45%
  - 41,4% 39,7% 41,0% 37,2% 41,5% 44,9% 45,4% 45,4%
- Net Asset Position 50%
  - 54% 54% 55,5% 54,8% 54,0% 52,7% 50,7% 48,5%

The projected financial performance and financial position of the City of Tshwane indicates the following that will impact on its projected financial viability and sustainability:
the liquidity ratio is improving;
cash coverage is increasing and exceeds one month’s cash coverage in 2013/2014 and shows continuous improvement over the budgeted period to 1.71 in 2015/2016 compared to 0.42 in 2009/2010;
debt management requires further attention in order to attain the improved budgeted number – it improves from 174.9 days in 2009/2010 days to 164 days in 2015/2016;
a vast improvement in the actuals for debtor’s impairment has taken place in 2011/2012 but the debtor’s impairment budgets for 2013/2014 to 2015/2016 may require review;
creditor’s payment period improves from 97 days in 2011/2012 and to 84 days in 2015/2016 – it requires attention as it is outside the norm of 30 days;
expenditure on remuneration remain stable around 28% of total expenditure, however slightly outside the norm of 25% for Metropolitan Municipalities;
service charges and property rates budget implementation indicator has improved and should be maintained during the next three years; and
borrowings to revenue settles on 45% which is also within the norm.

The ratio analysis above highlights certain ratios in red that may require attention in order to move these towards a more favorable position and closer to current norms. The ratios are mainly indicative and aim to identify certain areas requiring attention such as cash coverage, debtor’s management, debt to revenue and net asset position.

**National Treasury Reports**

It is noted from the most recent National Treasury reports that the financial position of the City improved steadily and that the City is on an upward trend regarding it finances. This section of the report only deals with the audited financials of the City. The audited financials provide a
historic perspective of the financial performance and position of the City, which does not provide a true reflection of the up-to-date financial performance and position of the City.

Various steps were implemented to improve the service delivery performance of the City. The most notably of the steps in improving the overall performance (service delivery and financial) of the City is the restructuring of the institutional structure of the City.

**Concluding Remarks**

While the Tshwane Market features very little in the development frameworks and spatial strategies of the City, the surrounding areas, especially Vom Hagen Street, are made provision for in terms of economic development along the Commercial Spine, despite the fact that the areas off Vom Hagen road are earmarked primarily for residential development. The Tshwane Market Master Plan provides for significant upgrades and developments in the area. Although these are confined to the Tshwane Market precinct, the area will benefit from the planned activities.

National government views local government as a very important tool in the successful implementation of its 12 outcomes to facilitate performance and better service delivery. The City adjusted its CDS and IDP mainly for two reasons:

- to align its developmental plans with the national outcomes to facilitate performance and better service delivery; and
- as a result of the improvement in general service delivery which allowed the City to shift and focus efforts on the maintenance of infrastructure and the development thereof.
The newly implemented institutional structure is reaping benefits and provide much clarity on the roles and functions of the legislative and administrative sections of the City of Tshwane.

The City of Tshwane comes from a quite tight financial position a few years ago to a steadily improved position. There is, as always, still room for further improvement, but the positive is that matters are improving.

It is expected that with the bedding down of the restructured institutional structure that the City performance will further improve on all fronts.

The Tshwane Market was, is and will be a key feature in the successful implementation of the City of Tshwane developmental frameworks and strategies. It is also true that the financial and general performance of the City has an influence on the performance of the Tshwane Market. It is important that the Tshwane Market operates within an institutional framework that is more focussed on the competitive elements of the fresh produce industry and less vulnerable to the City of Tshwane performance. Differently put, the Tshwane Market needs an institutional structure that is more externally focussed than internally focused.
Tshwane Market Overview

This section of the Report provides an overview of the operations of the Tshwane Market. It proceeds with a detailed analysis of the Tshwane Market operations in order to provide an in-depth understanding of its business.

Key Business Activities and Processes

Location within the City of Tshwane

The Market falls under the Agriculture and Environmental Management Department alongside Agriculture Management, Waste Management and Environmental Management.

The department is:

“responsible for seeing to it that Tshwane residents have access to parks, landscaped public spaces, nature reserves, resorts and swimming pools. It further ensures attractive burial sites and improves household food security. By partnering with stakeholders and using the best technology available the department strives to ensure a sustainable environment, equitable agricultural development and efficient waste management.” (City of Tshwane, 2013 a).

The Figure below illustrates the lay-out of the Department.

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Figure 1: Department of Agriculture and Environmental Management
The Department’s vision is:

“To be a leader in the management and delivery of community-centred integrated environmental, waste and agricultural services.”

Its mission is to:

“ensure a sustainable environment, equitable agricultural development and efficient waste management in partnership with stakeholders and through the innovative use of technologies”

The table below illustrates the department’s strategic objectives and how these align to the City’s objectives. Those Strategic Objectives that are of specific relevance to the Tshwane Market is high-lighted.

Table 10: Departmental Strategic Objectives

<table>
<thead>
<tr>
<th>Corporate Strategic Objective</th>
<th>Departmental Strategic Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide quality basic services and infrastructure</td>
<td>Provide access to intermediate or higher-level waste removal services in formalised areas (proclaimed areas)</td>
</tr>
<tr>
<td></td>
<td>Provide access to basic (communal skip) or higher-level waste removal services in informal areas (unproclaimed areas)</td>
</tr>
<tr>
<td></td>
<td>Maintain waste removal infrastructure (including waste dumps)</td>
</tr>
<tr>
<td></td>
<td>Provide and develop open spaces</td>
</tr>
<tr>
<td></td>
<td>Provide and develop nature conservation areas</td>
</tr>
<tr>
<td></td>
<td>Provide and develop recreation resorts</td>
</tr>
<tr>
<td></td>
<td>Provide basic farm infrastructure</td>
</tr>
<tr>
<td><strong>Accelerate higher and</strong></td>
<td><strong>Facilitate partnerships to develop agriculture in Tshwane</strong></td>
</tr>
<tr>
<td>Corporate Strategic Objective</td>
<td>Departmental Strategic Objective</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td><strong>shared economic growth and development</strong></td>
<td>Facilitate black economic empowerment in agriculture</td>
</tr>
<tr>
<td></td>
<td>Ensure utilisation of outdoor facilities</td>
</tr>
<tr>
<td></td>
<td>Facilitate economic growth related to development applications in Tshwane</td>
</tr>
<tr>
<td><strong>Fight poverty, and build clean, healthy, safe and sustainable communities</strong></td>
<td>Provide external and internal environmental education</td>
</tr>
<tr>
<td></td>
<td>Establish homestead and community food gardens</td>
</tr>
<tr>
<td></td>
<td>Provide a support service for indigent people</td>
</tr>
<tr>
<td></td>
<td>Provide attractive burial grounds</td>
</tr>
<tr>
<td></td>
<td>Plan strategic open spaces</td>
</tr>
<tr>
<td></td>
<td>Manage the impact of development</td>
</tr>
<tr>
<td></td>
<td>Design and manage open spaces and streetscapes</td>
</tr>
<tr>
<td></td>
<td>Monitor air quality</td>
</tr>
<tr>
<td><strong>Foster participatory democracy and the Batho Pele principles through a caring, accessible and accountable service</strong></td>
<td>Manage petitions</td>
</tr>
<tr>
<td></td>
<td>Manage stakeholders</td>
</tr>
<tr>
<td></td>
<td>Respond to customer complaints and requests</td>
</tr>
<tr>
<td><strong>Ensure good governance, financial viability and optimal institutional transformation with capacity to execute the mandate</strong></td>
<td>Manage capital and operational expenditure</td>
</tr>
<tr>
<td></td>
<td>Manage revenue generated</td>
</tr>
<tr>
<td></td>
<td>Develop employees</td>
</tr>
<tr>
<td></td>
<td>Manage labour relations</td>
</tr>
<tr>
<td></td>
<td>Run occupational health and safety</td>
</tr>
<tr>
<td><strong>Ensure good governance, financial viability and optimal institutional transformation with capacity to execute the</strong></td>
<td>Ensure employment equity in the workplace</td>
</tr>
<tr>
<td></td>
<td>Manage performance</td>
</tr>
<tr>
<td></td>
<td>Carry out planning</td>
</tr>
</tbody>
</table>
The Tshwane Market was previously located under the Economic Development Department and was shifted to the Department of Agriculture and Environmental Management after the 2011 elections.

**Business Overview**

The Tshwane Market is to serve as a trading platform for buyers and sellers. It serves as a:

“secure precinct whereby market agents sell fresh produce to buyers and the general public on behalf of producers/suppliers.” (City of Tshwane, 2012 c).

The Tshwane Market provides the following:

“Modern facilities that meet the present and future demands of users;
quality fresh produce in good supply;
clean market floors for a pleasant and healthy working environment;
information systems that meet the demands of agents;
real-time market information;
a sales system that ensures accurate financial management information and
general accountability;

a budget control system that ensures accurate financial management information
and general accountability;

safe and quick handling of financial transactions;

regular product audits;

regular monitoring of prices, product age and grading requirements;

regular inspection of products for residue;

daily removal of products that are unsafe for human consumption;

trolleys for hire;

security that safeguards market agents and their assets;

cold storage with stock control and quality control; and

a banana ripening centre with stock and quality control.” (City of Tshwane, s.a.)

Tshwane Market Functions, Vision and Mission

According to the Integrated Development Plan (IDP), the Tshwane Market’s core business
functions are:

“Trading and operation support;
Trading infrastructure and operations; and
Market system development”. (City of Tshwane, 2011).

It is viewed that the City of Tshwane got the core business of the Tshwane Market correct.

The division consists of the Fresh Produce Market in Pretoria West and the Marabastad Retail
Market. The Tshwane Market vision and mission are the follows:

**Vision**: To be a world leader in the marketing of fresh produce.

**Mission**: To provide a unique centre where price forming and fresh produce trading take place to
the mutual benefit of suppliers, buyers and consumers by providing efficient and cost-effective infrastructure and services that comply with international standards.

The Tshwane Market strives to be a world leader through:

Technology;
Investment;
Financial independence; and
Research and development.

The Tshwane Market distinguishes itself by the following norms:

Discipline;
Transparency;
Accessibility;
Ethic standards; and
Co-operation.

It would have more prudent if the Tshwane Market Vision read:

“To be a world leader in the facilitation of fresh produce (or food) marketing”.

**Tshwane Market Trading Perspective**

There are currently eight market agents trading in Halls A and B. The agents act as an agent (extension) for the producer and endeavours to negotiating the best price and receive a commission on the sales made.
The Tshwane Market has 3 905 sellers and 15 793 buyers. The tables below indicate percentage sales and purchases by the top 10, 20, 30, 40 and 50 sellers and buyers.

### Table 11: Agent Details

<table>
<thead>
<tr>
<th>Agent</th>
<th>Email address</th>
<th>Contact Person</th>
<th>Contact Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botha Roodt</td>
<td><a href="mailto:brpta@icon.co.za">brpta@icon.co.za</a></td>
<td>Louis Cilliers</td>
<td>012 321 5370/5 or 012 327 2085</td>
</tr>
<tr>
<td>Du Plessis en Wolmarans</td>
<td><a href="mailto:admin@dupwol.co.za">admin@dupwol.co.za</a></td>
<td>Lizelle Bezuidenhout</td>
<td>012 328 5246 or 323 1005</td>
</tr>
<tr>
<td>Farmer’s Trust</td>
<td><a href="mailto:elfranco@icon.co.za">elfranco@icon.co.za</a></td>
<td>Elfranco Hoogenhout</td>
<td>012 323 2000 or 012 326 4839</td>
</tr>
<tr>
<td>Noordaal</td>
<td><a href="mailto:info@noordvaal.co.za">info@noordvaal.co.za</a></td>
<td>Deon Vermeulen</td>
<td>012 323 2229 or 012 323 4843</td>
</tr>
<tr>
<td>Prinsloo &amp; Venter</td>
<td><a href="mailto:penv@mweb.co.za">penv@mweb.co.za</a></td>
<td>Eddie Mitchell</td>
<td>012 326 3611 or 328 5883</td>
</tr>
<tr>
<td>Subtropico Protea Markagente</td>
<td><a href="mailto:attie@subtropico.co.za">attie@subtropico.co.za</a></td>
<td>Attie Horn</td>
<td>012 326 8821 or 012 323 4843</td>
</tr>
<tr>
<td>RSA Markagente</td>
<td><a href="mailto:hendrik@rsa.co.za">hendrik@rsa.co.za</a></td>
<td>Hendrik Eksteen</td>
<td>012 326 2461 or 012 326 2462</td>
</tr>
<tr>
<td>DW Fresh Produce</td>
<td><a href="mailto:Theresa@jhbstormnet.co.za">Theresa@jhbstormnet.co.za</a></td>
<td>Theresa Frederiecks</td>
<td>083 260 2146, 012 333 9600</td>
</tr>
</tbody>
</table>

### Table 12: Summary of Top 10 to Top 50 Sellers

<table>
<thead>
<tr>
<th>Ranked</th>
<th>Sold</th>
<th>Tonnage</th>
<th>% of Total Turnover</th>
<th>% of Total Tonnage</th>
</tr>
</thead>
</table>

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Table 12 indicates that given the fact that there are 3 905 sellers at the Tshwane Market, the top fifty constitute 1.3% of the total number of sellers and contribute to a third of the total Tshwane Market turnover and 30% of the total tonnage sold per annum.

The table below indicates the top 100 sellers and shows that almost 46% of turnover comes from the top 100 sellers, which account for 2.6% of the total seller pool.

<table>
<thead>
<tr>
<th>Ranked</th>
<th>Sold</th>
<th>Tonnage</th>
<th>% of Total Turnover</th>
<th>% of Total Tonnage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 10</td>
<td>R 292 872 564</td>
<td>67 980</td>
<td>15.0%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Top 20</td>
<td>R 409 345 355</td>
<td>108 793</td>
<td>20.9%</td>
<td>18.8%</td>
</tr>
<tr>
<td>Top 30</td>
<td>R 503 219 233</td>
<td>136 045</td>
<td>25.7%</td>
<td>23.5%</td>
</tr>
<tr>
<td>Top 40</td>
<td>R 584 106 409</td>
<td>157 422</td>
<td>29.9%</td>
<td>27.2%</td>
</tr>
<tr>
<td>Top 50</td>
<td>R 654 638 899</td>
<td>174 409</td>
<td>33.5%</td>
<td>30.2%</td>
</tr>
</tbody>
</table>
Table 13: Top 100 Sellers

<table>
<thead>
<tr>
<th></th>
<th>Top 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Total of Top 100</td>
<td>R 905 463 342</td>
</tr>
<tr>
<td>% of Total Turnover</td>
<td>46%</td>
</tr>
<tr>
<td>% of Total Sellers</td>
<td>2.6%</td>
</tr>
<tr>
<td>Tonnage Total of Top 100</td>
<td>261 359</td>
</tr>
<tr>
<td>% of Total Tonnage</td>
<td>45%</td>
</tr>
</tbody>
</table>

Figure 2: below provides a graphical overview of the top 50 sellers and indicates that the top three sellers account for 8.6% of produce sold at the Tshwane Market.

The table below indicates the small-scale sellers selling less than R 100 000 and less than R 1.2 million per annum. Only 3% of turnover comes from sellers selling less than R 100 000 per annum. A more significant 23% of value of sales is ascribed to sellers selling under R 1.2 million per annum.
Table 14: Sellers Below R 100 000 and R 1.2 Million per Annum

<table>
<thead>
<tr>
<th>Sellers &lt; R100,000 p.a.</th>
<th>2 534</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of Sales</td>
<td>R 51 955 775</td>
</tr>
<tr>
<td>% of Total Turnover</td>
<td>3%</td>
</tr>
<tr>
<td>Sellers &lt; R1.2 p.a.</td>
<td>3 522</td>
</tr>
<tr>
<td>Value of Sales</td>
<td>R 448 474 869</td>
</tr>
<tr>
<td>% of Total Turnover</td>
<td>23%</td>
</tr>
</tbody>
</table>

Table 15 below indicates that given the fact that there are 15 793 buyers at the Tshwane Market, the top fifty constitute 0.3% of the number of buyers and contribute to almost half of the market's total turnover and contribute to 47% of the total tonnage bought per annum.

Table 15: Summary of Top 10 to Top 50 Buyers

<table>
<thead>
<tr>
<th>Ranked</th>
<th>Purchased</th>
<th>Tonnage</th>
<th>% of Total Turnover</th>
<th>% of Total Tonnage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 10</td>
<td>R 575 173 073</td>
<td>149 105</td>
<td>29.4%</td>
<td>27.3%</td>
</tr>
<tr>
<td>Top 20</td>
<td>R 721 742 388</td>
<td>192 162</td>
<td>36.9%</td>
<td>35.2%</td>
</tr>
<tr>
<td>Top 30</td>
<td>R 824 649 539</td>
<td>217 690</td>
<td>42.2%</td>
<td>39.9%</td>
</tr>
<tr>
<td>Top 40</td>
<td>R 900 446 349</td>
<td>238 668</td>
<td>46.1%</td>
<td>43.7%</td>
</tr>
<tr>
<td>Top 50</td>
<td>R 959 620 731</td>
<td>256 363</td>
<td>49.1%</td>
<td>47.0%</td>
</tr>
</tbody>
</table>

The table below indicates the top 100 buyers and shows that almost 60% of turnover comes from the top 100 buyers, which account for 0.6% of the total buyer pool.
Table 16: Top 100 Buyers

<table>
<thead>
<tr>
<th>Top 100</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Total</td>
<td>R 1 158 714 303</td>
</tr>
<tr>
<td>% of Total Turnover</td>
<td>59%</td>
</tr>
<tr>
<td>% of Total Buyers</td>
<td>0.6%</td>
</tr>
<tr>
<td>Tonnage Total of Top 100</td>
<td>307 521</td>
</tr>
<tr>
<td>% of Total Tonnage</td>
<td>56%</td>
</tr>
</tbody>
</table>

Figure 3 below provides a graphical overview of the top 50 buyers and indicates that the top two buyers account for 16% of produce bought at the Tshwane Market.

According to the Tshwane Market, buyers purchasing produce under the value of R 100 000 per annum are classified as informal traders. Table 17 below indicates contribution to turnover from purchases less than R 100 000 and less than R 1.2 million per annum. Only 8% of the turnover is ascribed to purchases made under the R 100 000. A more significant 25% of turnover is ascribed to purchases made under R 1.2 million.

Table 17: Purchases Under R 100 000 and R 1.2 Million per Annum

| Informal Traders < R100,000 pa | 14 763 |

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## Financial Review of Tshwane Market

### Operational Revenue and Expenditure

Tshwane Market is not financially ring-fenced and not all costs associated with the running of the market business is allocated to it. The income of Tshwane Market is fairly well ring-fenced and the income is merely all on a cash basis. Tshwane Market also does not have a ring-fenced balance sheet and the Market is not measured in terms of its financial performance (e.g. no liquidity ratios, profitability ratios, return on investment ratios, operating efficiency ratios, financial risk ratios or valuation ratios are calculated). Therefore, it can be said that the financial performance of the Tshwane Market is not determined other than how it performs against budgeted income and expenditure and budgeted capital expenditure and actual capital expenditure in a given year.

The Tshwane Market produced sales of fresh produce of approximately R 1 843 million for the 2011/2012 financial year. This is a significant number although it was advised earlier that fresh produce markets (including Tshwane Market) are losing market share to other marketing channels. However, this remains a noteworthy number and can certainly be significantly improved upon if trends in the fresh produce industry are followed by Tshwane Market operation.

<table>
<thead>
<tr>
<th>Value of Purchases</th>
<th>R 165 718 928</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Total Turnover</td>
<td>8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Informal Traders &lt; R1.2m pa</th>
<th>15 566</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of Purchases</td>
<td>R 484 647 121</td>
</tr>
<tr>
<td>% of Total Turnover</td>
<td>25%</td>
</tr>
</tbody>
</table>
The debtor revenue is derived from Tshwane Market property and equipment lease income and other minor income streams. The direct income is mainly generated from the 5% *ad valorem* commission charged. Approximately 10% of the Tshwane Market Revenue is generated from debtor revenue and the remainder is generated from the 5% *ad valorem* commission charged on sales on the Tshwane Market floor and fresh produce trade related activities. The fresh produce sales figure is slightly inflated as some products are sold twice (*i.e.* the bulk produce is sold to packers who resell the same repackaged produce again at the Tshwane Market). Tshwane Market should not decline these resale transactions. However, as a result of this trade, the tonnage of fresh produce sold at the Tshwane Market is higher than it should be as some produce, as indicated above, is sold twice. There is no record for this number as it is not accounted for separately which influences the accuracy of production statistics. This may happen at other fresh produce markets too.

### Table 18: Operating Revenue: Budget and Actuals

<table>
<thead>
<tr>
<th>Description</th>
<th>2009/10 Actual</th>
<th>2010/11 Actual</th>
<th>2011/12 Actual</th>
<th>2012/13 Budget</th>
<th>2013/14 Budget</th>
<th>2014/15 Budget</th>
<th>2011/12 Actual as % Of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtors Revenue</td>
<td>10 452 826</td>
<td>11 009 856</td>
<td>11 869 466</td>
<td>13 243 600</td>
<td>13 911 500</td>
<td>14 616 100</td>
<td>9,8%</td>
</tr>
<tr>
<td>Direct Income</td>
<td>98 066 259</td>
<td>101 199 043</td>
<td>109 416 880</td>
<td>117 514 455</td>
<td>123 214 900</td>
<td>129 754 015</td>
<td>90,2%</td>
</tr>
<tr>
<td>Total Income</td>
<td>108 519 085</td>
<td>112 208 900</td>
<td>121 286 346</td>
<td>130 758 055</td>
<td>137 126 400</td>
<td>144 370 115</td>
<td>100,0%</td>
</tr>
</tbody>
</table>

It is easier to predict the debtor revenue than the direct revenue as debtors revenue is mostly determined by fixed agreements whereas the direct income is linked to supply and demand and the free market price making mechanism. The direct income is sensitive to volume traded during a specific period and the price achieved for produce sold. A small decrease in volume sold at the fresh produce markets during a given period may lead to a much higher percentage increase in price which leads to a higher income generated by less volume traded. This phenomenon was discussed in the NACM reports and it was determined that fresh produce markets (including Tshwane Market) are not in control of their biggest income stream.
Expenditure is dominated by remuneration which made up 64.9% of total expenditure for the 2011/2012 financial year. The second biggest expenditure item (9.7%) is the capital charges that are mainly made up of depreciation which is not a cash expense but a provision for replacement of assets. The third largest expenditure item (8.7%) is for repairs and maintenance. This number may be on the low end as the market is maintaining a substantial asset. The Tshwane Market Master Plan Status Quo Assessment indicates that substantial maintenance work is required and some of the assets deteriorated to such an extent that they need to be replaced since they are either beyond repair or are out-dated in terms of the contemporary technology.
Figure 4: 2011/2012 Actual Expenditure as a Percentage of Total Expenditure

It is understood that the electricity charge to the market is too little and the property rates charge may also be incorrect. It is recommended that these charges be fixed as a matter of urgency in order to improve cost reflectiveness and the correctness of both the Tshwane Market financials and that of the utility services. Management indicated that the waste removal charges are very high and that the service may be rendered at an improved cost by private parties.

The two expenditure items that had the biggest effect on the operating budget under- and over-expenditure during 2010/2011 and 2011/2012, respectively, are remuneration and municipal rates and services. Remuneration will increase substantially as a percentage of expenditure if the newly approved organogram is implemented.

Table 20: Operational Expenditure: Budget and Actuals

<table>
<thead>
<tr>
<th>Description</th>
<th>2009/10 Budget</th>
<th>2009/10 Actual</th>
<th>2010/11 Budget</th>
<th>2010/11 Actual</th>
<th>2011/12 Budget</th>
<th>2011/12 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admin Expenditure</td>
<td>2 458 185</td>
<td>2 429 164</td>
<td>2 489 257</td>
<td>2 162 899</td>
<td>2 589 832</td>
<td>2 382 440</td>
</tr>
<tr>
<td>Capital Charges</td>
<td>6 080 648</td>
<td>6 911 413</td>
<td>5 412 300</td>
<td>6 615 320</td>
<td>7 419 326</td>
<td>6 767 101</td>
</tr>
<tr>
<td>General Expenditure</td>
<td>3 537 156</td>
<td>3 484 150</td>
<td>4 029 171</td>
<td>3 278 587</td>
<td>4 371 760</td>
<td>4 062 816</td>
</tr>
<tr>
<td>Municipal Rates &amp; Services</td>
<td>4 782 355</td>
<td>3 054 025</td>
<td>2 561 815</td>
<td>2 018 896</td>
<td>2 706 600</td>
<td>4 654 844</td>
</tr>
<tr>
<td>Raw &amp; Consumption Materials</td>
<td>515 438</td>
<td>423 953</td>
<td>491 545</td>
<td>441 706</td>
<td>616 441</td>
<td>481 561</td>
</tr>
<tr>
<td>Remuneration</td>
<td>38 342 518</td>
<td>38 304 223</td>
<td>43 421 473</td>
<td>40 704 740</td>
<td>42 218 186</td>
<td>45 176 019</td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>4 912 666</td>
<td>4 665 058</td>
<td>5 392 966</td>
<td>5 074 347</td>
<td>6 024 688</td>
<td>6 025 976</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>60 628 966</td>
<td>59 271 987</td>
<td>63 798 527</td>
<td>60 296 495</td>
<td>65 946 833</td>
<td>69 560 756</td>
</tr>
</tbody>
</table>

The operational revenue for the 2010/2011 and 2011/2012 financial years was fairly close to the budget.
Although not all costs to operate the Tshwane Market are allocated to it, the surplus generated is not to be discounted. The surplus generated is a handsome amount escalating annually and needs to be preserved.

### Table 22: Operational Expenditure and Revenue: Budget and Actuals

<table>
<thead>
<tr>
<th>Description</th>
<th>2009/10 Budget</th>
<th>2009/10 Actual</th>
<th>2010/11 Budget</th>
<th>2010/11 Actual</th>
<th>2011/12 Budget</th>
<th>2011/12 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure</td>
<td>60 628 966</td>
<td>59 271 987</td>
<td>63 798 527</td>
<td>60 296 495</td>
<td>65 946 833</td>
<td>69 560 756</td>
</tr>
<tr>
<td>Revenue</td>
<td>98 736 478</td>
<td>108 519 085</td>
<td>113 500 154</td>
<td>112 208 900</td>
<td>119 678 614</td>
<td>121 286 346</td>
</tr>
<tr>
<td>Surplus/(Deficit)</td>
<td>38 107 512</td>
<td>49 247 099</td>
<td>49 701 627</td>
<td>51 912 405</td>
<td>53 731 781</td>
<td>51 725 590</td>
</tr>
</tbody>
</table>

### Capital Expenditure

The capital expenditure for Tshwane Market is discussed in section 1.2.3.1 of this Part 3 of this Report that deals with the City of Tshwane IDP.

It is anticipated that Tshwane Market will spend the capital expenditure amounts as listed in Table 23.

### Table 23: Tshwane Market MTREF Capital Expenditure

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/2014</td>
<td>R 15 700 000</td>
</tr>
</tbody>
</table>
These amounts are relatively small considering the extent of the Tshwane Market property and business operation.

The full extent of the capital requirements for the Tshwane Market as per the Master Plan is listed in Annexure D.

**Tshwane Market Property**

The Tshwane Market consists of the following erven, totalling approximately 329 015 m² (32 hectare):

- JR351/23 (Tshwane Market Premises) 244 164 m²;
- R of Port 343 (Ripening Centre) 47 789 m²;
- ERF 3327 (Tshwane Market Management) 7 696 m²;
- Flat Staff 201 m²;
- ERF 3329 9 129 m²;
- R/2666 8 665 m²; and
- GED 6/351 JR 3 725 m². (City of Tshwane, 2012 c).
- Portion PRES Burgerstr 7 346 m²

Table 24 below (as adapted from City of Tshwane, 2012 c, the Market Master Plan) provides an overview of the facilities and the state of their condition. The main source for this information is
the Tshwane Market Master Plan: Status Quo Assessment Report. The map below provides an overview of the facilities on the premises.

The Master Plan states that the overall condition of the buildings is in an “acceptable working condition” and the building structure is “acceptable” (City of Tshwane, 2012 c). However, the Tshwane Market does not comply with the National Building Regulation (NBR) and the Occupational Health and Safety Act. This includes electrical installations that fail to be up to NBR standard and require a certificate of compliance. In addition, an up to date fire plan with all supporting preventative measures (regular fire extinguisher inspections etc.) is required to bring the Tshwane Market up to standard in this regard.

The Master Plan further highlights the fact that although the roads, parking areas and paved areas are in good to very good condition, preventative and general maintenance to the buildings is lacking. To enhance security, the Plan suggests the installation of high mast electrical lighting, as well as CCTV cameras, access control and security checks; none of which are in place at the moment resulting in uncontrolled entry and exit from the Tshwane Market premises.
Figure 5: Market Facilities and Premises
The master plan identifies the following areas that require urgent attention:

- bargeboard and facias;
- insulation to roofs;
- plumbing fittings;
- blocked drains;
- electrical, data, CCTV, smoke detection, early warning system, building evacuation systems, telephone installations, access control;
- air-conditioning, lifts, conveyor belts, ventilation, compactors, dock levellers;
- fire equipment, reticulation, signage, sprinkler installation;
- gas installation;
- sun control louvres;
- cold rooms, chiller plants, isoboard refrigeration;
- landscaping;
- external palisade fence, retaining loffelstein walls and boundary walls;
- external parking areas and external roads to be maintained;
- damage to roof structure, roof sheeting and vertical cladding including flashings, ridge caps, narrow and broad flute closures to be rectified; and
- damage to fencing to be rectified.
Table 24: Condition of Tshwane Market Facilities

<table>
<thead>
<tr>
<th>Facility</th>
<th>Description</th>
<th>Approximate area in square meter</th>
<th>Comments on condition of facility</th>
</tr>
</thead>
</table>
| Tshwane Market Hall A         | Fresh fruit, potatoes and onions are traded in Tshwane Market Hall A. The agents operate within this open space through enclosing their area with moveable barricades. The size of their trading area is determined by the turnover generated in the previous financial year and is recalculated on an annual basis. The trading areas can be used as agents see fit, and some have built their own cold storage facilities in their spaces, with the only additional cost incurred being electricity. Tshwane Market Hall A also contains a service centre, cashiers, banks and is connected via external platform with Tshwane Market Hall B. | 74 770                           | • building in an acceptable condition concerning the building age;  
• minor maintenance to specific areas;  
• minor maintenance to roads, loading bays, walkways and parking;  
• roofs, flashings and gutters require attention;  
• the external roller shutter doors require attention;  
• fire reticulation, fire hydrants, fire extinguishers to be checked and maintained;  
• directional and fire signage to be updated;  
• ablution and toilet facilities in acceptable condition; and  
• electrical, date, etc is working but requires attention. |
| Tshwane Market Hall B         | Vegetables are traded in Tshwane Market Hall B by the same agents and on the same principles as those applying to Tshwane Market Hall A. | 43 500                           | • building in very good condition and requires minor maintenance;  
• fire water reticulation is incorrectly indicated and should be rectified;  
• building to be steam cleaned from dust; and  
• building under-used. |
| After Hours Off-Loading Area Hall A & B | No information provided.                                                      | 5 430                            | No comment.                                                                                       |
| Banana Ripening               | The Banana Ripening Facility is managed by the Tshwane                         | 7 760                            | • building in good condition;  
• maintenance required to the... |
<table>
<thead>
<tr>
<th>Facility</th>
<th>Description</th>
<th>Approximate area in square meter</th>
<th>Comments on condition of facility</th>
</tr>
</thead>
<tbody>
<tr>
<td>and Maintenance Facility</td>
<td>Market for and on behalf of the agents. It spans 6 377 m² floor space and consists of 49 rooms with a capacity of 60 380 boxes per week (City of Tshwane, 2012 b). Banana ripening has been reduced from nine to six days.</td>
<td></td>
<td>plumbing and drainage system; and cleaning of building required</td>
</tr>
<tr>
<td>Watermelon Facility</td>
<td>Four agents are currently trading in the watermelon area. However, Tshwane Market Management is looking to reduce this to only one. The same buying and selling principles apply as to the Tshwane Market Halls</td>
<td>3 675</td>
<td>• building in very good condition; and • no additional work or maintenance required</td>
</tr>
<tr>
<td>Cold Rooms (Old)</td>
<td>The Tshwane Market has two cold rooms: the lower cold rooms consist of 1 087.99 m² floor space and upper cold rooms consist of 2 115 m² floor space. (City of Tshwane, 2012 b). The lower cold rooms are referred to the old cold rooms (constructed in the 1960s) and the upper cold rooms are the newer facilities (constructed in the 1990s).</td>
<td>1 087.99</td>
<td>• These storage facilities form part of the original buildings and are in acceptable condition.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• The cold storage facilities require an urgent renovation in order to comply with NBR.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• The chillers are also part of the original installation and have been maintained; these mechanical items still work and have specific items which still need to be imported from Italy in order to work. These items are no longer being imported and old items are being used over and over.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• These chillers are to be replaced with modern technology and greener equipment.</td>
</tr>
<tr>
<td>New Cold Storage Facility</td>
<td></td>
<td>2 115</td>
<td>• new building and in acceptable condition; • reports on preventative maintenance on chillers lacking; and • roads and parking acceptable.</td>
</tr>
<tr>
<td>Flower</td>
<td>Wholesale and cut flower were</td>
<td>215</td>
<td>• This portion of the building is</td>
</tr>
<tr>
<td>Facility</td>
<td>Description</td>
<td>Approximate area in square meter</td>
<td>Comments on condition of facility</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>---------------------------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Market</td>
<td>traded in the Flower Market, located next to Tshwane Market Hall A. Managed by an independent tenant, Flowers @ Auction, the auction operated on a clock system whereby buyers could determine, <em>via buzzer</em>, the numbers of stems at a specific price he / she would like to buy. The process was repeated until all the flowers were sold. The flower market is no longer in existence and the Tshwane Market Bylaws are being reviewed in order to allow for auction processes to take place.</td>
<td>enclosed by the existing fresh fruit market; and the main hall A. Whatever is applicable to these buildings are applicable to this portion as well.</td>
<td>The buildings are in reasonable condition and attention to the floor finishing is required. The ablution blocks have been closed and are not in a usable condition. It would seem as though these have been closed because they are not being used.</td>
</tr>
<tr>
<td>Fruit and Veg Trading and Storage for Agents</td>
<td>No information provided.</td>
<td>4 550</td>
<td>• Damage to the roofs to be rectified; • Bumper rails at loading bays to be rectified; • Staircases (steel) have been damaged and needs replacing; and • Internal electrical light fittings have not been maintained;</td>
</tr>
<tr>
<td>Agent Storage and Machine Workshop</td>
<td>No information provided.</td>
<td>16 180</td>
<td>• fire equipment and reticulation does not comply with regulations; • roads and parking area is acceptable and requires some maintenance attention; • the existing stores on the loading bay were used for palate storage and could create a fire hazard; • most of the mechanical equipment seems to be in reasonable condition although these were not checked; and • plumbing fittings and maintenance required in order to comply with regulations.</td>
</tr>
<tr>
<td>Pre-packaging</td>
<td>These facilities are currently being upgraded to be used by</td>
<td>2 580 and 2 720</td>
<td>• combination of New and Old</td>
</tr>
<tr>
<td>Facility</td>
<td>Description</td>
<td>Approximate area in square meter</td>
<td>Comments on condition of facility</td>
</tr>
<tr>
<td>---------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>----------------------------------</td>
<td>----------------------------------</td>
</tr>
</tbody>
</table>
| Processing    | independent tenants for the processing (washing, dicing and packaging) of produce bought at the Tshwane Market for further distribution and sale. A new processing facility was established in 2010 to contribute to the strategic thrust of promoting growth at the Tshwane Market and remaining one of the leading distribution centres in the fresh produce industry. The location of the old watermelon sheds on the south-western side of the Tshwane Market was identified for the new processing facilities as it provided easy access from Hall B. As a result, the watermelon facilities were relocated to the northern side of the Tshwane Market. Due to budget constraints, only one of the watermelon sheds were converted into processing and repacking facilities. The shed, sized 1800 m², was converted into two processing plants and a warehouse facility to serve as the official food bank for the City. (As taken from the City of Tshwane Market website, City of Tshwane s.a. a) | 2 380 and 800 | buildings;  
• New building in good condition with minor maintenance required.  
• Old buildings are damaged and require major renovations;  
• bargeboard and ridge capping renovated; and  
• parking and road surfaces acceptable condition. |
<p>| Food Bank     | The Food Bank was located in the new processing facilities (as above). The Bank serves as “one of the emergency food programmes that provide immediate hunger relief to individuals and families who are unable to afford food and | 850 | No comment. |</p>
<table>
<thead>
<tr>
<th>Facility</th>
<th>Description</th>
<th>Approximate area in square meter</th>
<th>Comments on condition of facility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal Traders Packaging Area</td>
<td>No information provided.</td>
<td>315</td>
<td>No comment.</td>
</tr>
</tbody>
</table>
| Modern Packaging | No information provided. | 1 250 | • building recently built and in acceptable condition; and  
• parking and roads very good condition. |
| Neltropica (Dehydration Facility) | No information provided. | 610 | • the building is in an acceptable condition;  
• the roof at the back requires major attention and repair;  
• road surface and parking could be upgraded together with the redesign of the main gate; and  
• the external fencing at the back of the facility requires upgrade and renovation. |
<p>| Palate Storage | No information provided. | 1 080 | • this portion of the development is in the worst condition of all the |</p>
<table>
<thead>
<tr>
<th>Facility</th>
<th>Description</th>
<th>Approximate area in square meter</th>
<th>Comments on condition of facility</th>
</tr>
</thead>
</table>
| Facility | buildings;  
• being a wooden palate storage facility, it does not comply with any NBR;  
• no sprinklers system installed;  
• light fittings and electrical installation also does not comply;  
• the existing fence needs replacement and is rusted and damaged; and  
• manhole covers over manholes are missing and the storm water drainage requires a complete wash-out or rinse. | | |
| Housewives Market | The Housewives Market provides a retail facility to the public with produce can be bought in grocery store style. | 3 500 and 6 613 | • very recent building thus in good condition;  
• minor maintenance required; and  
• parking area to be neatened and Loffelstein to parking area to be rectified and repaired. |
| Tshwane Market Agent Office Block | Agents use the Tshwane Market Agent Office Block for administrative purposes and for meeting with buyers, sellers or producers off the Tshwane Market floor. | 650 | • building in an acceptable condition with minor maintenance to plumbing and drainage required;  
• access control is non-existent and should be incorporated in the new design;  
• handrails to the Northern walkway to be installed to comply with NBR;  
• this building could be seen as a future income producing building and needs to be maintained and upgraded accordingly;  
• bargeboards to be installed, maintained and rectified;  
• the road surface is acceptable and requires minor maintenance;  
• roof sheeting requires minor maintenance repairs;  
• gutters and downpipes need to be replaced; and |
<p>| Agent Covered Parking Bays | No information provided. | 2 750 | |</p>
<table>
<thead>
<tr>
<th>Facility</th>
<th>Description</th>
<th>Approximate area in square meter</th>
<th>Comments on condition of facility</th>
</tr>
</thead>
</table>
| Tshwane Market Management Office| Tshwane Market Management is located in the Tshwane Market office block. The facilities are also used for meeting with Tshwane Market agents, the public and/ or any other stakeholders. | 795                             | • building in very good condition; and  
  • only minor maintenance required.                                                                                                                                |
| Liquor Store                   | No information provided.                                                    | 2 150                           | • the roof is damaged and needs repairing; and  
  • building in good condition, requires minor maintenance and needs cleaning.                                                                                     |
| Wholesaler Market              | No information provided.                                                    | 850                             |                                                                                                                                                                   |
| Flat                           | No information provided.                                                    | 225                             | No comment.                                                                                                                                                         |
| Security Office                | No information provided.                                                    | 170                             | • these buildings are completely damaged and they require re-design and re-building;  
  • access control is non-existent and thus CCTV together with access control requires major attention;  
  • the road surface is acceptable taking into account the amount of traffic;  
  • repair to the loffelstein retaining walls to be attended to and rectified;  
  • major water leaks in the plumbing to be attended to;  
  • building is in an acceptable condition and does not require major attention; and  
  • access control could be installed.                                                                                                                                  |
<p>| Entrance and Exit Facility - B | No information provided.                                                    | 640                             |                                                                                                                                                                   |
| Entrance and Exit Facility - A &amp; Office Area (Old Facility) | No information provided.                                                | 195                             |                                                                                                                                                                   |
| Sub-Station                    | No information provided.                                                    | 45                              | No comment.                                                                                                                                                         |
| Refuse Area                    | No information provided.                                                    | 235                             | No comment.                                                                                                                                                         |</p>
<table>
<thead>
<tr>
<th>Facility</th>
<th>Description</th>
<th>Approximate area in square meter</th>
<th>Comments on condition of facility</th>
</tr>
</thead>
</table>
| Ablution Blocks  | No information provided.              | 3,150                            | **North east by Fruit and Veg City:**  
|                  |                                       |                                  | • This ablution block is completely outside of the NBR as none of the urinals were working.  
|                  |                                       |                                  | • Most plumbing, internal and external, require attention and / or replacement.  
|                  |                                       |                                  | • Some of these buildings have been closed down in order to avoid additional costs for maintenance, cleaning, etc. but if these have been closed, then again the Tshwane Market does not comply with the NBR and Municipal Zoning Regulations.  
|                  |                                       |                                  | • All these buildings require urgent attention and renovations.  
|                  |                                       |                                  | • Blocked drains need to be opened and systems rinsed.  
|                  |                                       |                                  | • Fire hoses have been removed from the fire hose reels on instruction from the manager. Reasons being that they would be stolen in any case.  
|                  |                                       |                                  | • This confirms that the buildings do not comply with any NBR and this is a criminal offence.  
|                  |                                       |                                  | **Ablution blocks – general:**  
|                  |                                       |                                  | • These ablution blocks are scattered all over the Tshwane Market and clearly these are not maintained or renovated on a regular basis.  
|                  |                                       |                                  | • Most plumbing, internal and external, require attention and/ or replacement.  
|                  |                                       |                                  | • Some of these buildings have been closed down in order to avoid additional costs for maintenance, cleaning, etc. but if these have been closed, then again the Tshwane Market does not comply with the NBR and Municipal Zoning Regulations.  |
Tshwane Market Road Infrastructure

The Tshwane Market roads consist of approximately 92 000m² asphalt surfaced streets, which are generally kept in a good condition as repairs are done once a year. (City of Tshwane, 2012c).

Informal buyers, who, according to the Master Plan, are dependent on public transport, are provided for through two small taxi ranks. While the one located adjacent to Hall A is overused, the other one is currently not utilised due to the “lack of control over the traffic and parking” (City of Tshwane, 2012c). The areas also lack adequate storing space for produce purchased leading to further congestion as produce is stored on the pavements.

No provisions are made for pedestrian access to the Tshwane Market, and pedestrians enter the Tshwane Market Gate on the road. Pick-up and drop-off facilities for taxis do also not exist outside the Tshwane Market, leading to a safety hazard.

As a result, traffic issues on the Tshwane Market premises is due to inadequate “control of the internal road network and parking areas” as vehicles “drive as they like and park where they want”. In addition, the above-mentioned public transport facilities pose certain challenges.
Finally, a large number of vehicles make use of the Tshwane Market as a through fare to travel from the north to the west. (City of Tshwane, 2012 c).

**Tshwane Market Rental Tariffs**

The following tariffs are applicable and escalate by 7% annually. The last valuation was done in 2010:

**Table 25: Tshwane Market Rental Tariffs**

<table>
<thead>
<tr>
<th>Premises</th>
<th>Rental in Rand per Square Meter</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fresh produce market related</strong></td>
<td></td>
</tr>
<tr>
<td>Tshwane Market agents’ offices</td>
<td>40</td>
</tr>
<tr>
<td>Open land (ground)</td>
<td>3.50</td>
</tr>
<tr>
<td>Other offices</td>
<td>55</td>
</tr>
<tr>
<td>Brick store (fruit and veg related)</td>
<td>27</td>
</tr>
<tr>
<td>Open store (IBR)</td>
<td>22</td>
</tr>
<tr>
<td>Stoep (platform)</td>
<td>9</td>
</tr>
<tr>
<td><strong>Non-fresh produce related</strong></td>
<td></td>
</tr>
<tr>
<td>Egg Depot</td>
<td>50</td>
</tr>
<tr>
<td>Meat Market</td>
<td>50</td>
</tr>
<tr>
<td>Coffee Shop</td>
<td>65</td>
</tr>
<tr>
<td>Flower Shops</td>
<td>50</td>
</tr>
</tbody>
</table>
Further Tshwane Market Expansion

Figure 6 below (taken from the Master Plan) indicates areas for future expansion or improved land use. The purple areas are identified as potentially environmentally sensitive areas and environmental assessments will have to be conducted prior to any expansion on these areas. The blue shaded areas could be developed or optimised in terms of land use. These include:

- processing area (Old Water Melon area);
- area next to Tshwane Market Hall A at the Vom Hagen entrance;
- Tshwane Market Office Block;
- pallet storage area;
- area next to Tshwane Market Hall B at E’skia Mphahlele Drive including the Modern Packaging building;
- old cold storage area; and
- a section of The Fruit Wholesalers.
Figure 6 Areas for Possible Future Development and/ or Expansion

As indicated above, the Tshwane Market aims at implementing the recommendations of the Master Plan in a phased approach as funds become available.
Utilities

This section highlights any issues that Tshwane Market may have with its utilities electricity, water, sewerage, waste, storm water and communication as taken from the Master Plan and confirmed during interviews.

**Electricity**

According to the Master Plan no electricity accounts are available. In an informal discussion with Tshwane Market Staff (Informal Feedback Session with Market Staff, 10 June 2013. 09.00-11.00) it was confirmed that the Tshwane Market was being significantly undercharged for electricity, while waste removal costs have doubled over the past year. Other tariffs are insignificant in relation to these. Council will have to be engaged regarding undercharging in order to avoid massive paybacks.

According to the Master Plan, no information on the electricity network is available, although the location of various mini-sub stations that supply power to the Tshwane Market are known.

Tenants at the Tshwane Market pay for their electricity consumption on a monthly basis. However, electricity is not measured in the Tshwane Market halls, except for agent cold rooms that have their own electricity meters. (City of Tshwane, 2012 c).

**Water**

The Tshwane Market receives its water from Fountains valley via The Findley reservoir through four bulk meters, two of which are located at the E’skia Mphahlele Drive (former DF Malan
Avenue) Gate and the other two are located at the Vom Hagen Road entrance. Average consumption equals to 367.13 kl per day (City of Tshwane, 2012 c).

The water reticulation network is generally in good working condition and is sufficient to cater for existing operation and allows for reasonable future growth (City of Tshwane, 2012 c).

**Sewerage**

The Daspoort Waste Water Treatment Works (DWWTW) treats water from the Pretoria CBD and the Tshwane Market. The capacity of the Works is 55 mega litre per day of which it serves 40 mega litre a day and of which 200 kilolitre comes from the Tshwane Market.

**Waste**

Waste costs for the Tshwane Market have doubled over the last year as the rebate on waste was discarded and waste removal costs increased by 50%. This increased the Tshwane Market’s waste bill significantly as it is currently paying between 65c/kg to 68c/kg. There is a yet untested view that this service can be obtained at a lower rate from the private sector.

**Storm Water**

Blocked and inadequate storm water drainage is one of the biggest problems the Tshwane Market faces. The Master Plan confirms that existing systems are under-capacity

"due to previously accepted but out-dated design criteria” (City of Tshwane, 2012 c).
However, this would not pose a problem if the system was regularly cleaned and maintained.

Similar to the general infrastructure maintenance issues raised above, maintenance of the drainage systems is imperative to ensure its proper functioning. The Master Plan states that over the last seven years, maintenance staff has decreased from 63 to 26 staff and maintenance financing has been limited, resulting in irregular and inadequate maintenance.

In addition, inadequate waste disposal and general littering has resulted in the blockage of the drainage system resulting in Tshwane Market Hall A flooding during heavy rains (City of Tshwane, 2012 c).

Communication

The Tshwane Market is served by two separate data and telecommunication systems – one for general operations, which is a standard internet and networking service, and the other for the transactions occurring between agents and buyers.

The data network is in a functional state. However, unmanaged and uncontrolled expansion has resulted in cable management being unacceptable, resulting in almost impossible fault finding. Both the Tshwane Market Agents building and the Tshwane Market Agents in Halls A and B have PABX systems that operate well. Again, however, cable management needs to be addressed.

Food Safety

Due to sub-standard food safety and control measures, farmers and buyers are currently bypassing the Tshwane Market, since many farmers have Hazard Analysis and Critical Control
Points (HACCP) in their own facilities which becomes null and void once produce passes through the Tshwane Market. This break in the value chain will be rectified once the appropriate health and food safety measures have been put in place.

The new organisational structure makes provision for Food Safety and Quality Control. At the time of writing (July 2013), the Director for Food Safety and Quality Control had been appointed as well as one additional person. Once the other five posts under this section are filled, the Tshwane Market will address Food Safety issues and become compliant in terms of this matter.

While management admits that the Tshwane Market is still behind in terms of food and safety control issues and has lost Tshwane Market share as a result, the new processing plants are HACCP accredited and are audited on an annual basis by a private firm. Next in line for HACCP accreditation are the cold rooms and the ripening centre as well as rendering the platform floor compliant (currently, the floor is asphalt, which will be replaced with concrete flooring).

The Tshwane Market is also aiming to tender for Maximum Residual Testing (MRL) on the Tshwane Market.

The City provides for a permanent Environmental Health Practitioner to the Tshwane Market.

**Quality and Quantity Control**

Currently, the Tshwane Market does not have sufficient staff to conduct effective quality and quantity control. However, the new organisational structure makes provision for these functions.
In addition, from 01 July 2013, the Tshwane Market has implemented an IT System to control consignment.

**Employee Related Matters**

The approved organisational structure for 09 July 2012 was made available for analysis. The organogram had been developed after the Tshwane Market had been moved from the Department of Economic Development to the Department of Agriculture and Environmental Management as a result of a political decision subsequent to the previous elections. Under the Department of Economic Development, all staff had been Tshwane Market staff, including financial, human resources and support staff.

However, with the move to the Department of Agriculture and Environmental Management, support services were kept centrally at the City of Tshwane. As a result eight staff members are outsourced to the Tshwane Market:

- Human Resources: two staff members;
- Finances: one staff member; and
- Support (Assets and Registry): five staff members.

These staff members report to the City’s Corporate Department, resulting in a lack of control for the Tshwane Market as performance targets are set at City level.

The 2012 organogram was developed to make provision for additional posts (amongst others) in Food Safety and Quality Control, as well as Revenue Management. The organogram is approved but not yet functional as funding constraints are hindering implementation. As a result, there are 173 staff employed at the Tshwane Market (excluding the eight staff members sourced from Corporate City services), while the Organogram provides for 212 posts.
The high level structure is illustrated below with the following divisional split:

- **Operations Food Safety and Quality Control**: 57 staff members. This is a new position aimed at facilitating growth in the Tshwane Market;
- **Strategic Support and Special Projects**: nine staff members;
- **Revenue Management**: 48 staff members;
- **Infrastructure and Maintenance Support**: 90 staff members; and
- **Tshwane Market Systems Development**: six staff members.

It is understood that the full staff complement will be employed and deployed as per the organisational structure as and when the City of Tshwane allocate sufficient financial resources to the Tshwane Market.
There are 14 Cashiers that work $\frac{5}{8}$ hours a day, 11 of which are part-time. The remaining staff complement is permanent salaried staff.

The following graph illustrates the age range of the employees. It shows that the majority of staff are located in the 36 to 45 age bandwidth with 39% of the overall staff complement. The majority of staff lie above this age group with only 14% of staff younger than 36. While it would be desirable for the Tshwane Market to have a larger younger staff complement, the larger mid-range illustrates experienced staff who are still years away from retirement.

![Age Ranges (Employees)](image)

**Figure 7: Age Range Employees**

The graph below illustrates years to retirement. 23% of the staff complement have between 0 and 10 years before they retire, 30% have between 11 and 20 years and 38% have between 21 and 30 years before they retire. Again, as alluded to above, the middle aged staff complement is an asset to the Tshwane Market.
Figure 8: Years to Retirement

Contracts

The main contracts that the Tshwane Market has are with FreshMark Systems regarding software. These currently are:

Annual Maintenance Agreement from Raining Data systems;

Annual D3 Database License and Support Contract; and

MySQL Software License Certificate.

The Tshwane Market has also contracted in several external companies through tender processes, who provide services on and as and when required basis. These relate mainly to cleansing services and the provision of the relevant FreshMark software as can be seen below. The appointments are all three year contracts, except for the banking services, which is a five year contract and expires in June 2017:
Tender for the supply of liquid petroleum gas, oxygen, acetylene and argon gas: three year contract, ending 30 November 2014.

Tender for the rendering of a preventative maintenance and emergency service/repairs of all chillers, cooling towers and related equipment at the Banana Ripening Centre at the Tshwane Market: as and when required: three year contract, ending 30 November 2015.

Tender for general cleaning services of asphalt loading platforms, paved public parking areas, asphalt main routes and asphalt entrance road areas: on an as and when required basis: three year contract, ending 31 July 2015.

Tender to appoint banker for the Tshwane Market: as and when required: five year contract, ending 30 June 2017.

Tender to appoint a service provider to act as a media house for the publication of media advertisements in preferred electronic and printed media on behalf of the Tshwane Market: three year contract, ending 31 March 2015.

Tender for the software maintenance and support for the FreshMark System: three year contract, ending 31 August 2015.

Tender for the software maintenance and support for the FreshMark System: as and when required: three year contract, ending 31 August 2014.

Tender for cash in transit services for the Tshwane Market: three year contract, ending 30 September 2013.

Tender for the rendering of general cleaning services of roads, platforms, public parking areas at the Tshwane Market: three year contract, ending 31 July 2013.

Tender for the rendering of hygiene service and hygienic products at the Tshwane Market, Agriculture and Environmental Management: three year contract, ending 31 July 2013.
Small Farmers and Black Economic Empowerment

The Tshwane Market makes a concerted effort to assist small farmers’ sell their produce at the Tshwane Market. For example the Tshwane Market sends its one ton bakkie to collect produce at the Rooiwal Agrivillage. The Tshwane Market is also motivating for extending fresh produce market support to small farmers through the Agricultural Produce Marketing Agencies Bill of 2013.

The Tshwane Market is also aiming at supporting Black Economic Empowerment (BEE) Agents. However, the reservation is that since agents rely highly on existing strong relationships with farmers, this initiative will be difficult to implement.

Competition

Tshwane Market operates in competition with the following marketing channels available to producers:

- farm gate sales;
- export;
- wholesale;
- retail;
- informal trade;
- hospitality and catering;
- dry fruit;
- processed fruit and vegetables; and
- fresh and processed fruit juice market.
These marketing channels are all privately owned and are taking up the majority of fresh produce supply. It is only the last three marketing channels where value add takes place after the produce reached the buyer as produce is delivered in bulk to these buyers.

**Strengths, Weaknesses, Opportunities and Threats**

Based on the analysis above, the section below provides an overview for the strengths, opportunities, weaknesses and threats (SWOT) of the Tshwane Market:

**Table 26: Strengths and Weaknesses**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tshwane Market is well-established in fresh produce environment</td>
<td>Maintenance backlog with regard to infrastructure</td>
</tr>
<tr>
<td>Second largest fresh produce market in South Africa</td>
<td>Food safety compliance sub-standard</td>
</tr>
<tr>
<td>Adequate infrastructure available for operations on the market</td>
<td>Available land and facilities not optimally utilised</td>
</tr>
<tr>
<td>Adequate land available for expansion</td>
<td>Not in control of all service delivery inputs that are mission critical</td>
</tr>
<tr>
<td>Good location therefore easy access to facilities</td>
<td>Tshwane Market surplus generated not applied towards its development – used elsewhere</td>
</tr>
<tr>
<td>Long standing agent relationship and established client base – large data base of producers and buyers</td>
<td>Slow processes in filling new staff structure</td>
</tr>
<tr>
<td>Some important role-players like wholesalers and meat markets etc.</td>
<td>Protracted process to change bylaw</td>
</tr>
<tr>
<td>Diverse product offering</td>
<td>Slow movement in Master Plan implementation – surplus funds allocated elsewhere in the City budget as indicated above</td>
</tr>
<tr>
<td>Financially sound – generates handsome surplus</td>
<td>General protracted City decision-making process</td>
</tr>
<tr>
<td>Skilled management team and new organisational structure further enhances the management team</td>
<td>Doesn’t offer sufficient variety in fresh produce basket – more bulky produce sold at Tshwane Market</td>
</tr>
<tr>
<td>Important price setter in the industry</td>
<td>Imbalance of producers and buyers – few large scale producers and buyers</td>
</tr>
<tr>
<td>Master plan for expansion completed</td>
<td></td>
</tr>
<tr>
<td>This Municipal Systems Act Section 78</td>
<td></td>
</tr>
<tr>
<td>Opportunities</td>
<td>Threats</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>The fresh produce industry shows growth over the long term and this trend is to continue</td>
<td>Loss of any one or more of the big ten producers and/ or buyers</td>
</tr>
<tr>
<td>To facilitate value add opportunities</td>
<td>No supplier or buyer is locked in and it is relatively easy to switch marketing channel</td>
</tr>
<tr>
<td>The move towards a food and fresh food hub (not only fresh produce)</td>
<td>Mainly concentrating on fresh produce whereas it should shift efforts to food marketing in general</td>
</tr>
<tr>
<td>Enter electronic trade – saving in capital expenditure</td>
<td>Quality of fresh produce sold at Tshwane Market not at same level when compared to chain retailers – not a driver of quality in the industry therefore price making ability become less important</td>
</tr>
<tr>
<td>To facilitate SADC countries to procure from the market</td>
<td>Large scale producers are using diversified marketing channels which render it easy to switch away from the Tshwane Market</td>
</tr>
<tr>
<td>Possible capital investment support by DAFF</td>
<td>Not participating in the increased growth in the export of fresh produce due to direct contracting through other fresh produce marketing channels</td>
</tr>
<tr>
<td>Possible ring fencing of market business</td>
<td>Other marketing channels including Johannesburg Market (as mentioned in Part 2 Johannesburg Market is implementing a substantial expansion plan)</td>
</tr>
<tr>
<td>Implementation of long awaited National Agricultural Marketing Council Section 7 Committee recommendations</td>
<td>Decision-makers not always understand the</td>
</tr>
<tr>
<td>Opportunities</td>
<td>Threats</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>The new institutional structure of the City</td>
<td>operation and competing forces of fresh produce markets including that of Tshwane Market</td>
</tr>
<tr>
<td>The implementation of HACCP,</td>
<td>Being at the peril of the agents to generate the bulk of its turnover and ultimately growth</td>
</tr>
<tr>
<td>GlobalGAP(^1) and traceability to ensure safe products</td>
<td>Lack of expansion opportunities due to jurisdictionally bound nature of “municipal services”</td>
</tr>
<tr>
<td></td>
<td>The current global economic crises</td>
</tr>
<tr>
<td></td>
<td>Lack of timeous infrastructure upgrade and expansion</td>
</tr>
<tr>
<td></td>
<td>Quality issues due to lack of quality inspection except for potatoes</td>
</tr>
<tr>
<td></td>
<td>Volatility of agricultural sector with regards to delivery of high quality fresh produce constantly</td>
</tr>
<tr>
<td></td>
<td>General lack of innovation due to municipal governance environment</td>
</tr>
<tr>
<td></td>
<td>Little influence on the implementation of BBBEE strategies in current institutional structure</td>
</tr>
</tbody>
</table>

Note: The SWOT points made above is not in chronological order.

**Concluding Findings and Views**

Investigating alternative service delivery mechanisms for the Tshwane Market has been in the planning process for the last five years. The Mayoral Committee Resolution to launch a Municipal Systems Act Section 78 assessment into the future of the Tshwane Market and the Memorandum of Understanding signed with the University of Pretoria has allowed the process to be fast-tracked.

\(^1\) GlobalGAP stands for Global Good Agricultural Practice and offers 16 standards for 3 scopes: Crops, Livestock and Aquaculture. It roots began in 1997 as EurepGAP and changes its name to GlobalGAP in 2007.
Tshwane Market management is fully committed to the process and initiatives such as the Tshwane Market Master Plan indicate that there is an active interest in improving, expanding and upgrading facilities in order to retain and even claw back fresh produce market share and to add new production lines towards becoming a food hub rather than only being a fresh produce hub.

There is active movement towards improving infrastructure and rendering the Tshwane Market compliant in terms of food safety standards, not only in terms of infrastructure compliance but also through the revised organogram that makes provision for a new directorate: Food Safety and Quality Control.

The Tshwane Market is producing a substantial financial surplus albeit not correct as not all expenditure is correctly allocated towards the Tshwane Market operating expenditure. This surplus is not applied towards the source that generates such surplus. This may be one of the reasons why the Tshwane Market is losing market share against other marketing channels. Tshwane Market is heavily reliant on a few big producers/suppliers and buyers.

The infrastructure of the Tshwane Market is in a general good structural condition and needs to be repaired and maintained appropriately to keep it in a good state of repair. In some instances the infrastructure needs upgrading as it does not comply with the food hygienic and safety standards and it fell behind the technology developments of late.

As such, the Tshwane Market is definitely moving in the right direction. However, its close linkages to the City administrative system is a hindrance as the City, as a large organisation, is moving at a pace that falls behind the pace of change required by the fresh produce industry. The City time-consuming procurement, budgeting, human resource and decision-making policies and practices, to name a few, prevent the Tshwane Market from
implementing the necessary changes at the speed it would like to (and the industry demand) and is preventing the Tshwane Market from operating at its full commercial capacity. For example, the Tshwane Market generates sufficient surplus funds to fund the filling of certain critical positions that are mission critical, but cannot fill them as the City, at large, are not employing at the pace that is needed by Tshwane Market due to a City wide shortage of financial and other resources.
References


Department of Agriculture, Forestry and Fisheries (2013) Agricultural Produce Marketing Agencies Bill 2013


City of Tshwane (2012 b) Internal Audit Report Review of Fresh Produce Market. 15 December 2012


City of Tshwane (2011) Pretoria West Local Spatial Development Framework


City of Tshwane (s.a. a) Agroprocessing Unit. Downloaded from http://www.tshwane.gov.za/Services/Tshwane%20Market/Pages/AgroprocessingUnit.aspx.
### Annexure A: FINANCIAL PERFORMANCE – 30 June 2009 until 30 June 2016

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## Annexure B: Financial Performance Budget Versus Actual – 30 June 2009 until 30 June 2012

- Note: Page 132 of the 2011/2012 audited financial position reflects the funding and actual expenditure as R1.36 billion
## Annexure C: FINANCIAL POSITION – 30 June 2009 until 30 June 2016

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### Annexure D: Capital Expenditure Requirements as per the Master Plan

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Tshwane Fresh Produce
Market
Status Quo and Needs Analysis
PART 4

Section 78(1) Analysis

Document Status: Final prior to union inputs
9/18/2013

Prepared For:

Date:
19 September 2013

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### 4. PRODUCTION AND COMMODITY CHARACTERISTICS OF FRESH PRODUCE

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Foreword

Part 4 provides the Section 78(1) investigation building on the status quo investigation of the previous parts (1 to 3) of this report. It provides an overview of the national and sector legislation governing the Fresh Produce Market. It proceeds to provide an overview of historical and current issues and challenges facing the fresh produce market industry. It then continues to providing an overview of the Section 78(1) process and elaborates on the various internal service delivery mechanisms. It concludes with assessing the Market in terms of the criteria set out in Section 78(1) and concludes with a recommendation towards the Section 78(2) decision

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Introduction

Subsequent to the detailed status quo analysis as in the previous sections (Parts 2 and 3), it is now possible to provide the Municipal Systems Act Section 78(1) Assessment. This Report commences with the Study Rationale, explaining the location of fresh produce markets in the Constitution and continues with explaining the differentiation between internal and external mechanisms as set out in Section 76 of the Municipal Systems Act. The Municipal Systems Act Section 78 trigger for this project is discussed subsequently and the section is concluded with a description of the Mayoral Committee decision contents.

This report is structured in the following way:

Section 2 provides a background towards the development of the fresh produce industry and fresh produce markets with a historical overview and an assessment of contemporary fresh produce industry issues and trends.

Section 3 of the report provides an overview of the institutional, statutory and legal framework governing the fresh produce market and elaborates on the trigger event in terms of the Municipal Systems Act for this investigation.

Section 4 provides an overview of the production and commodity characteristics of fresh produce as it is important to understand the product one is dealing with in this instance. Characteristics of fresh produce, and fresh produce distribution, as well as trends in fresh produce marketing are discussed.

Section 5 discusses the institutional and organisational matters that may influence the outcome of the Tshwane Market Municipal Systems Act Section 78(1) Assessment.

Section 6 describes the Municipal Systems Act Section 78 process and elaborates on the internal service delivery mechanisms, the department and the business unit, to be assessed. It elaborates on the characteristics, advantages and disadvantages of both and introduces the six statutory criteria set out in Section 78(1) of the Municipal Systems Act.
Importantly, this section provides for the Section 78 (1) assessment as per the legislated criteria to the internal mechanisms under assessment.

**Section 7** provides a recommendation based on the findings of the investigation under Section 6.

**Section 8** provides an overview of the way forward depending on the decision that the City of Tshwane will take.

The following section sets out the background to the movement towards separating ownership and management in the Fresh Produce Market Sector based on the Human Science Research Council (HSRC) and National Agricultural Marketing Council (NAMC) investigations in this regard. This historical overview provides the backdrop for the rationale, and ultimately the trigger even in terms of Section 77 of the Municipal Systems Act, for investigating alternative service delivery mechanisms for the Tshwane Market.
Background towards the Development of the Fresh Produce Industry and Fresh Produce Markets

Introduction

The South African fresh produce industry developed over many years. During the 19th century severe over-production occurred and the fresh produce industry went into stagnation up to the end of the 19th century. It was with the discovery of gold and diamonds and with the growth in industrial development as well as the associated urbanisation that the situation improved (Marx, 1991).

This led to the development of fresh produce markets and the first concession to trade with fresh produce was handed to a Johannesburg “market master” in 1886, whilst the market only came under municipal control in 1906. In Pretoria the first concession was issued two years later, in 1888, and it was bought out by the Pretoria Municipality in 1918. The Cape Town Market was established under the control of the municipality since its inception in 1812 (Report, 1990).

History of Fresh Produce Market Ownership

From inception, fresh produce markets were a local matter although municipalities received their rights to operate fresh produce markets from national and provincial government. Since becoming a union in 1910 the “Zuid-Afrika Wet” determined that fresh produce markets are under its (national government’s) jurisdiction. However, fresh produce markets were handed to provinces which again delegated it to municipalities who developed their own market ordinances.
As fresh produce markets developed and people became more aware of their existence and of their services and benefits, the position of “market master” became more important. The “Publieke Veilingen en Transaksies in Levende Have en Landbouvoortbrengselen Wet” (Auction Act) in 1925 accepted to determine auction procedures in order to improve greater unity between fresh produce markets.

**The development since 1939**

After the Second World War (1939-1945) effort was made to place markets under the control of national government, with no success. The expansion of fresh produce markets was hampered by the resulting uncertainty leading to them shrinking in size. The Slater-commission of 1965 paid attention to the challenge and the “Uniale Marke-adviesraad” (1965) gained some measure of oversight over fresh produce markets on behalf of the provinces. In 1971, the “Kommissie vir Varsproduktemarke” was appointed which was responsible for the coordination of the activities of fresh produce markets and provided support for the improvements of existing fresh produce markets. A uniform system of out-of-hand-sales as already recommended by the Swardt-commission was implemented.

In 1972 there were approximately 100 municipal markets in South Africa with a turnover of R80 million. The 23 biggest fresh produce markets handled 98% of the total combined fresh produce markets turnover.

The report (Marx, 1991) made out a strong case for the separation of ownership and management of fresh produce markets.

**Fresh Produce Marketing Industry Development**
The marketing of fresh produce in South Africa was controlled through marketing boards. The developments in this regard are discussed below:

In 1937, the Marketing Act No. 26 of 1937 was passed which paved the way for the establishment of marketing boards.

The Deciduous Fruit Board and the Citrus Board were established in 1939, the Potato Board in 1947 and the Banana Board in 1958. These boards tried to achieve price stability and increased efficiency by, *inter alia*, limiting distribution outlets.

The above Act was replaced by Marketing Act No. 59 of 1968. The main purpose of both these Acts was to stabilise prices and increase efficiency in agriculture. Provision was made for the institution of various kinds of marketing schemes.

**Potato Board**

This body endeavoured to stabilise prices through a surplus removal scheme whereby it disposed of surpluses. The Potato Board was therefore not concerned with establishing prices. Its main purpose was to conduct surveys of crops so that it could give crop estimates and projections of the quantities that would reach the markets. The Potato Board was disbanded in 1993 and the Potato Producers’ Organisation was established to oversee certain activities formerly carried out by the Board. At present, the only marketing restriction on potatoes applies to potatoes intended for export.

**Banana Board**

Before 1994, the Banana Board operated a single channel pool scheme. The Board appointed a panel of four agencies to market bananas on its behalf. The Board determined prices and adjusted these on a weekly basis. After 1985, the Board founded its own agency to operate on the NFPMs and marketed bananas itself. In 1990 the Board’s ripening centres became cost and income centres, and producers were no longer responsible for the cost of the ripening process.
During 1989 almost 60% of all bananas were sold directly to wholesalers, while 40% were sold at NFPMs. The Banana Board was disbanded in 1994 and the single channel pool scheme terminated. With the deregulation of the marketing of bananas, market forces now determine the prices of bananas.

**Citrus Board**

Until 1998 the Citrus Board operated a single channel export scheme. All export producers had to deliver their fruit to the Board’s appointed agent, the Citrus Exchange. The Board did not fix the price of its products. In 1990, it relinquished control over domestic marketing, and individual producers and co-operatives were able to choose their own domestic distribution channels. On 6 January 1998, the marketing of citrus exports was also deregulated. A Citrus Board Liquidation Committee replaced the Citrus Board to liquidate its affairs.

**Deciduous Fruit Board**

This body also operated a single channel scheme. All export producers had to deliver their fruit to the Board’s appointed agent, Unifruco. The Board’s marketing efforts centred on exports. Only surplus fruit or fruit not suitable for export was marketed locally. The Board acted in a co-ordinating and advisory capacity in respect of the domestic market. In 1994, control over the domestic market was relinquished. On 6 January 1998, the marketing of deciduous fruit exports was deregulated. The Board disbanded and a Deciduous Fruit Board Liquidation Committee was instituted to liquidate its affairs.

In 1998, Outspan International and Unifruco joined forces to form CAPESPAN. While a substantial number (approximately 70) export agents have emerged since the deregulation of fruit exports, the bulk of this business is handled by only about 20 exporters.
Price Formation

Auction System

Early in the 20th century, auctions were the customary procedure for marketing fresh produce at fresh produce markets. The Auction Act was passed in 1925 to structure the procedure as discussed in section 0 of this Report.

The auction system was the only one used at the Cape Town market at the end of the Second World War. During the 1960s this market introduced the clock auction system, similar to the Dutch clock system, where large quantities of fresh produce from a great number of producers are traded quickly under conditions of strong competition. However, the system was not successful and was discontinued after a short period.

The Johannesburg Flower Market still uses the auction system to this day.

Out-of-hand System

Although the auction was the generally accepted sales system, out-of-hand sales occurred everywhere during the latter half of the 20th century. However, out-of-hand sales originally took place only when there was no bid for the product or the price was too low.

In the 1970s, the Cape Town Market decreed that it would no longer permit systems other than out-of-hand sales. In time, the other markets followed suit. The advantage of the out-of-hand
system compared with auctions was that a trade could take place at any time of the day. This also encouraged smaller buyers to return to the market.

At present, out-of-hand sales are the only means of sale at fresh produce markets. Prices are determined by private negotiation between agents (acting on behalf of producers) and buyers (wholesalers, retailers, hawkers, consumers, processors and institutional buyers).

During the NAMC Section 7 Committee investigation into the Johannesburg Market in 1998 (as set out in section 0 below), the Committee made the observation that the out-of-hand systems implemented on the Johannesburg Market was skewed due to a lack of information. The Committee also recommended that wholesalers should compete with agents on the same market in such a way as to ensure that the activities of the wholesalers were also captured by the market’s information system.

The 1991 the HSRC study (Human Sciences Research Council, 1991) also recommended that other enterprises such as wholesalers, retailers, re-packers and processors of fresh produce should be permitted to establish and conduct their business under the same conditions as the market agents at fresh produce markets.

An efficient market is one in which both sellers and buyers are well informed as to the conditions of the market, the general state of supply and demand as well as the behaviour of prices in all the transactions.

It is noted that one of the conditions of a perfect market is that buyers and sellers have perfect knowledge of demand, supply and prices and act rationally upon that knowledge.
Direct Marketing

Prices are established through private negotiation between producers and buyers (e.g. wholesalers, retailer, and hawker or chain store group). The 1991 HSRC study (Human Sciences Research Council, 1991) found that prices at fresh produce markets are an important guideline for these price negotiations. During the meetings held in the NAMC investigations (discussed below), it became evident that this continues to be the case, but is not the only price determination or discovery mechanism as production cost with a mark-up is also used by some retailers.

The HSRC study concluded that there was evidence that direct marketing was increasing and that this might have a negative effect on the fresh produce markets. It was however; recommended that there should be no interference from government.

Assessment of Contemporary Fresh Produce Industry Issues and Trends

This section addresses more recent challenges the fresh produce industry is facing based on investigations undertaken since the late 1990s. It draws on studies undertaken in the fresh produce industry and more specifically on various NAMC Section 7 Committee investigations conducted by the NAMC. The issues and trends highlighted here assist in gaining an understanding of the inherent dynamics and risks in the industry.
In this section the following important production and commodity characteristics as well as fresh produce industry developments are addressed the:

- NAMC Report on the Investigation into Fresh Produce Marketing – Report 1: Johannesburg Fresh Produce Marketing (1998);
- NAMC Section 7 Investigation: National Fresh Produce Markets (2007);
- production and commodity characteristics;
- developments in the fresh produce industry over the last 12 years;
- price formation process in the fresh produce industry;
- trends in fresh produce marketing; and
- the characteristics and trends of the South African fresh produce industry.


The report on the Investigation into Fresh Produce Marketing Report 1, Johannesburg Fresh Produce Market was completed in 1998. This is the first report of a series of three reports into fresh produce marketing. The report was the result of the NAMC establishing a committee in terms of Section 7 of the Marketing of Agricultural Product Acts No. 47 of 1996 (Marketing of Agricultural Products Act) to investigate fresh produce marketing in South Africa (National Agricultural Marketing Council, 2007). The investigation, conducted in two phases, looked at the Johannesburg Fresh Produce Market (phase 1) and all subsequently National Fresh Produce Markets (phase 2).
The impetus for the investigation into the Johannesburg Market were several concerns raised regarding the operation of the market. The investigation aimed at answering two questions:

- “Did the Johannesburg FPM promote the efficient marketing of fresh produce between the producer, the market intermediaries, and the end-consumer?”
- “Did it facilitate the transmission of clear signals from consumer to producer concerning the quantity and quality of fresh produce supplied by the producer?”

(National Agricultural Marketing Council, 2007)

In responding to these questions, the investigation made the following findings:

- “The non-transparent, apparently inefficient and subjective price formation process and as a result the possibility that the current system might, in certain circumstances, either inflate consumer prices or negatively affect producer prices
- The privileged and largely uncontested position of the agents, who bore no price risk and appeared, as a result, to take a large commission relative to their exposure
- The possibility that agents did, in fact, treat producers differently (e.g. with regard to the way in which farmers were remunerated for produce that had gone bad, and the speed with which farmers were remunerated)
- The fact that the current system might not sufficiently cater for small-scale producers and buyers, who had little choice but to deal with relatively large, volume-driven agents
- The fact that the market infrastructure and facilities were insufficient for small scale buyers
- The fact that there were apparently significant barriers to entry for prospective new agents
- The lack of reinvestment (and consequent deterioration) in the market’s infrastructure in general.” (National Agricultural Marketing Council, 2007)"
One of the most important recommendations for the purposes of this investigation was the need for increased autonomy of market management in the financial, operational and management areas of their markets. As per the report:

“the Metropolitan Council should, as soon as possible, take the appropriate steps to give market management financial independence, and the authority to manage the market without reference to the Metropolitan Council. There is no compelling reason why the Metropolitan Council should continue to own the Johannesburg Market, but, if it does, ownership and management should be split.” (National Agricultural Marketing Council, 1998)

Other recommendations were improvements in the upgrading and operation of the market with specific focus on wholesale facilities, computer systems and security and recommendations surrounding the Agricultural Produce Agent Council.

The recommendations of the report were accepted by the then Minister of Agriculture and “enjoyed his full support in terms of implementation” (National Agricultural Marketing Council, 2007). Role-players expressed their support for an independent national market system where ownership and management were separated. As a result the Johannesburg Market was corporatised in 1999.


The second phase investigation (dated 2000) looked at evaluating the marketing system for fresh produce at national level. The aim was to recommend ways to ensure a:

“transparent pricing mechanism, equitable access for all existing participants and potential entrants to the fresh produce industry, and competition between role-players.” (National Agricultural Marketing Council, 2000)
In this report the recommendation developed in the previous phase, was reiterated, namely that:

“ownership and management of all fresh produce markets should be separated in order to achieve efficient business practices. The role-players and market authorities of each market should determine which process might achieve this.” (National Agricultural Marketing Council, 2000)

The report noted that this recommendation had found wide acceptance amongst other fresh produce markets as it pointed towards clearer objectives in managing and operating the markets as well as improved financial and resource allocation and management. (National Agricultural Marketing Council, 2000)

Other recommendations circled around information capturing and dissemination, infrastructure upgrades, the involvement of small-scale farmers, intermediaries and buyers, grading and food safety requirements.

During 2001 to 2004, the NAMC undertook several visits to establish to what extent the recommendations had been implemented. Levels of implementation varied greatly from one market to the next and a number of markets had commenced with investigating the possibility of separating ownership and management. However, many of the recommendations fell outside the jurisdiction of the markets and required government intervention. (National Agricultural Marketing Council, 2007)

The Epping Market business was sold and a lease of land and developments thereon was entered into as one indivisible transaction. The new owner of the business and lessee of the land and developments thereon is now Cape Town Market, a privately owned company owned by a BEE investment group and industry role-players.
Fresh produce markets remained a much debated topic. Their lack of market related performance and slow pace of transformation were and still are the subject of many debates in government and private sector circles. Therefore, at the request of the then Minister of Agriculture the NAMC in 2005 again launched a NAMC Section 7 Committee investigation.
to look at the state of the fresh produce marketing system in South Africa, focusing on national fresh produce markets. The investigation was launched mainly due to:

- concerns regarding the apparent slow pace of transformation of fresh produce markets;
- market access problems highlighted by black producers; and
- concerns regarding the apparent declining competitiveness and efficiency of fresh produce markets (as a marketing channel) in the light of their important role in:
  - providing a service to low-income consumers and the informal sector; and
  - providing a service to consumers, producers and other stakeholders in South Africa.

**Approach to the NAMC Section 7 Committee Investigation**

The investigation followed a three-phase approach:

**Phase one – identifying the problem.** In February 2006 the Committee invited formal written submissions from all interested parties based on a clearly defined set of guidelines/questions.

**Phase two – gathering evidence.** Based on the comments made in February 2006, the Committee prioritised certain areas for further research. It also met with various groupings including municipalities and black role-players.

**Phase three – confronting the evidence and making recommendations to the Minister.** The Committee convened a workshop with all role-players in November 2006 to test draft proposals and to get final comments.

From the written comments received, the Committee identified five key themes, which provided the framework for the rest of the investigation, namely:

- ownership and management;
legal framework;
the commission system;
market access and transformation; and
infrastructure.

In addition to inviting written comments, the Committee also met with stakeholders, including various municipalities and black role-players, to discuss specific aspects of the investigation.

Guided by the terms of reference outlined above, the Committee tried to address the following overall objectives:

ensuring the long-term competitiveness of fresh produce markets and effective supply chain management;
facilitating transformation of fresh produce markets in line with government objectives and guidelines;
flexibility – fresh produce markets should be in a position to adapt to the changing demands of customers; and
where possible, facilitating the standardisation of legislation across fresh produce markets.

Ownership and Management

Regarding the future management and ownership of fresh produce markets the Committee focused its attention on four possible models, namely:

departmental option;
municipal entity option;
national entity option; and

private entity option.

One of the authors of this Report was investigating and reporting on the ownership and management and legal framework themes.

Of particular reference to the Tshwane Market Municipal Systems Act Section 78(1) assessment is the ownership and management theme. This was a specific driving force for the “trigger event” in terms of Section 77 of the Municipal Systems Act.

**Departmental Option (see Part 2 of this Report)**

The NAMC report found that this option implies that normal day-to-day business improvements may take place, but that no real intervention with regard to throughput will occur. In this option both the property (land, buildings and other improvements) and the operation of the fresh produce market business are owned by the municipality and directly managed by the municipality. Tshwane Market is currently managed and owned as a departmental market and operates in terms of the City of Tshwane Market Bylaw and Municipal Market Schedule of Tariffs.

The Departmental option does not allow for BEE participation in the ownership of the “entity”.

**Municipal Entity\(^1\) Option (see Part 2 of this Report under the Heading Municipal Controlled Entity)**

\(^1\) “means—

(a) a private company referred to in section 86B(1)(a);

(b) a service utility; or

(c) a multi-jurisdictional service utility;”
Here the operation, systems, employees and movable assets of the fresh produce market are transferred to a Municipal Entity, but not the property (land, buildings and other improvements). The shareholding in a Municipal Entity, which is a private company incorporated in terms of the Companies Act and the Local Government: Municipal Systems Act No. 32 of 2000 (Municipal Systems Act), can take various permutations. The company is a Municipal Entity as long as effective control in the private company vests in a municipality, another municipality or the municipality and another municipality collectively.

In this option a Service Delivery Agreement between the municipality and the Municipal Entity is a legislative prerequisite and the property is leased at an arm’s length basis from the municipality.

A Municipal Entity over and above the Service Delivery Agreement entered into, is to be managed in terms of a Market Bylaw and a Municipal Market Schedule of Tariffs.

The Johannesburg Fresh Produce Market (Pty) Ltd (a private company in terms of the Companies Act) is a Municipal Entity in terms of the Municipal Systems Act. In the case of the Johannesburg Fresh Produce Market the property was sold (transferred) with the business operation to the Municipal Entity, however the land was never physically transferred to the Municipal Entity.

Interestingly enough, according to Section 10 of the Municipal Public-Private Partnership Regulations of the Local Government: Municipal Finance Management Act No. 56 of 2003 (Municipal Finance Management Act), no Municipal Entity may initiate, procure or enter into a public-private partnership agreement on its own or on behalf of its parent municipality, but may be a party to a public-private partnership agreement initiated, procured and entered into by its parent municipality.
In the Johannesburg Market model, the City of Johannesburg gets little direct financial benefit from the business of the Market. The transaction does not provide for an extraction mechanism of cash to the City of Johannesburg. The only real mechanism is a dividend model, which is a relative expensive model as dividends are paid after tax.

The Municipal Entity option allows for BEE participation in the ownership of the “entity”.

**National Entity Option**

The National Option Entity is not defined and it is unclear what it really entails, however the features of a national entity were described as are as follows:

The business of the fresh produce markets is transferred to a national entity.

The municipalities get rewarded for the assets transferred in terms of a predetermined valuation formula.

The market property is leased from the municipalities by the national entity.

The lease of the property should be in terms of a predetermined formula taking cognisance of local property lease conditions.

This option was not assessed in this multi-volume report and for that reason it is unpacked in a bit more detail. There are two technical feasible solutions that may comply with the conditions of the separation of ownership and management. These are:

A “national” Municipal Entity where all or some of the municipalities that have a fresh produce market, transfer their markets business operation into the national municipal entity in lieu for share to the value of the transfer. The private company (Municipal Entity) is to be controlled by the municipal shareholders to be a Municipal Entity. This is a model where many parties need to be satisfied and will not be easy to implement as the
owners of profit making and surplus generating fresh produce markets may not wish to share their business with deficit generating fresh produce markets.

The other option will be to set up a Public Entity where national and/or provincial government will have the controlling share in a private company. On a practical and legal basis this will be very difficult to execute. This option was one of the last institutional options considered for the implementation of the six Regional Electricity Distribution companies as part of the Electricity Distribution Industry Restructuring process. It needed a Constitutional amendment to be implemented. Needless to say although the Constitutional amendment was prepared, it was not further pursued.

Further, as already stated in this Part 4 of this Report, after the Second World War (1939-1945) there were efforts to place markets under the control of national government, with no success. There is no reason why fresh produce markets as a national entity (if it means under the control of national government) would be more or less successful in the current fresh produce industry conditions.

There are no fresh produce markets currently operating in terms of this model. The chance of success of this option is slim as this approach, as explained above, was tried with the Electricity Distribution Industry Restructuring process with no success.

The National Entity option may make provision for BEE participation in the ownership of the “entity”.

**Private Entity**

This option entails selling the business (operation) without attempting to improve the business first, and leasing the property to future operators or other tenants as part of a separate contractual arrangement. This may be a Municipal Public Private Partnership arrangement in itself and

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needs to be considered in terms of the Municipal Public Private Partnership Regulations of the Municipal Finance Management Act. There are various permutations available and not all are Municipal Public Private Partnership arrangements. For example the Cape Town Market (previously the Epping Fresh Produce Market) was operated as an internal municipal department and is now a private market not regulated by a market by-law. The transaction was implemented outside the provisions of Section 78 of the Municipal Systems Act and the Municipal Finance Management Act Municipal Public Private Partnership Regulations. The other provisions of the Municipal Systems Act and Municipal Finance Management Act were complied with where applicable.

In the case of the City of Cape Town, the Cape Town Market leases the market property from the City on a monthly rental basis.

There are many permutations of how the Private Entity model can be structured, but the two main options evolve around the question whether the fresh produce market should be a “municipal service” or not. If it is a “municipal service” a Service Delivery Agreement is to be entered into between the parties and the fresh produce market is managed in terms of a Market By-law and a Municipal Market Schedule of Tariffs. In the instance when the fresh produce market service is not a “municipal service”, as is the case with the Cape Town Market no Service Delivery Agreement, Market By-law and Municipal Market Schedule of Tariffs are needed.

The Private Entity option does allow for BEE participation in the ownership of the “entity”. It should be a tender qualification and adjudication requirement.

Selected Recommendations of the NAMC Section 7 Investigation: National Fresh Produce Markets (2007)
The following were, amongst others, recommended regarding the separation of ownership and management of fresh produce markets by this NAMC Section 7 Committee report:

Ownership and management of fresh produce markets should be separated. Alternative models should be considered depending on the circumstances at an individual market level.

A coordinating mechanism or body should be created to coordinate certain matters related to national fresh produce markets. The Committee is of the opinion that there is a need for some degree of coordination across markets with regard to:

- addressing transformation objectives – this is in the process of being developed;
- optimising resources and reducing costs for customers – this should be a consequence of the change processes implemented;
- food safety and traceability requirements as well as the implementation and enforcement of regulations regarding quality standards – this is addressed and needs constant realignment with industry trends;
- the rationalisation and standardisation of legislation – various amendments to the applicable legislation are in the process as discussed in Section 0 of this Report; and
- addressing infrastructure backlogs and ensuring that adequate planning is done for future requirements – this is in process and is addressed in SIP 11.

It was advised that this body could be introduced in terms of statutory provisions (such as the Marketing of Agricultural Products Act, No. 47 of 1996 (Marketing of Agricultural Products Act) and it was proposed that it should be responsible for implementation of the NAMC Section 7 Committee recommendations. The coordination body was created and is currently in operation.

The proposed coordinating body should forge closer relations with local government – this is currently taking place.
A senior advocate should be approached for an opinion on the process and applicability of Section 78 of the Municipal Systems Act (dealing with investigations into services). The opinion was obtained and the outcome of the opinion was that the process followed by a municipality determines whether a Municipal Systems Act Section 78 assessment is required or not. For example, the City of Tshwane has two similar services in Wonderboom Airport and the Tshwane Market, as regards the Constitutional position – both are Schedule 5 Part B functions. The institutional process for Wonderboom Airport did not make use of the Municipal Systems Act Section 78 assessment process, but for Tshwane Market the Municipal Systems Act Section 78 assessment process is followed.

A national food distribution strategy should be drafted by the National Department.

**Concluding Comments**

This section of the Report addresses the background towards the development of the fresh produce industry and fresh produce markets. Many investigations were undertaken into the role of fresh produce markets in the fresh produce value chain and it is clear that the ownership and management of fresh produce markets needs to be reviewed and restructured in order to stay relevant and effectively respond to the challenges of the fresh produce industry. Of the larger markets only Johannesburg Market and the Cape Town Market have implemented the recommendations of the various reports.

All reports indicated that the departmental fresh produce market model, where market ownership and management is located in one department, needs to be reviewed with a view to implement a model where ownership (of the Property) and management (of the business) of fresh produce markets are separated.
The following section provides an overview of the legislation governing and impacting on fresh produce markets as it provides the impetus for the Municipal Systems Act Section 78(1) investigation.
Assessment of Institutional, Statutory and Legal Framework

In an assessment like this Municipal Systems Act Section 78(1) assessment it is prudent to have a thorough understanding of the legal landscape of the fresh produce market “municipal service” discussed. This section endeavours to provide a high-level overview of the most important and guiding pieces of legislation that guide this Municipal Systems Act Section 78(1) assessment.

There are various guiding Constitutional provisions, legislative provisions and guiding policy documents informing the basis on which this Municipal Systems Act Section 78 assessment is undertaken and interpreted. The legislation varies in application, ranging from laws that empower the City of Tshwane to establish and operate a fresh produce market, to laws that regulate stakeholders’ conduct between such stakeholders and the City of Tshwane and also between themselves as stakeholders. The relevant legislation reviewed for this purpose includes the following list which is discussed in more detail in the section below:

National and municipal legislation:

- Constitution of the Republic of South Africa Act, No. 108 of 1996 (Constitution);
- Local Government: Municipal Structures Act, Act 117 of 1998 (Structures Act);
- Municipal Systems Act;
- Municipal Finance Management Act; and

Sector Legislation:

- Agricultural Produce Agents Act No 12 of 1992 (Agricultural Produce Agents Act);
- Agricultural Produce Agents Amendment Act No. 47 of 2003 and the Rules (made under Section 22(1) of the Agricultural Produce Agents Act);
- Marketing of Agricultural Products Act;
Agricultural Produce Standards Act, No. 119 of 1990 (Agricultural Produce Standards Act);

Agricultural Produce Marketing Agencies Bill 2013; and

Marketing of Agricultural Products Amendment Bill 2013.

Other relevant legislation:

Competition Act (No. 89 of 1998) (if applicable) (Competition Act).

The sections below provide an overview of the legislation listed above.

**National and Municipal Legislation**

**Constitution**

The Constitution of the Republic of South Africa, 1996 is the supreme law of the country and mandates local government to:

- provide democratic and accountable government for local communities;
- ensure the provision of services to communities in a sustainable manner;
- promote social and economic development;
- promote a safe and healthy environment; and
- encourage the involvement of communities and community organisations in the matters of local government.

These are of critical importance when considering an institutional service delivery mechanism for Tshwane Market in terms of the Municipal Systems Act Section 78(1) assessment.
The provisions of Chapter 7 of the Constitution regulate matters pertaining to local government. Section 151 of the Constitution states that the local sphere of government consists of municipalities with executive and legislative authority vested in its municipal council. The Constitution does not define the term “executive authority”. Certain writers (Rautenbach and Malherbe, 2004) have indicated however that executive authority seems to relate to the power to execute and enforce the rules of law. Accordingly, it would be the responsibility of municipal councils to perform and enforce the rules of law within its jurisdiction.

Section 156 of the Constitution deals with the powers and functions of municipalities. Although the Constitution (and the Municipal Systems Act discussed below) uses the terms “powers” and “functions” in many instances, the Constitution does not define these terms. On an ordinary construction of the words, and based on the context in terms of which these terms are used in the Constitution, it appears that the term “power” refers to the municipality’s authority to perform an act, which it may choose to exercise, and that the term “function” refers to action or activity which the municipality may undertake, in exercising the powers or duties conferred on it. In the Municipal Public-Private Partnership Regulations (Republic of South Africa, 2005) a municipal function are defined as follows:

“'municipal function' means—

- a municipal service; or
- any other activity within the legal competence of a municipality;”

Section 156(1) of the Constitution states that a municipality:

“has executive authority in respect of, and has the right to administer (a) the local government matters listed in Part B of Schedule 4 and Part B of Schedule 5; and (b) any other matters assigned to it by national or provincial legislation”.
Part B of Schedule 5 lists the local government matters which municipalities have executive authority, and the right to administer, and includes “Markets”. Section 156(5) of the Constitution gives the City of Tshwane the right to exercise any power concerning a matter reasonably necessary for, or incidental to, the effective performance of its functions.
The Municipal Structures Act

The Structures Act was established to provide for *inter alia*, the establishment of municipalities in accordance with the requirements relating to the categories and types of municipalities created by the Constitution, the appropriate division of functions and powers between such categories of municipalities, the regulation of the internal systems of municipalities and matters connected therewith.

The Tshwane Metropolitan Municipality was established as a category A (Metropolitan) municipality under Notice 6770 of 2000 published in the Gauteng Provincial Gazette Extraordinary No. 141. The notice in question was dated 01 October 2000.

Section 83 of the Structures Act sets out general provisions relating to the functions and powers of municipalities, and reinforces the point that a municipality has functions and powers assigned to it in terms of Sections 156 and 229 of the Constitution. The City of Tshwane has all the functions and powers assigned to it in terms of Sections 156 and 229 of the Constitution.

The Municipal Systems Act

The Municipal Systems Act is:

“*To provide for the core principles, mechanisms and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities, and ensure universal access to essential services that are affordable to all; to define the legal nature of a municipality as including the local community within the municipal area, working in partnership with the municipality’s political and administrative structures; to provide for the manner in which municipal powers and functions are exercised and performed; to provide for community participation; to establish a simple and enabling framework for the core processes of planning, performance management, resource...*”
mobilisation and organisational change which underpin the notion of developmental local
government; to provide a framework for local public administration and human resource
development; to empower the poor and ensure that municipalities put in place service tariffs
and credit control policies that take their needs into account by providing a framework for
the provision of services, service delivery agreements and municipal service districts; to
provide for credit control and debt collection; to establish a framework for support,
monitoring and standard setting by other spheres of government in order to progressively
build local government into an efficient, frontline development agency capable of integrating
the activities of all spheres of government for the overall social and economic upliftment of
communities in harmony with their local natural environment; to provide for legal matters
pertaining to local government; and to provide for matters incidental thereto.”

The Municipal Systems Act is a crucial piece of legislation in the management of municipalities
and this assessment is undertaken within its provisions.

The powers of the City which are set out in the Constitution are amplified in Sections 8(1)\(^2\) and
8(2)\(^3\) of the Municipal Systems Act. It states that a municipality has all the functions and powers
conferred by or assigned to it in terms of the Constitution, and must exercise them subject to
Chapter 5 of the Municipal Structures Act. Further, a municipality has the right to do anything
reasonably necessary for, or incidental to, the effective performance of its functions and the
exercise of its powers. These are strong powers and places substantial responsibility on
municipalities.

Section 11(3) of the Municipal Systems Act provides that:

\(^2\) A municipality has all the functions and powers conferred by or assigned to it in terms of the Constitution, and must exercise

\(^3\) A municipality has the right to do anything reasonably necessary for, or incidental to, the effective performance of its functions
and the exercise of its powers.
“a municipality exercises its legislative or executive authority by … (e) implementing applicable national and provincial legislation and its by-laws; (f) providing municipal services to the local community, or appointing appropriate service providers in accordance with the criteria and process set out in Section 78 and (g) monitoring and, where appropriate, regulating municipal services where those services are provided by service providers other than the municipality

Therefore, Section 11(3) of the Municipal Systems Act provides that a municipality exercises its legislative or executive authority by providing municipal services to the local community, or appointing appropriate service providers in accordance with the criteria and process set out in Section 78 of the Act. Originally, the Municipal System Act did not define the concept of “municipal services”. In the context of the original provisions of the Municipal Systems Act (prior to its amendment) the Supreme Court of Appeal considered the general ambit of the concept of municipal services in South African Municipal Workers Union versus. City of Cape Town\(^4\). The Municipal System Act has since been amended by the insertion\(^5\) of the following definition which is very important for this Municipal Systems Act Section 78(1) assessment as elaborated upon below:

“'Municipal service’ means a service that a municipality in terms of its powers and functions provides or may provide to or for the benefit of the local community irrespective of whether –

(a) such a service is provided, or to be provided, by the municipality through an internal mechanism contemplated in s 76 or by engaging an external mechanism contemplated in s 76; and

(b) fees, charges or tariffs are levied in respect of such a service or not.”

\(^4\) 2004(1) SA 548 (SCA) paragraph 8.
\(^5\) By s35(a) of the Local Government Laws Amendment Act 51of 2002.
The term “municipal services” includes all municipal services which a municipality is capable of providing whether or not such services are actually being provided by a municipality at any given time.

Markets, including fresh produce markets, thus fall within the sphere of Local Government and are functional areas of exclusive executive and administrative municipal competence. Since most of the municipal services or functions contained in Part B of Schedules 4 and 5 of the Constitution (with the exception of “basic municipal services”) appear to be services or functions which municipalities may elect to provide, it is also possible for a municipality to decide not to undertake a particular function or service whilst still administering and regulating (possibly through bylaws or contractual provisions) the performance of such function or service by third parties operating within its municipal area of jurisdiction.

The provision, operation and administration of markets do not constitute a “basic municipal service” and as such is a function or service which a municipality can elect not to provide itself or through an external service provider, but may nevertheless administer and regulate through its general bylaws as is the case with the Cape Town Market in the City of Cape Town. This is a crucial distinction for fresh produce markets and an airport like Wonderboom Airport. In this Municipal Systems Act Section 78 assessment the route followed by the City of Cape Town with the Cape Town Market (Epping Market) will not be followed as the Tshwane Market will remain a “municipal service” and be subject to the provisions of Chapter 8 of the Municipal Systems Act.

Chapter 8 of the Municipal Systems Act deals with “municipal services”. Section 73(2) of the Municipal Systems Act provides that “municipal services”

“must —

(a)  be equitable and accessible;
(b) be provided in a manner that is conducive to--

(i) the prudent, economic, efficient and effective use of available resources; and

(ii) the improvement of standards of quality over time;

(c) be financially sustainable;

(d) be environmentally sustainable; and

(e) be regularly reviewed with a view to upgrading, extension and improvement.”

Municipal Systems Act Section 76 Service Delivery Mechanisms

In terms of Section 76 of the Municipal Systems Act, the City may provide a “municipal service” in its area of jurisdiction through internal or external service delivery mechanisms. These two types of service delivery mechanisms are set out in below.

Table 1. Differentiation between Internal and External Mechanism

<table>
<thead>
<tr>
<th>Internal Service Delivery Mechanisms</th>
<th>External Service Delivery Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>• a department or other administrative unit within its administration;</td>
<td>• a municipal entity;</td>
</tr>
<tr>
<td>• any business unit devised by the municipality, provided it operates within the municipality’s administration and under control of the council in accordance with operational and performance criteria determined by the council; or</td>
<td>• another municipality;</td>
</tr>
<tr>
<td>• any other component of its administration.</td>
<td>• an organ of state, including a water committee established in terms of the Water Services Act, 1997 (Act No. 108 of 1997); a licensed/permitted service provider registered or recognised in terms of national legislation and a traditional authority;</td>
</tr>
<tr>
<td></td>
<td>• a community based organisation or other non-governmental organisation legally competent to enter into such an agreement; or</td>
</tr>
<tr>
<td></td>
<td>• any other institution, entity or person legally</td>
</tr>
</tbody>
</table>
Internal Service Delivery Mechanisms | External Service Delivery Mechanisms  
---|---
| competent to operate a business activity.

This Municipal Systems Act Section 78(1) assessment only deals with an internal service delivery mechanism.

**Municipal Systems Act Section 77 Trigger**

Given the fact that a market is defined in terms of the Constitution as a Schedule 5 Part B function, proper motivation is needed to initiate an investigation into changes in ownership and management structures.

Section 77 of the Municipal Systems Act sets out the occasions where a municipality must review and decide on mechanisms to provide “municipal services” where such “municipal service” is provided through an internal mechanism or an external mechanism. In this case, section 77(a) can be argued to act as the trigger event as it is envisaged that the service is to be upgraded and improved. These are set out in the table below with relevant comments:

**Table 2. Section 77 of the Municipal Systems Act – Trigger**

<table>
<thead>
<tr>
<th>“A municipality must review and decide on the appropriate mechanism to provide a municipal service in the municipality or a part of the municipality-“</th>
<th>The sections above indicate that the IDP has identified upgrading and extension work to be done at the Market. In addition, the recently completed Master Plan sets out substantial upgrading and improvement of Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>in the case of a municipal service provided through an [emphasis added] internal mechanism contemplated in section 76, when- (i) an existing municipal service is to be significantly upgraded, extended or</td>
<td></td>
</tr>
</tbody>
</table>

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improved; 

(ii) a performance evaluation in terms of Chapter 6 requires a review of the mechanism; or 

(iii) the municipality is restructured or re-organised in terms of the Municipal Structures Act; 

infrastructure to make provision for accelerated economic growth and food safety and health standards compliance. 

Furthermore the sections above allude to the need to investigate separation of ownership and management of Fresh Produce Markets in general. This trend has been embraced by the relevant role-players and several municipalities have already taken the necessary steps in this direction. By this Municipal Systems Act Section 78(1) assessment by the City of Tshwane is giving effect to the direction provided by national government. 

<table>
<thead>
<tr>
<th>(b) in the case of a municipal service provided through an <strong>external mechanism</strong> [emphasis added] contemplated in section 76, when-</th>
<th>Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) a performance evaluation in terms of Chapter 6 requires a review of the service delivery agreement;</td>
<td></td>
</tr>
<tr>
<td>(ii) the service delivery agreement is anticipated to expire or be terminated within the next 12 months; or</td>
<td></td>
</tr>
<tr>
<td>(iii) an existing municipal service or part of that municipal service is to be significantly upgraded, extended or improved and such upgrade, extension or improvement is not addressed in the service delivery agreement;</td>
<td></td>
</tr>
<tr>
<td>(c) when a review is required by an intervention in terms of section 139 of the Constitution;</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>
(d) when a new municipal service is to be provided; Not applicable

(e) when requested by the local community through mechanisms, processes and procedures established in terms of Chapter 4; or Not applicable

(f) when a review of its integrated development plan requires a review of the delivery mechanism.” No mention is made in the IDP regarding the investigation of an alternative service delivery mechanism for the Market as the Mayoral Committee approved the process on 19 July 2012.

Based on legal opinion received in this regard, a Municipality can review a service delivery mechanism at any time but that it must review service delivery mechanisms when one of the “trigger events” are triggered. Based on the table above, one can make the case that there are several ‘push’ factors that initiate this Municipal Systems Act Section 78(1) assessment:

In the strict sense of Section 77 wording one can deduce that due to the planned extensions and upgrades to the Market, a Municipal Systems Act Section 78 assessment becomes necessary.

Furthermore, the industry trends as alluded to above at length indicate that the separation of ownership and management at Markets has been under investigation since the early 1990s. Various reports support this notion, it has been underpinned by the DAFF and various markets have initiated its implementation with various degrees of progress and success.

In addition, the Mayoral Committee decision taken on 19 July 2012, also acts as a trigger as it authorises the investigation to take place.
Mayoral Committee Decision

The Mayoral Committee decision contains the following:

Having sketched the challenges that national fresh produce markets around South Africa face, the Mayoral Committee document alludes to the risks that the Tshwane Market faces in maintaining the status quo:

- “The loss in market share will eventually turn the market into a loss making operation, adding a further burden to council’s financial constraints;

- In the long term council will sit with a white elephant that it will have to dispose of at a significant loss;

- Redundant staff complements;

- Transformation programmes will move at a snail pace;

- Massive job losses from both council and Market Agents (±2 000 permanent jobs);

- Undermining of the food security initiatives as well as the agrarian reform programmes of the initiatives of this country. “ (Tshwane, 2012)

Give the above, the Mayoral Committee resolved as follows:

“1. That approval be granted to commence a Section 78 investigation as prescribed by the Municipal Systems Act, and

2. That cognisance be taken that a consultant will be appointed to assist the Tshwane Market with the investigation in terms of Section 78 of the Municipal Systems Act.” (Tshwane, 2012)

Given the list of arguments above, one can say with surety that this Municipal Systems Act Section 78(1) assessment is valid and legitimate and that sufficient reason exists to conduct this assessment based on the trigger events listed above.
The Municipal Finance Management Act

The Municipal Finance Management Act is:

“To secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government; to establish treasury norms and standards for the local sphere of government; and to provide for matters connected therewith.”

Section 164 of the Municipal Finance Management Act deals with forbidden activities and reads as follows:

“(1) No municipality or municipal entity may –

(a) conduct any commercial activities –

(i) otherwise than in the exercise of the powers and functions assigned to it in terms of the Constitution or national or provincial legislation; or

(ii) outside the borders of the Republic;

(b) provide a municipal service in an area outside its jurisdiction except with the approval of the council of the municipality having jurisdiction in that area; or

(c) make loans to –

(i) councillors or officials of the municipality;

(ii) directors or officials of the entity; or

(iii) members of the public.”

Section 164 is an example of some of the restrictions placed on municipalities which, whilst providing good guidance and commercial business boundaries to municipalities, are not necessarily of assistance or conducive to the competitive running of a business in the ordinary course should the business be one that needs to compete with the private sector.
Whilst competing private fresh produce markets and other competing (marketing channels) businesses in the fresh produce value chain are free to trade, amalgamate, divest etc. municipalities are limited in that they are not allowed to conduct any commercial activities. The needs to be noted that word “commercial activities” is not defined in the Municipal Finance Management Act.

Some of the other Sections of the Municipal Finance Management Act may be applicable should this assessment progresses beyond a Municipal Systems Act Section 78(1) assessment.

**Tshwane’s Participation in the Fresh Produce Market and its Associated Bylaws**

The City generally participates in the Tshwane Market in three capacities, namely as regulator and administrator, as owner and the provider of infrastructure and as operator of the Market. Section 156(2) of the Constitution provides that the City may make and administer bylaws for the effective administration of matters listed in Part B of Schedules 4 and 5 of the Constitution. Markets are listed in Part B of Schedule 5. Therefore, bylaws are no longer considered to be “secondary” or “subordinate” legislation and thus have the same force of law as national and provincial legislation, the only proviso being that in the event of a conflict provincial and national legislation will prevail. Section 11(3)(e) of the Municipal System Act states that:

“A municipality exercises its legislative or executive authority by –

...  

(e) implementing applicable national and provincial legislation and its bylaws;” [Own emphasis]
In respect of the Tshwane Market bylaws, such bylaws were promulgated under Administrator’s Notice 2008 dated 24 March 1965. They were repealed on 4 June 2008 by Local Authority Notice 1365, and are titled “City of Tshwane: Tshwane Market ByLaw”.

The bylaw makes provision for the:

- Market days and hours;
- Risk of profit and loss and the control and risk of an agricultural product;
- Packing, stacking and display of agricultural products as well as collection and removal of an agricultural product;
- Cold storage and ripening, general storage;
- Abandoned agricultural product and dealing with agricultural product unfit for human consumption;
- Market agents and their employees, salespersons and the criteria for an automatic lapse of a market agent's licence as well as withdrawal of a sales permit;
- Market agents and floor sales;
- Obligations of a market agent;
- Protective and corporate clothing;
- Market agents' signage;
- Payment and commission on sales;
- Default of buyer;
- Carriers, Barrows, Withdrawal of a carrier's permit, Liability of carriers and Private barrows and trolleys;
- Vehicles, motorcycles and pedal cycles;
- Market rules and regulations;
Retailers and wholesalers;
Direct consignments to wholesalers;
Powers of the City Manager;
Sales to employees of the City of Tshwane;
Fees; and
Indemnification from liability; offences and penalties and appeals.

The By-law is currently under review in order to make provision for an auctioning system, especially for fresh cut flowers. It is also important to align the amendments to the provisions of the Agricultural Produce Marketing Agencies Bill 2013.

**Sector Legislation**

**Agricultural Produce Agents Act**

In terms of Section 7 of the Agricultural Produce Agents Act, there are three executive committees within the Agricultural Produce Agents Council, one such executive committee being a committee dealing with matters relating to the occupation of fresh produce agents. The executive committee in respect of fresh produce agents consists of members of the Agricultural Produce Agents Council and this committee consists of the three persons who represent fresh produce agents on the Agricultural Produce Agents Council. The respective executive committees may, between meetings of the Agricultural Produce Agents Council, exercise all the powers and functions of the Agricultural Produce Agents Council with regard to their respective occupations. This seems somewhat undesirable as the very persons having the functions and powers relating to the regulation of fresh produce agents are themselves fresh produce agents.
This form of self-regulation can lead to partiality which in turn can undermine effective regulation.

Whilst representation of fresh produce agents in regulatory structures is necessary and to be welcomed, it is equally necessary and desirable to ensure representation by other interested parties, such as agricultural producers and operators of fresh produce markets or their representative bodies. It is important to ensure that the regulator is not only impartial but is also regarded as impartial. It is also important to note that the Produce Agents Fidelity Fund only caters for certain forms of transgression by fresh produce agents. These forms of transgression are direct financial misconduct by fresh produce agents in relation to their principals, and include offences such as theft or fraud. However, the Fund does not cover instances where an agent acts in contravention of his/her licence requirements or in circumstances where an agent acts as both agent and principal for his/her own benefit to the detriment of producers and other market participants. Amendments to the Agricultural Produce Agents Act are necessary in terms of the composition of the executive committees and possibly in terms of the enforcement of regulatory mechanisms in the Agricultural Produce Agents Act by the Agricultural Produce Agents Council in order to ensure the effective regulation of fresh produce agents.

The Agricultural Produce Agents Act provides that no person shall perform any act as a fresh produce agent unless he or she is the holder of a fidelity fund certificate, which certificate would have been issued to him or her and all of his or her employees as contemplated in the definition of fresh produce agent.

Section 16(10) explains that a fidelity fund certificate issued to an agent will automatically lapse when he or she becomes disqualified as contemplated in Subsection 6 or if the agent ceases to act as an agent. An interesting question arises from this Section, namely: When and under what circumstances is an agent deemed to have ceased to act as an agent? This could relate to any time period where the agent does not act as an agent in the normal course of business.
Apart from the scenario where a fresh produce agent is disqualified or where such an agent voluntarily ceases to act as an agent, a fresh produce agent can conceivably continue to act as an agent for so long as he or she so wishes, *i.e.* they can function as fresh produce agents for life. Not only does this pose a possible barrier to new entrants wishing to operate as fresh produce agents in that only a certain number of agents can operate on any specific market floor, but also, and more importantly, since licences are not issued for any specific period the Agricultural Produce Agents Council is not able to re-evaluate or assess the performance, conduct and knowledge of fresh produce agents at regular intervals. Such shortcomings deprive the Council of an important regulatory tool.

This shortcoming is mitigated to some extent by the fact that agents are required to possess valid fidelity fund certificates, and may not carry on the business of agents in any capacity except with the written consent of the Agricultural Produce Agents Council and subject to such conditions as the Council may determine from time to time. This may very well mean that even though an agent is without a fidelity fund certificate, such a person may nevertheless continue to act as an agent. The conditions of the Agricultural Produce Agents Council need to be extremely strict in order to ensure that an agent operating without a valid fidelity fund certificate can do so for a limited period of time only.

It would be a positive step for the provisions of the said rule to be amended to provide for a preliminary determination of the amount payable by an applicant prior to the submission of an application.

The Agricultural Produce Agents Council also has disciplinary jurisdiction over all fresh produce agents irrespective of where the improper or allegedly improper conduct was perpetrated. Although the Agricultural Produce Agents Act and the rules in respect of fresh produce agents provide measures for enforcement and procedures to regulate the business of a fresh produce
agent, the actual enforcement will largely depend on the stance and objectivity of the Agricultural Produce Agents Council or the executive committee in question, as well as the resources and capacity of the Agricultural Produce Agents Council and the executive committee to undertake such enforcement.

This act is being rewritten and the Bill is called the Agricultural Produce Marketing Agencies Bill 2013 and when promulgate it will replace the Agricultural Produce Agents Act. A short discussion of the Bill is provided below.

**Agricultural Produce Agents Amendment Act**

The Agricultural Produce Agents Amendment Act (No. 47 of 2003) amends the Agricultural Produce Agents Act so as to alter and insert certain definitions. It focuses mainly on changing the constitution of the council and to provide for the extension of the jurisdiction of the council as well as enhancing and regulating the powers of the council and providing for transitional matters. The act also applies certain provisions to fresh produce agents.

**Marketing of Agricultural Products Act**

Section 2(2) sets out the objectives of the Marketing of Agricultural Products Act as being:

- increased market access for all market participants;
- greater efficiency in the marketing of agricultural products;
optimal export earnings from agricultural products; and
enhanced viability of the agricultural sector.

The NAMC is established as a juridical person in terms of Section 3 of the Marketing of Agricultural Produce Act.

The Marketing of Agricultural Produce Act provides under Section 15 that the Minister may, by notice in the Gazette, introduce a levy on an agricultural product or class thereof, which notice must, in addition to the requirements of section 13, contain the amount of such levy or the formula by which such a levy will be calculated, provided that the value of the levies on a particular agricultural product may not exceed, in total, 5% (five per cent) of the guideline price for such agricultural product which guideline price must:

be based on average price at its first point of sale during a preceding period not exceeding 3 (three) years; and

be determined by the Minister in consultation with the NAMC by notice in the Gazette.

The utilisation of such levies is not clearly set out, other than that such levies will be used in a manner as determined by the Minister.

This act is currently being reviewed and the review is called the Marketing of Agricultural Products Amendment Bill 2013. A short discussion on the Bill is provided below.

**Agricultural Product Standards Act**
The Agricultural Product Standards Act (No. 119 of 1990) (Agricultural Product Standards Act) provides for the control of the sale and export of certain agricultural products, the sale of certain imported agricultural products and other related products. Section 3 of the Agricultural Product Standards Act explains that the Minister of Agriculture may prohibit the sale of a prescribed product if:

that product is not sold according to the prescribed grade or class; and/or

if the product does not comply with the prescribed standards regarding quality, marketing and labelling.

An executive officer (as appointed by the Minister of Agriculture) may during business hours of the sector in question enter any place, premises or conveyance in or upon which any product material or substance to which the Agricultural Product Standards Act applies is or is upon reasonable grounds suspected to be produced, processed, treated, prepared, classified, graded, packed, marked, labelled, kept, removed, transported, exhibited or sold.

The Agricultural Product Standards Act also provides for inspection and testing of any product in question, and explains that no person shall use any form of communication in connection with the sale of a product in a manner that may convey or create a false or misleading impression as to the nature of the product in question.

Section 15 of the Agricultural Product Standards Act explains that the Minister may make regulations regarding inter alia a prohibition of the sale or export of a prescribed product, methods and procedures in connection with the taking of samples, inspection fees, or any other matter which in the opinion of the Minister may be necessary to regulate.
The Agricultural Product Standards Act, assuming effective application, enforcement and compliance, serves as an effective piece of legislation in respect of the monitoring and control of agricultural products.

**Agricultural Produce Marketing Agencies Bill 2013**

The purpose of the Bill is the following:

- “Provide for the continued existence and name change of the Agricultural Produce Agents Council to Agricultural Produce Marketing Agency;
- Provide for the continued existence and name change of the Fresh Produce Agents Fidelity Fund to Agricultural Produce Marketing Agency Fidelity Fund;
- Provide for the constitution of the Board of the Agricultural Produce Marketing Agency;
- Provide for broader objects and functions of the Agricultural Produce Marketing Agency;
- Make certain provisions applicable to all or certain categories of agricultural produce agents, auctioneers, brokers and wholesalers;
- Provide for the regulation of the occupations of auctioneers, brokers and wholesalers;
- Provide for the regulation of fresh produce markets;
- Provide for compulsory training, registration and accreditation of all agricultural produce agents, auctioneers, brokers, wholesalers, sales persons and booking clerks;
- Repeal the Agricultural Produce Agents Act, 1992; and
- Provide for matters connected therewith.” (Department of Agriculture, 2013)
Impacting on Fresh Produce Markets is the Agricultural Produce Marketing Agency whose functions are to:

- Initiate programmes to bring about transformation within the agricultural produce industry and monitor such;
- Establish rules, regulation and codes of conduct in respect of fresh produce markets, agents, auctioneers, brokers and wholesalers;
- Ensure that food safety requirements, regulation and quality standards are implemented and enforced in collaboration with other regulatory bodies;
- Coordinate the rationalisation of market bylaws in respect of fresh produce markets;
- Assist the fresh produce markets in sourcing funding from available resources to modernise and refurbish the market infrastructure;
- Approve the development of any new fresh produce markets to be established in the Republic, taking into consideration how it will affect the existing markets and ensure that its operations will meet appropriate standards;
- Serve as a point of information exchange and expertise among various players in the industry and with outside parties, in order to share experiences and expertise in specific technical areas;
- Facilitate the development and implementation of programmes aimed at providing training of people involved in the agricultural produce industry, attracting investment for market expansion and developing new distribution channels;
- Provide an integrated marketing function nationally to stimulate the demand of agricultural produce locally and internationally; and
- Coordinate and enforce the compulsory registration and accreditation of all new and existing agricultural produce agents, auctioneers, brokers and wholesalers.
The list deals with the obligatory functions of the Agency. The Agency may also among others facilitate the separation of ownership from the management of fresh produce markets, where appropriate.

The Agency may make funds available to promote the:

“marketing of fresh produce and fresh produce markets in general”.

The Agency also may make rules and draw up a code of instructions relating to the following:

- the buildings, structures and equipment used at national fresh produce markets and the materials and methods employed in the erection, installation, alteration, repair and improvement of such buildings, structure and equipment;
- the facilities provided at such fresh produce markets;
- the planning, lay-out and construction of such fresh produce markets;
- the management and conduct of such fresh produce markets;
- the use and utilisation of such fresh produce markets; and
- the performance of services at such fresh produce markets (Department of Agriculture, 2013).

A major shortcoming in the bill is that a fresh produce market is not defined and little is stated about targeted support to the up in coming farmer and the informal buying sector.

**The Marketing of Agricultural Products Amendment Bill 2013**

The purpose of the Bill is to:

- further redefine certain definitions;
redefine the mandate of the NAMC;
clarify the role of the DAFF in agricultural marketing;
further clarify matters connected to management and utilisation of statutory levies and agricultural industry trust funds;
provide for the public trusteeship of the nation’s agricultural and food markets;
provide for assignment and delegations;
provide for the monitoring, evaluation, assessment and reporting; and
provide for the national monitoring of provinces. (Department of Agriculture, 2013).

Other Relevant legislation

The Competition Act

The Competition Act regulates various aspects of competition law. Section 81 provides that the Competition Act binds the State, and Section 12 is of particular importance as it deals with mergers. Section 12 of the Competition Act provides that a merger occurs when one or more firms directly or indirectly acquire or establish direct or indirect control over the whole or part of the business of another firm. Whether or not it is necessary to notify the Competition Commission of a proposed merger depends on its size. Depending on the route followed in respect of the future corporate and institutional structuring of the Tshwane Market, it will be necessary to determine whether any structure in question will constitute a modifiable transaction for purposes of the Competition Act.

Concluding Remarks
There are many pieces of legislation that are applicable to Municipalities and fresh produce markets. Some of these pieces of legislation provide process direction to this Municipal Systems Act Section 78(1) assessment and others deal with fresh produce industry and general business matters.

The following section of the Report discusses the production and commodity characteristics of fresh produce as it has an important bearing on the institutional service delivery mechanism elected for Tshwane Market.
Production and Commodity Characteristics of Fresh Produce

In order to take informed decisions regarding the institutional structure of a fresh produce service delivery mechanism, in this case Tshwane Market, it is important to have a basic understanding of the production and commodity characteristics of fresh produce as it is substantially dissimilar to other “municipal services”. This Report already alluded to the fact that fresh produce marketing is different to a normal utility-like “municipal service”. Therefore, for the purposes of this Report the term fresh produce includes mainly fresh fruit and vegetables sold at fresh produce markets.

Fresh fruit includes *inter alia* deciduous, citrus and subtropical fruit as well as berries, cherries, strawberries, figs, prunes, quince and melons. It is noteworthy to mention that grapes grown for the production of wine and all fruit types produced for processing purposes are not included.

Fresh vegetables include potatoes, tomatoes, green mealies, cauliflower, onions, green peas, beetroot, pumpkin, carrots, cabbages, green beans and sweet potatoes.

Characteristics of Fresh Produce

The nature of the produce has a major influence on the distribution channels used in marketing of these goods.

The following are some of the characteristics of fresh produce:

A substantial portion of fresh produce is produced at a considerable distance from consuming markets.

Weather conditions, pests and diseases have an effect on production quantum and quality.
The production time cycle for fresh produce is relatively rigid for extensive and irrigation farming practices. It is only under controlled conditions that certain fresh produce can be produced throughout the year and this is limited to mostly only vegetables.

Fresh produce is a perishable good, with some items more perishable than others e.g. strawberries are more perishable than potatoes. For the same reason does potatoes have a longer shelf life than strawberries.

The quality of fresh produce varies between producers, area and seasons.

Fresh produce varies according to weight-value relationship. In general, bulky fresh produce has (e.g. potatoes and pumpkins) has a lower relative price per kilogram value while lighter, more exotic fresh produce (e.g. kiwi fruits and grapes) obtain higher prices per kilogram.

There is an important institutional demand (from restaurants, hotels, hospitals, catering industry etc.) over and above the ultimate consumer demand prevalent in the fresh produce industry.

Fresh produce is a convenience produce in the mind of consumers. This implies that consumers have a comprehensive knowledge of fresh produce and are not prepared to put a great deal of effort into comparing price and quality. The potential advantages or savings to be derived from comparisons normally do not warrant the additional time taken up by shopping around. This is as a direct result of urbanisation.

**Characteristics of Fresh Produce Distribution**

The aforementioned characteristics affect distribution in the following ways:

Transportation and storage as well as grading and packaging of fresh produce are of greater significance than for most manufacturing industries. The management of the cold chain
throughout the logistical and marketing process (where applicable) is of utmost importance.

National studies indicate that producers should be provided with a variety of alternatives for transfer of ownership (marketing) of their fresh produce.

Middlemen mostly specialise in the price-determination and risk-bearing aspects of the fresh produce distribution channel.

It is evident that different distribution channels apply for institutional and ultimate consumer demand.

Research indicated that fresh produce should be within easy reach of consumers, which requires a developed retail and intensive distribution network.

Convenience products lend themselves ideally to self-service marketing. This shifts the burden of marketing communication to the retailer and the producer in a lesser extent. It is a well-known marketing fact that self-service requires effective packaging, appropriate shelf space and advertising at the point of sale.

**Trends in Fresh Produce Marketing**

**Consumption of Fresh Fruit and Vegetables**

The following national trends in fresh produce consumption are evident:

Nationally the consumption of fresh vegetables continues to increase. This is mainly due to increased consumption by low-income consumers, urbanisation and the availability of fresh produce through expanding informal channels, and not necessarily an increase in buying power.

The growth in the fresh fruit industry is projected to mainly to take place through the export market.
National Trends in the Distribution of Fresh Produce

The following trends are evident in the international distribution of fresh produce:

Large multinational companies become increasingly involved in fruit marketing (also in South Africa).

Food safety requirements are receiving increased attention locally and internationally.

There is a worldwide over production of fruit and vegetables.

Electronic fresh produce markets (the internet trading phenomenon) are increasing.

Mass production in terms of packing is shifting towards mass individuation to cater for specific needs of customers. The informal sector has been growing since 1990 since when hawkers were allowed to trade legally on dedicated areas on pavements and street corners.

There has been a growth in the independent franchise groups and retail outlets (e.g. Spar, 7Eleven, Rite Value, Pick ‘n Pay, Fruit & Veg (Food Lovers Market), Shoprite/Checkers, Score, Woolworths, Walmart (Massmart) etc.).

These retailers are also expanding into Africa. These groups are not necessarily the major buyers at fresh produce markets as they endeavour to shorten the value chain by buying fresh produce directly from farmers who have to adhere to predetermined grower programmes, methods of handling and packaging in terms of prescribed packaging and transporting requirements. The farmers normally transport the fresh produce to the distribution centres of the retailers. These groups have their own distribution centres from where fresh produce is received and dispatched to the individual shops/outlets. These groups normally have their own (not the same for all) quality and food safety requirements, therefore traceability is becoming a matter of major importance and fresh produce markets are not complying to all these requirements and are actually breaking the proverbial chain. In order to implement these transport, food safety and packaging
requirements mayor investments are required. The retailers have a good understanding of the latter and therefore enter into long-term relationships (mostly informal) with producers.

Further, each of these retailers also have their own BEE programmes which make the intervention endeavours for fresh produce markets quite difficult.

It is also evident from the sale statistics at fresh produce markets (including Tshwane Market) that the more bulky fresh produce with longer shelf lives are sold at fresh produce markets, which is a clear indication that the more exotic high value per ton fresh produce finds its way more conveniently through other marketing channels. This has an influence on the composition of the fresh produce basket (variety) sold at fresh produce markets, which has an influence on the number of buyers visiting fresh produce markets and the average price per ton achieved. One will note that the larger fresh produce markets with a bigger variety of fresh produce achieve higher average prices per ton. It is only at the Cape Town Market (a much smaller fresh produce market than the Johannesburg Market) where subtropical produce receive higher values per ton than at Johannesburg Market as the produce is grown very far from the market and the price achieved includes a transport cost element.

**Concluding Remarks**

The above is further evidence that the Tshwane Market and other fresh produce markets operates in a very demanding and fast moving industry and that a fresh produce market as a “municipal service” is faced with severe competition unlike normal utility-like “municipal services”. It is apparent that fresh produce markets have to adjust their institutional and operating models to place them in a better position to stay abreast of developments in the dynamic fresh produce industry.
The following section of the Report discusses the institutional and organisational matters that may influence the outcome of the Tshwane Market Municipal Systems Act Section 78(1) Assessment.
Institutional and Organisational matters that may Influence the Outcome of the Tshwane Market Municipal Systems Act Section 78(1) Assessment

Specific principles of institutional and organisation design informing the Municipal Systems Act Section 78(1) assessment

The following are the specific principles of institutional design that may have an effect on the outcome of the Tshwane Market Municipal Systems Act Section 78(1) assessment:

**Attempt to ensure that Structure follows Strategy** – Any organisational structure should enable the effective implementation of strategy. In the design or review of an ideal institutional and organisational structure, the existing staff compliment or incumbent should not be considered. The City of Tshwane has undergone a macro restructuring in order to improve service delivery to the community. As indicated, the Tshwane Market is a “municipal service”, but unlike most other “municipal services”, it is rendered directly to the community of Tshwane. It is rather a business enabler to the communities of Tshwane.

**Accountability** – Structures should facilitate the identification of work processes, pinpoint accountability for decisions and facilitate efficient management decision-making. The Tshwane Market functions, roles, responsibilities, services and activities are very specialised and the service operates in competition with other fresh produce marketing channels as already described in this Report. Therefore, an institutional structure and system that is intermingled with other “municipal services” with blurred accountability and responsibility may not be appropriate to compete with private and corporatised fresh produce marketing channels.

**Quality of Information** – Ensures that more information flows from fewer reports focused on key performance data. It is important that any management report is focused on the service delivery needs and not on general municipal matters. This is even more relevant to the Tshwane Market.
**Responsiveness of the Structure** – Excessive checking is symptomatic of unclear expectations, misplaced accountability or the need to combine two roles to improve accountability. Excessive documentation is symptomatic of cumbersome processes. In order to perform competitively and be responsive to industry demands a streamlined accountability and responsibility based purpose made institutional architecture and institutional service delivery mechanism is needed for Tshwane Market – not the normal silo based municipal institutional and organisational structure with little accountability and responsibility allocation.

**Organisational Culture and Values** – Organisational structures should support a high performance culture where there is sufficient differentiation between exceptional, satisfactory and poor performance. Tshwane Market is to instil such an organisational culture and value system if it wants to be noted in the fresh produce industry.

The following Tshwane Market design principles are considered in the organisational design and service delivery mechanism Municipal Systems Act Section 78(1) assessment and the formulation of the recommendations:

**Alignment and Synergy** between National Development Plan, Tshwane 2055 and the revised 2013/2016 IDP and newly approved Macro City of Tshwane Institutional and organisational design is essential.

**Enhanced Executive and Administrative Interface** is required. The new Macro City of Tshwane Institutional and Organisational Design provides clear lines of accountability and responsibility between the executive and administrative areas. The organisational design and institutional service delivery mechanism for the Tshwane Market should take cognisance of these lines of accountability and responsibility.

**Optimise Spans of Control** (ideally 5-8 reportees), as far as is possible. The organisational design for the Tshwane Market should take cognisance of these spans of control guidelines.
Not Incumbent-Driven (the design options should be objective). The development of the organisational design for the Tshwane Market should take cognisance of this requirement.

Is there a way to link assessment of the impact of IDP programmes to a set of City wide (impact) indicators? The institutional service delivery mechanism elected for the Tshwane Market should take cognisance of these as it will co-exist with other City services and programmes and its service delivery programmes and outcomes must improve the overall City performance.

Recognise that the City Manager remains the accounting officer in terms of legislation and understand the oversight role of the Executive Mayor and the accounting officer role of the City Manager.

An organisational design and institutional service delivery mechanism is needed that creates balance between the required space for the Tshwane Market to fulfil its fiduciary duties, roles and responsibilities responsibly, whilst simultaneously ensuring that the City maintains firm control over policy direction, priorities for implementation and oversight.

The redesigned City of Tshwane is designed to enhance the municipal oversight function to ensure tighter control over, and greater synergy between policy and implementation, whilst not undermining the fiduciary duties, roles and responsibilities of the operating units. The organisational and institutional service delivery design of the City of Tshwane supports the overarching ethos of public sector service delivery and allows for some level of differentiation amongst service delivery entities. The Tshwane Market should leverage this on the strength of the unique fresh produce industry within which it operates and the unique services it renders.

The oversight of service delivery units should encompass two elements, viz. ‘overarching uniformity and integration’ and ‘decentralised service delivery oversight’ taking cognisance of the uniqueness of the each service. The organisational and institutional service delivery design of the Tshwane Market should take cognisance these imperatives.
The Tshwane Market recently developed a new organisational structure which complies with the above requirements.
Agency Status, Externalisation and Improved Performance

Testing for Performance Changes

The analytical framework used for assessing the effect of organisational status on performance is outlined at a high-level and is summarised in the figure below. On the left-to-right axis certain organisational forms are positioned, representing the main types of ownership in the public and private sectors, namely Government Departments, Governmental Agencies (e.g. trading funds, roads agencies), Public Corporations (Transnet, Eskom, City Power, Joburg Market etc.) Hybrids (e.g. private sector firms highly dependent on government/municipal contracts, or co-operatives, charities), private sector companies and owner-managed private firms.

Figure 1 Framework for Assessing the Effect of Organisational Status on Performance

Drawing on the conclusions of property rights and public choice theorists, the central proposition is that, as organisations in the public sector move away from political control and “Exchequer” financing towards more independent management, their economic and financial performance improves. This should show up particularly when an organisation is externalised, but should also be evident when organisations remain in the public sector and achieve an “arm’s length” relationship from government/ municipality. Quasi-governmental agencies and public corporations are created precisely to reduce political intervention and to introduce more commercially oriented management. Also the diagram suggests that organisational changes can be expected to have their most profound effect on performance the further right organisations travel.

**Stereotypical distinctions between the public and private sectors**

The table below presents the stereotypical distinctions between the public and private sectors. Departments should be associated with the public sector and Business Units (will be dealt with in more detail in sections of this Report that follows) should be situated somewhere between the public and private sector finding itself closer to the public sector as it is still legally and practically in the public sector, but more focused than a Department.

The Tshwane Market is a “municipal service” and cannot be totally transferred to the private sector; however one can endeavour to “emulate” the private sector where applicable and legally possible.

**Table 3 Stereotypical distinctions between the public and private sectors**

<table>
<thead>
<tr>
<th></th>
<th>Public Sector</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>Agent-principle relationship blurred</td>
<td>Clear</td>
</tr>
<tr>
<td>Orientation:</td>
<td>Inward/production/professional</td>
<td>Consumer/ marketing focus</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Public Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>----------------------</td>
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<td>----------------</td>
</tr>
<tr>
<td>interests</td>
<td></td>
<td>Stakeholder interests, but less constrained</td>
</tr>
<tr>
<td>Politically constrained</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goals</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Multiple and sometimes vague and conflicting (&quot;Public Interest&quot;)</td>
<td>Uni-dimensional (profit)</td>
</tr>
<tr>
<td>Equity and probity</td>
<td></td>
<td>Entrepreneurial</td>
</tr>
<tr>
<td>Closed system leading to continuity/consistency</td>
<td>Open/adaptable</td>
<td></td>
</tr>
<tr>
<td>Focus on inputs</td>
<td></td>
<td>Focus on outputs/ outcomes</td>
</tr>
<tr>
<td>Non-market prices/ state subsidies</td>
<td>Market prices/ subsidy free</td>
<td></td>
</tr>
<tr>
<td>Organisational Structure</td>
<td>Hierarchical pyramid/ centralised</td>
<td>Decentralised/ diversified</td>
</tr>
<tr>
<td></td>
<td>Functional</td>
<td>Business based/ profit centres</td>
</tr>
<tr>
<td>Labour</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>High unionisation/ centralised bargaining</td>
<td>Lower unionisation/ decentralised bargaining</td>
</tr>
<tr>
<td>Salary gradings</td>
<td></td>
<td>Employment based on performance</td>
</tr>
<tr>
<td>High security of employment</td>
<td>Less security of employment</td>
<td></td>
</tr>
<tr>
<td>Communications and reporting systems</td>
<td>Bureaucratic and formal</td>
<td>Non-bureaucratic/ informal</td>
</tr>
<tr>
<td></td>
<td>External environment more static</td>
<td>External environment more turbulent</td>
</tr>
<tr>
<td></td>
<td>Internal communication via written memoranda</td>
<td>More face-to-face</td>
</tr>
<tr>
<td>Formal committee structures</td>
<td>Ad hoc team working</td>
<td></td>
</tr>
<tr>
<td>Rule book procedures (the &quot;rule book&quot;)</td>
<td>Financial targets; outcomes</td>
<td></td>
</tr>
<tr>
<td>Accounting and management information systems underdeveloped</td>
<td>Strong accounting and MIS systems</td>
<td></td>
</tr>
<tr>
<td>Nature and location of business</td>
<td>Politically and geographically constrained</td>
<td>Commercially determined</td>
</tr>
<tr>
<td></td>
<td>Business development limited</td>
<td>Diversification, investment and divestment/ mergers/ overseas ventures</td>
</tr>
<tr>
<td>Public Sector</td>
<td>Private Sector</td>
<td></td>
</tr>
<tr>
<td>-----------------------</td>
<td>------------------------------------</td>
<td></td>
</tr>
<tr>
<td>National location</td>
<td>International/ global orientation</td>
<td></td>
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</tbody>
</table>
Models of Control

The diagram below depicts the well-established antonyms “markets’ and “hierarchies” and postulates that all real organisations will fall somewhere between pure “hierarchy” (or 100 per cent “command orientated”) and “pure market” (or 100 per cent “results-orientated”).

Figure 2 Models of Control

The “functional” form is characterised by a large head office with organisation-wide planning, finance, personnel, purchasing, and customer services, monitoring inputs and outputs for the organisation as a whole; whilst the “profit-centres” form is characterised with a smaller “facilitating” head office, monitoring inputs and outputs of divisions individually. “Profit/ (Cost) centres” are similar to Business Units as contemplated in this Report.
These generic models of control are important to understand when dealing with the selection of the most appropriate institutional service delivery mechanism for Tshwane Market. In order for Tshwane Market to be more effective and efficient in a competitive, changing and demanding industry it should endeavour to move to an institutional structure that is less command orientated to one that is more results orientated.

**Uniqueness of the Tshwane Market**

Having developed a high-level understanding of the effect that the institutional and organisational status has on the performance of an organisation it is prudent to describe the uniqueness of Tshwane Market in terms of the City of Tshwane institutional and organisational set-up. As indicated in Parts 1, 2 and 3 as well as this section of the Report the Tshwane Market is somewhat dissimilar to a normal “*municipal service*”. Some of its key differentiating features are listed below:

The Tshwane Market operates in competition with other fresh produce markets and private marketing channels.

Although Tshwane Market is an existing service it has less legacy baggage than a more monopolistic type “*municipal services*” as discussed in this Report.

The Tshwane Market is a highly specialised service that needs substantial planning, fresh produce industry specific infrastructure development, fresh produce and contract management and monitoring capabilities.

Tshwane Market does not directly trade in fresh produce, as the common belief may be, but it rather deals with the facilitation of trade in the fresh produce industry by providing the facilities, trading systems, agent registration and regulation and a safe and healthy trading environment in order to promote sales of fresh produce through an agent-based system. Therefore, fresh produce markets do not take any risk that relate to the buying and selling of fresh produce. It is therefore safe to say that Tshwane Market is a business that must invest in facilities, systems and skills that enhance the facilitation of
fresh produce and related trade – trade that complements the main income stream of the business activities of Tshwane Market.

The Tshwane Market does not rely on the City of Tshwane municipal accounts and debtor system to earn its main income as it has its own commission-based and rental of properties based income. The commission based income on fresh produce trade is the main income stream of the Tshwane Market and it should focus its efforts to strengthen, secures and complements this income stream.

Tshwane Market trading system is a cash based system and it receives payments on a daily basis through the market trading system.

Tshwane Market is the custodian of the trading system and controls all transactions on the market floor. Tshwane Market receives its income first – before any other party in the value chain receives payment. This is a very trusted and enviable position for any business to be in.

The Tshwane Market makes use of an outsourced market management system handling all daily transactions. Due to the relatively few fresh produce markets one would think that the trading system is a monopoly system and that the provider may hold the Tshwane Market at ransom. This is not the case and it can be reported that the Joburg Market is using its own system.

The Tshwane Market operation is a 24-hour business with most deliveries taking place in the afternoon and evening, trade takes place in the early hours of the morning and dispatching in the late morning and afternoon. This method of work spreads the pressure on the physical and operational system.

A substantial amount of services needed to operate the Tshwane Market professionally, effectively and efficiently are outsourced. Therefore, only a much specialised core employee group is involved in the execution of the Tshwane Market function. However, this also means that the Tshwane Market is reliant on the Supply Chain Management Policies and Procedures and related systems of the City, which in some instances hinder the business of the Market and are in general cumbersome and protracted to deal with. Ultimately they do not optimally support the goals and objectives of market. The latter does not mean that one should do away with the an organised supply change.
management system, but rather it is suggested that the Market has its own focused and purpose-made supply chain and management policies, procedures and systems that are more responsive to its business needs.

The Tshwane Market generates a handsome surplus albeit not an accurate reflection of the real surplus that relates to the operation of the Market. The more accurate reflection of the surplus can only be determined after the financial, operational and human resource ring-fencing of the Tshwane Market function. However, based on previous work undertaken it is safe to say that post ring-fencing, the Tshwane Market will still generate a substantial surplus. The challenge experienced by Tshwane Market is that this surplus gets lost in the general finances of the City and is applied elsewhere to fund the overall priorities of the City. Like every other “municipal service” and operation of the City, the Market has to apply for operational and capital funding. The result is that the Tshwane Market does not get the allocations applied for as a result of the many pressures and priorities on the City and its finances and hence, the Market does not timeously respond to industry needs. This leads to the a loss of market share as can be clearly viewed in the relative weakening position of fresh produce markets, including Tshwane Market, in the fresh produce industry and as high-lighted by this Report. It is understood that the City of Tshwane should generate a return on its investment in the Tshwane Market facilities and business, but it would be to the benefit of all parties if a more certain and pre-planned system is developed where the City gets a predetermined return on investment and that the remainder of the surplus can be invested and applied towards the improvement of the business of Tshwane Market for it to become more competitive and responsive to industry needs and to secure the investment of the City in the long-term.

Concluding Remarks

It is evident from the above and the analysis undertaken thus far that Tshwane Market institutional and organisational structure should be transformed to be more responsive to industry requirements.

The following section deals in on the Municipal Systems Act Section 78(1) assessment process.
Having considered the implications of the Municipal Systems Act as set out above and the trigger event for a Section 78 assessment this section delves into more detail regarding the Section 78 process.

Section 78 of the Municipal Systems Act provides a four step process for reviewing and deciding upon a mechanism for providing a “municipal service”, which can briefly be described as follows:

- The City of Tshwane must consider a range of statutory considerations (elaborated on below) in relation to the provision of “municipal services”, the Tshwane Market services in this instance, through an internal service delivery mechanism (see Section 78(1) of the Municipal Systems Act).

- After satisfying the requirements of the above bullet the City of Tshwane may then decide on an appropriate internal service delivery mechanism or decide to explore the possibility of providing the service through an external service delivery mechanism (see Section 78(2) of the Municipal Systems Act).

- Should the City of Tshwane decide to explore the external service delivery mechanism options, it must conduct a feasibility study and then assess the different external service delivery options, after giving notice to the local community (see Section 78(3)(a) of the Municipal Systems Act). This process should be undertaken with regard to a further range of considerations which embrace similar considerations to the first stage as envisaged in Section 78(1) of the Municipal Systems Act and additional feasibility requirements as set out in section 78(3)(c) of the Municipal Systems Act.

- After having considered the various external options, the City must decide on an appropriate internal or external service delivery mechanism (see Section 78(4) of the Municipal Systems Act).
The Municipal Systems Act Section 78 process is graphically depicted below. This Report responds to the requirements of Section 78(1) with the aim of attaining a Section 78(2) decision.
A new municipal service is to be provided or an existing municipal service is to be significantly upgraded, extended or improved.

Sect 77 Trigger Decision

Department:
Sect 76 (a) (i)

Business Unit
Sect 76 (a) (iii)

Other component of the
Administration
Sect 76 (a) (iii)

Draft Report

Labour Views

Final Report

Section 78 (1) assessment requirements:
(i) direct and indirect costs and benefits
(ii) municipality’s capacity and potential future capacity to furnish the skills, expertise and resources
(iii) re-organisation of administration and development of HR capacity
(iv) impact on development, job creation and employment patterns
(v) views of organised labour
(b) any other developing trends in the sustainable provision of municipal services

Sect 78 (2) Decision

Provide service through internal mechanism: 78 (2)(a)

Explore possibility of providing the service through an external mechanism: 78 (2)(b)
Figure 3. Municipal Systems Act Section 78(1) Assessment Process

1.1 Internal Service Delivery Mechanism to be Assessed

In terms of Section 76 of the Municipal Systems Act, the City of Tshwane may provide a “municipal service” in its area of jurisdiction through various internal or external service delivery mechanisms. This section provides an overview of the various internal service delivery mechanisms available and alludes to their advantages and disadvantages.

Section 76 of the Municipal Systems Act allows for the following internal service delivery mechanisms:

- a department or other administrative unit within its administration;
• any business unit devised by the Municipality, provided it operates within the Municipality’s administration and under control of the Council in accordance with operational and performance criteria determined by the Council; or

• any other component of its administration.

A number of options are available within these internal service delivery mechanisms. The internal assessment is required to identify the most appropriate options within these mechanisms for Tshwane Market that may best achieve the goals and objectives of the City of Tshwane, and at the same time deliver in terms of the industry demands and provide a market that is viable and sustainable in the long-term.

The Municipal Systems Act does not define “department or other administrative unit”, “business unit” or “any other component of its administration” and there are currently no clear legal or academic definitions of these terms. In practice, however, there are some distinctions between these different mechanisms, which depend on the manner in which they are governed and structured within the administration of a municipality.

For purposes of this internal service delivery mechanism assessment Report we treat a Department, Administrative Unit or any other component of the City of Tshwane’s administration the same as they are inherently treated the same within the administration of municipalities and more specifically the City of Tshwane. Henceforth, we will refer to these internal service delivery mechanisms as a “Department”.

It is therefore of importance to distinguish between a “Department” on the one hand and a “Business Unit” on the other hand for purposes of this Report. In many instances an operational unit is referred to as a Business Unit whilst it is actually a Directorate, Department, Division or Section of the overall municipal set-up with no distinction other that the reporting lines in the
hierarchy of the municipality. Therefore these only differ in level in the organisational structure, but do not differ in the manner of how it is managed. This section endeavours to draw a distinction between a “Department” and “Business Unit” for the purposes of this Report.

1.1.1  **Department or Administrative Unit**

Most of the Fresh Produce Markets in South Africa are located in a municipal department as defined above. The distinguishing factors of a department are listed below:

- It is a principal administrative division/ department of a government: for example the Department of Public Works and in the case of City of Tshwane the Tshwane Market.
- It is a division/ department of a business specialising in a particular product or service: for example the Human Resource Department or Tshwane Market.
- It is a division/ department of a school or college dealing with a particular field of knowledge: for example the Physics Department.
- That it is responsible for the provision of all the technical (not all) aspects of delivering a service.
- That it assumes the identity of the parent Municipality.
- That a department is an institutional arrangement where the overall responsibility for the delivery of a particular service is shared by more than one execution department within the administration of the municipality (i.e. finance, human resources, information technology and legal support departments). Responsibility and accountability for the delivery of the various services are therefore divided between different administrative and technical departments within a municipality’s administration. As a result, Markets depend on other departments within their municipalities for crucial decisions, such as staff appointments and procurement of goods and services. (NAMC, 2007) (Department of Agriculture, 2013). Tshwane Market does not differ in this regard of any of the other departments fresh produce markets.
• A department may not be fully ring-fenced and as such its financial records and budgets form part of the municipal records and budgets. The full cost of rendering a departmental service is therefore not known.

• For budget approval purposes the department’s budget expenditure has to go through the normal municipal processes.

• In a departmental setup no intra-service level agreements exist.

• A department is a clone of the parent/Municipality’s normally onerous institutional arrangements.

• Responsibility and accountability for the delivery of the various services are therefore divided between different administrative and technical departments within a municipality’s administration.

• This is the most common mechanism used by municipalities to provide municipal services and administrative support to these services. Organisation development specialists refer to it as the “silo” effect in management structures.

• A department does not have a separate legal personality.

In summary, in this option, the City of Tshwane through its administrative system manages the Tshwane Market as a department, it owns the Tshwane Market property and regulates and administers the operations of the Tshwane Market.
1.1.1.1 **Advantages**

The following are some of the accepted advantages of a Departmental System:

- Some proponents of Departments claim that it is more cost effective to manage than a business unit structure.

- Cross-subsidisation between “municipal services” and/or departments is not transparent and therefore difficult to ascertain and monitor.

- Duplication of functions may be avoided, that is, many internal administrative services are shared between various technical and administrative departments (for example, credit control for all municipal services rendered are undertaken by one administrative unit within the finance department).

- The department option allows for the sharing of skills between different “municipal services” and/or departments which allow for specialisation. This is especially useful in areas where skills are in short supply.

1.1.1.2 **Disadvantages**

The following are some of the accepted disadvantages of a departmental system:

- It is argued that in the departmental system many of the factors that support enhanced performance are either absent or diluted.

- The real cost of providing a specific municipal service is unknown or difficult to ascertain without a very effective and cumbersome activity based cost systems and it is more difficult to manage and account for services separately.

- A departmental system dilutes responsibility and accountability, which hampers competitive service delivery and real-time interaction with the fresh produce industry. (NAMC, 2007).
• A specialised service like Tshwane Market requires specialised skills not readily available in normal City structures.

• It is difficult to maintain the synergy, accountability and leadership of a management team covering all specialised functions throughout the overall organisational structures.

• Since a department is not ring-fenced in terms of its income, expenditure, rights, obligations, assets and liabilities. In general, performance measurement is blurred and/or non-existent.

• In a department system, all risks associated with the management of the Tshwane Market lies with the accountable person, the municipal manager.

1.1.2 Business Unit within the Administration

A Business Unit operates within the overall corporate control and identity of municipality, but is distinguishable from the other businesses of the organisation, because it serves a defined external market or renders a specific distinguishable service where management can conduct strategic planning in relation to specific products/services, competitors and markets.

A Business Unit can encompass an entire department (for example the Tshwane Market), or can simply be a smaller part of a department set up to perform a specific task (for example Information Technology). Further, a Business Unit has its own focused business strategy and objectives, and these may often differ in emphasis from those of the parent department/municipality, however it should still be in congruence to the overall strategy of the parent department/municipality.

From the above-mentioned description it can be concluded that a Business Unit should in essence be fully ring-fenced, have its own business plan and financial statements, however it
remains an internal service delivery mechanism with no legal separation (i.e. it doesn’t have a separate legal personality to the municipality to which it belongs).

A Business Unit therefore operates within the City of Tshwane’s administration and under the control of the municipality in accordance with operational and performance criteria determined by the Municipal Council. This is similar to a department or administrative unit as it is an integral part of a municipality. The difference would be that a Business Unit is usually responsible for all aspects of a service, including the technical, financial, human resources and legal aspects thereof and is ring-fenced in respect of income, expenditure, rights, obligations, assets and liabilities. Therefore, under this option the complete set of functions will be under one unit instead of being divided amongst units/sections/divisions/departments. It is a service delivery mechanism that facilitates a holistic focus on service delivery.

A summary of the characteristics of a typical Business Unit is listed below:

- has its own identity embracing characteristics of parent;
- has its own business plan;
- is fully ring-fenced in terms of financial, information technology, communication, human resource, operational and legal services (i.e. it has its own financial statements and other sets of performance indicators in order to measure financial and other performance items (i.e. it is ring-fenced in terms of income, expenditure, rights, obligations, assets and liabilities and technical performance);
- in terms of the ring-fencing nomenclature a Business Unit can be described as a ring-fenced unit in terms of its finances, human resources and operations;
- is responsible for its own administrative functions and all other aspects of service provision;
undertakes all transactions with other functions within the municipality on an arm’s length basis (intra-service level agreement), however these may not constitute “legally binding” undertakings;

- has a relatively well-defined and more transparent set of performance criteria and incentives (i.e. management is fully and solely, within agreed limits, responsible for the performance of the Business Unit);

- has its own business strategy, objectives and competitors and these will often have a more specific emphasis vis à vis those of the parent municipality, but they are still aligned to the overarching municipal strategies;

- has more autonomous decision-making than a departmental setup, but is not totally removed from the normal municipal institutional legacy;

- Procurement still has to be undertaken in terms of the parent municipality supply chain management policies and procedures, but performance standards can be negotiated; and

- accountability and responsibility can be allocated more decisively to a Business Unit than to a Department.

1.1.2.1 **Advantages**

The following are some of the accepted advantages of a Business Unit:

- Operation through a Business Unit allows for separate accounting of the income and costs of providing a specific service and reveals the level of cross-subsidisation to or from other departments or units within the municipality.

- It has the benefit of creating a service organisation that provides a total, one stop service to its customers and is focused on delivery of a specific “municipal service” or support service at predetermined service standards.
• A Business Unit can control most strategic factors/inputs affecting its performance/output, whilst a department has little control over certain key measures/inputs that affect technical performance/output.

• It can be managed as a self-contained unit with its own discrete business strategies.

• It has clear lines of responsibility and accountability.

• Can establish high levels of expertise that is only currently available through external service providers.

• Can respond quickly to fresh produce industry demands and trends.

1.1.2.2 Disadvantages

The following are some of the accepted disadvantages of a Business Unit:

• A duplication of functions may occur, that is, a situation may arise where for example both the electricity and waste management “business units” of a municipality have a credit control department and chase the same customers for payment.

• It requires a large pool of skills that must be specifically assigned to a particular municipal function, or “municipal services” or municipal activity.

1.1.3 Another Component of the Administration

This intuitional mechanism may comprise any other component of City of Tshwane’s administration operating in a similar manner as the options stated above or a hybrid thereof. It is not foreseen that any other internal mechanism may differ substantially from a “Department” being it a division or a section. There are no special arrangements for such institutional structures in the City of Tshwane administrative system. A “Business Unit” is clearly distinguishable from other internal mechanisms.
As pointed out earlier there are currently no clear legal or academic definitions of this option. This provision allows for innovative internal solutions to be designed for specific municipalities where this is necessary and local requirements require a different mechanism. Since an internal mechanism can be identified from the other two possibilities for the City of Tshwane, it is not necessary to identify further options for internal municipal service provision in this report. We thus only consider a “Department” or “Business Unit” as possible internal service delivery options.

1.1.4 General Comment

It is complex to implement a true Business Unit setup in a predominant departmental municipal structure as the City of Tshwane operations and systems are not geared towards such relatively “independent” business arrangements. Even in the case of the City of Johannesburg that implemented a Municipal Entity institutional structure the City of Johannesburg in many instances does not utilise these Municipal Entities to the full extent and does tend to fall back to the departmental approach towards its Municipal Entities. It is an effort to implement more independent institutional measures and maintain them. Therefore, a municipality must be much more disciplined to implement more independent institutional service delivery mechanisms than what is on offer by a departmental structure approach. If a “Business Unit” is contemplated as a service delivery mechanism for the Tshwane Market, the City of Tshwane must put in place reciprocal “corporate” arrangements that will enable the business unit to function and transact effectively and efficiently.

1.2 Criteria for an Internal Service Delivery Mechanism

In undertaking a Municipal Systems Act Section 78 assessment it is important to define clear assessment factors and to apply objective assessment criteria.
In terms of this assessment the primary consideration is whether the City of Tshwane is in the position to commit adequate human and financial resources to the Tshwane Market function. This includes proper implementation of prescribed policies applicable to e.g. performance management, tariff setting, credit management, dealing with the needs of the indigent, providing legally compliant contract management and, the ability to meet these requirements continuously.

The criteria and processes for reviewing the service delivery mechanisms for the provision of “municipal services” are laid out in Section 78 of the Municipal Systems Act. The legislated criteria for assessment of an internal service delivery mechanism involve six criteria which are set out in the table below.

Table 4. Municipal Systems Act Section 78(1) Assessment Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criterion 1</td>
<td>The direct and indirect costs and benefits associated with the project if the service is provided through an internal mechanism, including the expected effect on the environment and on human health, well-being and safety.</td>
</tr>
<tr>
<td>Criterion 2</td>
<td>The capacity and potential future capacity to furnish the skills, expertise and resources necessary for the provision of the service through an internal mechanism.</td>
</tr>
<tr>
<td>Criterion 3</td>
<td>The extent to which the re-organisation of its administration and the development of the human resource capacity within that administration as provided for in sections 51 (organization of administration) and 68 (capacity building) of the Municipal Systems Act, respectively, could be utilised to provide a service through an internal mechanism.</td>
</tr>
<tr>
<td>Criterion 4</td>
<td>The likely impact on development, job creation and employment patterns in the municipal area.</td>
</tr>
<tr>
<td>Criterion 5</td>
<td>The views of organised labour.</td>
</tr>
<tr>
<td>Criterion 6</td>
<td>(the need to) Take account of any developing trends in the sustainable provision of “municipal services” generally.</td>
</tr>
</tbody>
</table>
These criteria involve a number of enquiries and are dependent upon having a good understanding of the status quo as it pertains to the Tshwane Market.

In this context the preceding reports form the foundation to the formal statutory assessment and the recommendations outlined in this Municipal Systems Act Section 78 assessment.

1.3 Summary of Matters other than Prescribed Criteria to be considered for Recommended Form of Internal Mechanism

The recommendation as regards the appropriate internal service delivery mechanisms to be further assessed has to take account of the following:

- The Tshwane Market function is an existing “municipal service” and is therefore part of the existing City of Tshwane organisational structure.
- The Tshwane Market is currently managed as an internal department within the institutional and organisational structure of the City of Tshwane.
- The Tshwane Market function has many general and industry specific services and activities to perform in order to render an effective fresh produce market service to the suppliers and buyers at the Tshwane Market, those who rent facilities and make use of supporting service provided by the Market.
- Tshwane Market does not trade in fresh produce itself.
- The City of Tshwane through the Tshwane Market provides the premises (trading floor and rental properties), ripening and cooling facilities, fresh produce market trading system, security, cleansing (where appropriate), fresh produce market administration services and ancillary services (i.e. rental of equipment and the keeping of fresh produce markets records).
- Eight agents, who represent the producers (suppliers), operate on the Tshwane Market. The agents have a life-long licence to operate on the Tshwane Market through the Agricultural Produce Agents Act.

- Tshwane Market (City of Tshwane) through its market trading system receives all sales monies.

- The Tshwane Market (City of Tshwane) receives 5\% \textit{ad valorem} commission on all sales taken place on the market floor. The remainder of the monies get transferred to the trust accounts of the agents in terms of sales recorded in their individual names.

- The market business is merely a cash business with daily cash sales.

- The surplus, albeit not correct as described herein, the Tshwane Market generates is not used to fund the expansion of the Tshwane Market business.

- There are 3 905 sellers at the Tshwane Market of which the top 50 constitute 1.3\% of the total number of sellers and contribute a third of the total Tshwane Market turnover and 30\% of the total tonnage sold per annum. The top 100 sellers represent almost 46\% of total turnover, which account for 2.6\% of the total seller pool.

- There are 15 793 buyers at the Tshwane Market of which the top 50 constitute 0.3\% of the number of buyers and contribute to almost half of the markets total turnover and contribute to 47\% of the total tonnage bought per annum. Almost 60\% of total turnover comes from the top 100 buyers, which account for 0.6\% of the total buyer pool.

- Tshwane Market is not financially ring-fenced, therefore the surplus generated and indicated is not the real surplus of the fresh produce market business of the City of Tshwane. Based on experience with similar markets, it is safe to state that the Tshwane Market will still produce substantial surplus.

- The City of Tshwane doesn’t earn a fixed income stream (return on investment) from the activities of the Tshwane Market.

- Approximately 90\% of the income of the total revenue of Tshwane Market is generated from commission sales on the market floor.
• The Tshwane Market is losing market share relative to other marketing channels.

• There are at least 10 other marketing channels that producers can use to sell their produce.

• The other marketing channels are privately owned, except for other municipal fresh produce markets.

• Fresh produce has unique product characteristics and there are many types of fresh produce each with its own product characteristics unlike most “municipal services” that are in general homogeneous.

• The value chain in fresh produce marketing is shortening.

• The fresh produce trading at Tshwane Market, and other municipal markets, are generally high-volume low-value produce with a relatively long shelf life. It can be said that fresh produce markets, including Tshwane Market, can be viewed to a large extent as a storage space.

• The City of Tshwane has limited staff who really understand the business of Tshwane Market. Tshwane Market is a property business that facilitates fresh produce trade.

• Tshwane Market is jurisdictionally bound like any other “municipal service”.

• There is a high level of inter-departmental co-operation around the provision of certain “municipal services” and municipal support activities. Tshwane Market relies more on municipal support activities than, for example, the Transport Department. Municipal support activities include among others the human resource, corporate, financial, information technology, supply chain management etc. services.

• The City of Tshwane’s overall organisational structure is based on a departmental basis which is devolved into a regional service delivery structure.

• The Tshwane Market is a long standing service and has a legacy organisational structure; however, it was recently reviewed and rendered more responsive to fresh produce market industry requirements.
The Tshwane Market is a much specialised service that needs substantial property, fresh produce and contract management and monitoring capabilities.

The Tshwane Market does not rely on the City of Tshwane municipal accounts and debtor system to earn its income.

If ring-fenced it may be possible for Tshwane Market to provide for its own funding needs.

The Tshwane Market business operates on a 24 hour basis whilst most other “municipal services” are rendered in terms of normal business hours.

Most of the services to operate the Tshwane Market business are municipal support activities such as the market management system, security, health and safety, building and equipment maintenance and repair, etc. are outsourced. Therefore, only a very specialised core is involved in the execution of the Tshwane Market business.

Tshwane Market utility bills are not accurate and some services can be rendered more cost effectively by the private sector.

Tshwane Market does not comply with industry standards and food safety requirements such as HACCP, GlobalGAP and traceability of fresh produce.

Tshwane Market and its agents operate within the ambit of various pieces of industry specific legislation, municipal legislation and municipal bylaws.

The Tshwane Market needs substantial capital investment to improve its performance and to become fresh produce industry compliant and competitive.

The Tshwane Market needs an institutional and organisational structure that is closer aligned to the stereotypical private sector organisation.

Most important is the fact that the Tshwane Market function is a comprehensive function with various operational functions, services and activities. The function is a focussed function that
concentrates solely on the governance and efficient operation of fresh produce sales facilitation and no direct fresh produce trade.

The evaluation of the Tshwane Market Municipal Systems Act Section 78(1) assessment criteria should also take account of the matters discussed in Parts 2 and 3 and in this Report and the further considerations discussed above.

1.4 Application of the Legislated Criteria to the Internal Mechanisms under Assessment

It is of importance to read the comments that relate to the Department and Business Unit together, in order to develop an understanding of the assessment. The comments below assume that the reader has studied the documentation referred to in this Report as well as this Report (including all its Parts).

Table 5. Application of Legislated Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Department</th>
<th>Business Unit</th>
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<tbody>
<tr>
<td>Criterion 1 – costs and benefits</td>
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<tr>
<td>Criterion one requires an assessment of the direct and indirect costs and benefits associated with the project if the service is provided by the municipality through an internal service delivery mechanism, including the expected effect on the environment and on human health, well-being and safety. These costs include financial costs but go beyond these to cover non-financial costs as well. It is important to understand that the greatest environmental impact regarding fresh produce is at the source of production, followed by ripening, cooling and transportation to and from the market. Should the Market services continue to be provided through an internal mechanism, no substantial effect is expected on the environment as the assets and infrastructure have been in place for a long time. Plans for upgrades of Market facilities and possible expansion of the premises will be brought about irrespective whether the Market will continue to operate under the Department or in a more independent configuration. While upgrades and expansion will have an impact on the environment (especially during construction), this is inconsequential with regard to the market’s</td>
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</table>
The Tshwane Market plays a dual role in ensuring food security in its jurisdiction, although the exact extent of this remains unclear. Firstly, it provides an outlet where producers (suppliers) can sell their produce and earn an income. The Tshwane Market is currently assisting emerging farmers by transporting their produce to the market to be sold through the Tshwane Market system.

Secondly, the Tshwane Market provides a platform where it is relatively easy for hawkers to buy fresh produce, who themselves make a living off the market and also assist in providing fresh produce to townships.

As a result, the Tshwane Market fulfils an important role in contributing to the human health and well-being of its jurisdiction. However, this function will most likely not be impacted on whether the market continues to exist under the municipality via a department or business unit or under a more independent service delivery option.

As alluded to above, the Tshwane Market has made provision in its new organisational structure for Food Safety and Quality Control. Currently, the Market is not up to standard with regard to industry food safety and health quality control resulting in farmers and buyers bypassing the Tshwane Market.

The Market aims at becoming fully HACCP and Food Safety compliant. The first step is to attain HACCP accreditation for the cold rooms and the ripening centre as well as rendering the platform floor compliant. While the City provides a permanent Environmental Health Practitioner to the Market, management stated that the need for compliance with industry standards is not always fully understood by the City as this is a much specialised field. As such, it does not receive the required attention and support that would assist towards implementing these standards. An example is that while the organogram makes provision for various posts in the newly developed Food Safety and Quality Control Directorate, the City has only provided for the appointment of one expert person.

### Direct cost

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<tr>
<th>Criteria</th>
<th>Department</th>
<th>Business Unit</th>
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<tr>
<td>Municipal organisational structures tend to be loaded and it is estimated that the Departmental organisational structure will cost more than the Business Unit organisational structure.</td>
<td>The total direct operational cost for the current MTREF is estimated at R 240 681 307 and for the nine year planning period it is estimated at R 1 047 495 674 which is less than that of an internal Department.</td>
<td>The Business Unit results in a saving of approximately R 3 027 561 for the current MTREF and R41 327 290 for the nine year planning period.</td>
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<tr>
<td>The total direct operational cost for the current MTREF is estimated at R 243 708 868 and for the 10 year planning period it is estimated at R 1 088 822 964.</td>
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### Indirect cost

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<tr>
<th>Criteria</th>
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<th>Business Unit</th>
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<tr>
<td>The indirect cost is calculated at 15% of the operating cost, which is based on the 2013/2014 budget of the City of Tshwane.</td>
<td>The indirect cost is calculated at 10% of the operating cost, which is based on the 2013/2014 budget of the City of Tshwane.</td>
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<tr>
<td>Criteria</td>
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<td>The total cost for the current MTREF is estimated at R 36 556 330 and for</td>
<td>The total cost for the current MTREF is estimated at R 24 068 131 and for the</td>
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<td>the 10 year planning period it is estimated at R 160 323 445.</td>
<td>nine year planning period it is estimated at R 104 749 567 which is much less</td>
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<td>This amount is based on the budget as prepared for this Report.</td>
<td>than that of an internal Department.</td>
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<td>The Net Present Value for the departmental service delivery mechanism is</td>
<td>This amount is based on the budget as prepared for this Report.</td>
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<td>R 75 162 614.</td>
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<td>The total cost for the current MTREF is estimated at R 24 068 131 and for</td>
<td>The Business Unit results in a saving of approximately R 12 488 199 for the</td>
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<td>the nine year planning period it is estimated at R 104 749 567 which is</td>
<td>current MTREF and R 55 573 878 for the nine year planning period.</td>
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<td>much less than that of an internal Department.</td>
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<td>This amount is based on the budget as prepared for this Report.</td>
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<td>The Business Unit results in a saving of approximately R 12 488 199 for</td>
<td>The Net Present Value for the business service delivery mechanism is R 129 550 811.</td>
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<td>the current MTREF and R 55 573 878 for the nine year planning period.</td>
<td>Financially the business unit service delivery mechanism is performing much</td>
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<td>better than the departmental service delivery mechanism.</td>
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<td>Environment</td>
<td>Due to the nature of the Tshwane Market function it is not foreseen that the</td>
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<td>two service delivery mechanisms will in principle have different</td>
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<td>environmental impacts.</td>
<td>impacts.</td>
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<td>As indicated above the City of Tshwane is jurisdictionally bound and</td>
<td>A business unit will be hampered by the same jurisdictional limitations as a</td>
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<td>service as indicated above should not be rendered to producers out the City</td>
<td>departmental service delivery mechanism.</td>
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<td>jurisdiction.</td>
<td>By its very nature the Business Unit will be more focussed, incorporate</td>
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<td>The Market is slow to improve outdated ripening and cooling facilities</td>
<td>specific pre-agreed goals and more appropriately measured, therefore it</td>
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<td>with more modern environmental facilities as it fails to get capital</td>
<td>should outperform the Departmental service delivery mechanism for this</td>
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<td>allocations in time. Its capital requirements are not ring-fenced and</td>
<td>criterion.</td>
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<td>funded from surpluses rendered.</td>
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<td>By virtue of the very fact that all sales have to take place on the market</td>
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<td>floor it contributes little to the</td>
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<td>Due to the nature of the Tshwane Market function it is not foreseen that the</td>
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<td>two service delivery mechanisms will in principle have different</td>
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<td>criterion.</td>
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Criteria | Department | Business Unit
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environmental impact regarding transportation. |  |  

**Human health, well-being and safety**  
Due to the nature of the Tshwane Market function it is not foreseen that the two service delivery mechanisms will in principle have different human health, well-being and safety impacts.  
However, the City of Tshwane agreed an organisational structure for the Tshwane Market, but is slow to implement it as a result of limited funds in the City of Tshwane. The surplus funds generated by the market are not applied towards the market.  
Due to the nature of the Tshwane Market function it is not foreseen that the two service delivery mechanisms will in principle have different human health, well-being and safety impacts.  
By its very nature the Business Unit will be more focussed, incorporate specific pre-agreed goals and more appropriately measured, therefore it should outperform the Departmental service delivery mechanism for this criterion.

**Criterion 2 – Capacity**  
Criterion two requires an assessment of the municipality’s capacity and potential future capacity to furnish the skills, expertise and resources necessary for the provision of the service through an internal mechanism.

This criterion focuses on questions concerning the capacity of the municipality, implementation skills, effective labour relations and training and development.

The City of Tshwane developed a more service delivery responsive organisational structure for the City itself and for the Tshwane Market. The challenge that the City is facing is to find the funds to implement the new organisational structure to its full extent. As indicated in this Report in Part 3 the organisational structure of the Tshwane Market is also not implemented.

The requirements of Tshwane Market are unique and it is doubted whether the City of Tshwane will find the requisite skills by means of its internal recruitment processes.

**Capacity**  
Tshwane Market is an existing function and service, and both a Department and a Business Unit will have the same challenges as regards the implementation of the service as they will have to use the systems of the City of Tshwane to employ staff, procure goods and services and to get operational and capital funds.  
Based on the available information it may be highly unlikely that the City of Tshwane will furnish the necessary skill, expertise and resources (financial and human) to perform the  
Tshwane Market is an existing function and service, and both a Department and a Business Unit will have the same challenges as regards the implementation of the service as they will have to use the systems of the City of Tshwane to employ staff, procure goods and services and to get operational and capital funds.  
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<tr>
<th>Criteria</th>
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<th>Business Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tshwane Market function as an internal department.</td>
<td>The City of Tshwane will have to transfer internal resources, employ from outside and contract resources in. This may be a time consuming process and there is a chance that the appropriate skills will not be attracted with a departmental organisational setup. As a result of historical trends, it is highly doubtful whether the City of Tshwane with a departmental institutional and organisational structure will ever meet the demands of the fresh produce industry timeously and diligently in order for the Tshwane Market to reach its full potential and be sustainable and self-sufficient.</td>
<td>Tshwane Market function as a business unit. The City of Tshwane will have to transfer internal resources, employ from outside and contract resources in. This may be a time consuming process and there is a chance that the appropriate skills will not be attracted with a departmental organisational setup. As a result of historical trends, it is highly doubtful whether the City of Tshwane with a departmental institutional and organisational structure at large will be successful with the implementation of a business unit and that it will ever meet the demands of the fresh produce industry timeously and diligently in order for the Tshwane Market to reach its full potential and be sustainable and self-sufficient.</td>
</tr>
<tr>
<td>As a result of historical trends, it is highly doubtful whether the Tshwane Market function as an internal department.</td>
<td>It is envisaged that due to its very nature that the business unit will be in a better position to fulfil the required capacitating of the business especially from a human resource perspective. The “separate” nature of a business unit setup will be more attractive to external resources with the required skills set than a Departmental setup. However, there is doubt whether a business unit institutional and organisational structure is moving Tshwane Market sufficiently to compete with the private sector forces in the fresh produce industry. A business unit institutional and organisational structure, albeit ring-fenced, will be hampered by the same human resource, supply chain, operational and capital expenditure and jurisdictional constraints as a department. Therefore, it is viewed</td>
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<th>Criteria</th>
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<td></td>
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<td>that a business unit will only have a marginal benefit over a department.</td>
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</tbody>
</table>

**Criterion 3 – Re-organisation of the City of Tshwane administration and the development of its human resources**

Criterion three requires an assessment of the extent to which the re-organisation of the municipality’s administration and the development of the human resource capacity within that administration as provided for in Sections 51 (organisation of administration) and 68 (capacity building) of the Municipal Systems Act, respectively, could be utilised to provide a service through an internal mechanism.

Section 51(g)(i) of the Municipal Systems Act states that “a municipality must within its administrative and financial capacity establish and organise its administration in a manner that would enable the municipality to perform its functions through operationally effective and appropriate administrative units and mechanisms, including departments and other functional or business units.”

Section 68(1) of the Municipal Systems Act states that “a municipality must develop its human resource capacity to a level that enables it to perform its functions and exercise its powers in an economical, effective, efficient and accountable way...”

The Tshwane Market has been located within the City since its inception. The City of Tshwane underwent many restructuring exercises and the latest is discussed in this Report. The restructuring is delivering positive results for the City at large, but has little positive effect on the position of the Tshwane Market as it does not really address the industry specific matters that will render it to deliver markedly improved performance. The Tshwane Market is still losing market share.

One of the key traits of a fresh produce market and the fresh produce industry is trust by all role-players. Tshwane Market is no different. Trust is normally earned over a long term and the Municipal Systems Act Section 57 appointments do not bode well for developing a trustful environment within which the Tshwane Market can develop long term relationships. Further, a brand is normally developed over many years and fresh produce markets, including Tshwane Market have lost brand value over time. This view is based on the results of the NAMC Section 7 investigations.

While the Tshwane Market operates under the Department of Agriculture and Environmental Management, it does so more or less independently apart from a few support staff (human resource and finance) assisting the Market in their day-to-day operations.

Considering the fact that the Tshwane Market function is an existing function and service that is by its nature very specialised, it is therefore highly unlikely that the City of Tshwane will through another re-organisation exercise of its administration be in a position to furnish the required skills and considering the fact that the Tshwane Market function is an existing function and service that is by its nature very specialised, it is therefore highly unlikely that the City of Tshwane will through another re-organisation exercise of its administration be in a position to furnish the required skills and
<table>
<thead>
<tr>
<th>Criteria</th>
<th>Department</th>
<th>Business Unit</th>
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<tbody>
<tr>
<td>expertise to manage the market to its full potential. To re-organise the City administration is a protracted exercise and the opportunity to implement a Tshwane Market focused departmental institutional and organisational structure successfully within the required time is highly unlikely. The fresh produce industry is moving fast and it does not wait for the City of Tshwane to implement restructuring efforts.</td>
<td>expertise to manage the market to its full potential. To re-organise the City administration is a protracted exercise and the opportunity to implement a Tshwane Market focused departmental institutional and organisational structure successfully within the required time is highly unlikely. The fresh produce industry is moving fast and it does not wait for the City of Tshwane to implement restructuring efforts.</td>
<td>It will take too long to develop internal skills as the Tshwane Market is losing market share and needs action without delay. It will not be possible to train and skill up the necessary internal staff to fulfil the specialised services required. The changing of the institutional service delivery mechanism of the Tshwane Market function and service is overdue and the City of Tshwane does not have the luxury of time to develop resources and re-organise its administration. For this reason, and as discussed above, the City will have to combine internal and external resources to effectively implement the Department, but it will be difficult to find the required skills internally as well as the external resources as they will be reluctant to work in a City Departmental structure. It is also not foreseen that the City of Tshwane will markedly adjust its internal institutional and organisational structure to accommodate a very unique “municipal service”. In theory, the implementation of a business unit may need a bit more administrative restructuring and re-organisation than a Department.</td>
</tr>
</tbody>
</table>
However, it is more a matter of discipline and adjustment of systems than any physical disruption to the City of Tshwane organisational and institutional structure.

As mentioned above a business unit may be more effective in implementing the necessary change than a departmental institutional and organisational structure. However, it is doubtful if a business unit will have sufficient impact to deliver the required performance enhancement that is needed by Tshwane Market.

**Criterion 4 – Job creation and development impact**

Criterion four requires an assessment of the likely impact on development, job creation and employment patterns in the municipality if the Tshwane Market is operating through an internal mechanism.

The constraints placed on the Tshwane Market with regard to lengthy procurement and human resource processes, are not conducive to the planned developments at the Market. Expansion and upgrades are planned but are bogged down by lengthy municipal processes. Despite the expanded organogram, job creation is likely to be slow due to long lead times in appointing new staff. It is expected that the *status quo* will remain regarding employment patterns in the Tshwane Market if it continues as an internal mechanism.

As a result of the legislative environment Tshwane Market, as an internal service delivery mechanism, can play a very limited role in achieving government objectives of improved Black Economic Empowerment (BEE) other than in terms of procurement and employment. While attempts are made to include more BEE agents, this is a difficult process as agent relationships with their producers are based on long-standing trust, commitment and loyalty. The NAMC maintains that markets under a more independent management structure would be able to foster BEE more effectively, which is debatable in the light of the above argument.
Criteria

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<th>Criteria</th>
<th>Department</th>
<th>Business Unit</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>may increase short term employment and development opportunities. The new developments may also create longer term employment opportunities. By its very nature a business unit will be more focussed and more appropriately measured and should outperform the departmental service delivery mechanism. However, we don’t foresee any marked improvement in this criterion with the implementation of a business unit.</td>
</tr>
</tbody>
</table>

Criterion 5 – Labour views

The views of organised labour are to be obtained.

A draft letter (Annexure D) was prepared and needs to be completed and forwarded to the organised labour in order to gain their views as provided for in Section 78(1)(a)(v) of the Municipal Systems Act.

This Report does not include the views of Organised Labour with regard to Municipal Systems Act section 78(1). A process has been put in place by the City of Tshwane to obtain the views of Organised Labour and will be added to the Report at the relevant time. It is proposed that the City of Tshwane deals directly with Organised Labour, in cooperation with the section 78 service provider.

Criterion 6 – Other trends

This section takes into account any developing trends in the sustainable provision of the Tshwane Market function and service generally. As alluded to in Parts 2 and this Part 4 of this report, very little volume growth has occurred in National Fresh Produce Markets, despite overall production of fresh produce having increased substantially over the last years. The steady loss in market share by Fresh Produce Markets (including Tshwane Market) is ascribable to the rise of direct relationships between the large buyers and the large producers, thereby bypassing the fresh produce market system. Also sub-standard health and food safety standards have rendered fresh produce markets less and less competitive in an industry where consumer awareness of food safety is rapidly increasing.

As such the MAMC has recommended that one of the means to counter these negative trends is to separate ownership and management in order to achieve increased and long-term competitiveness of fresh produce markets and facilitate the transformation with regard to Black Economic Empowerment in line with government objectives. In addition, separating ownership and management would result in increased flexibility due to its delinked nature from onerous municipal processes and procedures, thus allowing for more rapid response and adaptation to changes in the industry. (NAMC, 2007)

In short, the separation of ownership and management would result in achieving more efficient


### Criteria

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<thead>
<tr>
<th>Criteria</th>
<th>Department</th>
<th>Business Unit</th>
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<td>business practices and increased commercial competitiveness.</td>
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</table>

As discussed in Part 2 of this Report there are currently three institutional ownership models for fresh produce markets, namely departmental markets (internal service delivery mechanisms), Municipal Controlled, but externalised markets (Municipal Entities) (external service delivery mechanisms) and those fresh produce markets that are totally private. It is evident that there are two institutional service delivery mechanisms available to the City of Tshwane. However, a business unit is not one of these two service delivery mechanisms. For the record and purposes of clarity, private markets are not institutional service delivery mechanisms.

Based on the above and the shortcomings of internal service delivery mechanisms as described herein and national trends and recommendations, it will be strongly advisable for the City of Tshwane to consider external service delivery mechanisms as described in Section 76(b) for the management component of the Tshwane Market. These external service delivery mechanisms are to be assessed in terms of Section 78(3) of the Municipal Systems Act.

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1.5 **Concluding Remarks**

The two internal service delivery mechanisms are not feasible approaches in their own right as long-term solutions to the challenge the Tshwane Market faces. The business unit option appears to be a more appropriate option but it falls short in certain critical areas as explained above. The Departmental option also appears to cost substantially more than the business unit.

Based on the above and the shortcomings of internal service delivery mechanisms as described herein and national trends and recommendations, it will be strongly advisable for the City of Tshwane to consider external service delivery mechanisms as described in Section 76(b) for the management component of the Tshwane Market. These external service delivery mechanisms are to be assessed in terms of Section 78(3) of the Municipal Systems Act.

Given the industry trends and the business rationale set out above, this criteria poses a very strong argument towards separating the ownership and management of the Tshwane Market.
2. Conclusion and Recommendations

Based on this Municipal Systems Act Section 78(1) assessment it is evident that the Tshwane Market would be better served in reaching its economic and commercial potential if its management were separated from the municipality.

As a result of the conclusions reached above, it is thus recommended that, before taking a decision to continue with the Tshwane Market as an internal mechanism, the City conduct an assessment in terms of Section 78(3) of the Municipal Systems Act into possible external mechanisms as contemplated in Section 76(b) of the Municipal Systems Act for the Market.

For purposes of the Mayoral Committee Section 78(2) decision, the following resolutions should be taken:

- That the contents of the Report be noted.
- That the views of organised labour be obtained through the Local Bargaining Forum on the Reports.
- That the Reports be finalised incorporating the views of organised labour.
- That the final Reports be submitted to Council for a final decision on the progression to Section 78(3) of the Municipal Systems Act.

Note: The City of Tshwane in cooperation with the Municipal Systems Act Section 78 Service Provider formally notifies Organised Labour and obtains their views via the Local Labour Forum of the recommendations outlined in this Report. This is part of the Municipal Systems Act Section 78 assessment process and is a requirement of Section 78(1)(a)(v) of the Municipal Systems Act, which is the basis for the current assessment.
3. **Way forward**

The following next steps will be required given the two scenarios that present themselves:

- Should the City decide to retain the Tshwane Market internally, a Municipal Systems Act Section 78(3) assessment will not be necessary. The *status quo* regarding the Tshwane Market will remain, and management and operations will continue on the same basis as it has since the Tshwane Market’s inception. At this point this investigation will terminate.

- Should the City; however, decide to investigate the external option (*i.e.* separating management and operations of the Market), a Municipal Systems Act Section 78(3) assessment will have to be performed. This will entail addressing the criteria for each applicable service delivery as per Section 76(b) of the Municipal Systems Act as listed in Section 78(3) of the Municipal Systems Act as depicted in the table below.

<table>
<thead>
<tr>
<th><strong>Criterion</strong></th>
<th><strong>Description</strong></th>
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<tbody>
<tr>
<td><strong>Criterion 1</strong></td>
<td>Give notice to the local community of its intention to explore the provision of the municipal service through an external service delivery mechanism</td>
</tr>
<tr>
<td><strong>Criterion 2</strong></td>
<td>The direct and indirect costs and benefits associated with the project if the service is provided by an external service delivery mechanism, including the expected effect of any service delivery mechanism on the environment and on human health, well-being and safety</td>
</tr>
<tr>
<td><strong>Criterion 3</strong></td>
<td>The capacity and potential future capacity of prospective service providers to furnish the skills, expertise and resources necessary for the provision of the service through an external service delivery mechanism.</td>
</tr>
<tr>
<td><strong>Criterion 4</strong></td>
<td>The views of the local community</td>
</tr>
<tr>
<td><strong>Criterion 5</strong></td>
<td>The likely impact on development, job creation and employment patterns in the municipality; and</td>
</tr>
<tr>
<td><strong>Criterion 6</strong></td>
<td>The views of organised labour.</td>
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<tr>
<td>Criterion</td>
<td>Description</td>
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<tr>
<td><strong>Criterion 7</strong></td>
<td>Conduct a feasibility study taking into account:</td>
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<tr>
<td></td>
<td>(i) a clear identification of the municipal service for which the municipality intends to consider an external mechanism;</td>
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<td></td>
<td>(ii) an indication of the number of years for which the provision of the municipal service through an external mechanism might be considered;</td>
</tr>
<tr>
<td></td>
<td>(iii) the projected outputs which the provision of the municipal service through an external mechanism might be expected to produce;</td>
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<tr>
<td></td>
<td>(iv) an assessment as to the extent to which the provision of the municipal service through an external mechanism will-</td>
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<tr>
<td></td>
<td>(aa) provide value for money;</td>
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<td></td>
<td>(bb) address the needs of the poor;</td>
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<td></td>
<td>(cc) be affordable for the municipality and residents; and</td>
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<td></td>
<td>(dd) transfer appropriate technical, operational and financial risk;</td>
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<td>(v) the projected impact on the municipality's staff, assets and liabilities;</td>
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<td>(vi) the projected impact on the municipality's integrated development plan;</td>
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<td></td>
<td>(vii) the projected impact on the municipality's budgets for the period for which an external mechanism might be used, including impacts on revenue, expenditure, borrowing, debt and tariffs; and</td>
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<td>(viii) any other matter that may be prescribed.</td>
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</table>
1. References


Tshwane, C. o., 2012. *Environmental Management Department (Fresh Produce Market) Approval to commence an investigation in accordance with Chapter 8 of the Municipal Systems*

Annexure A: Assumptions

The following assumptions were made as regards the departmental service delivery mechanism:

- The 2011/12 actual numbers were used.
- All expenditure items except for remuneration were escalated with 6% per annum.
- The remuneration expenditure was escalated by 9% in order to make provision to fill the unfilled positions as indicated in the organisational structure. Further, there is a national trend that municipal salary cost increase by more than inflation.
- The revenue was escalated with 6% which is 1% higher than the average income escalation over the last few years. This was done as a result of the capital investment made in the Tshwane Market physical assets.
- A 10 year planning term were used.
- No perpetuity value was calculated as it will not change the position of the most appropriate internal service delivery mechanism.
- The indirect cost is calculated at 15% of the operating cost, which is based on the 2013/2014 budget of the City of Tshwane.
- The capital expenditure was based on staggered capital expenditure and inflated over the first five years. The Master Plan was used as the base document. The outer years were estimated at a constant R20 million per annum.
- A discount rate of 10% was used for comparative purposes only.

The following assumptions are applicable to the business unit service delivery mechanism:

- Only the assumptions that differ from those of the departmental service delivery mechanism are discussed below.
• The remuneration was reduced to 8% for the business unit service delivery mechanism instead of the 9% as used for the departmental service delivery mechanism. The business unit service delivery mechanism will be measured more accurately.

The indirect cost is calculated at 10% of the operating cost, which is based on the 2013/2014 budget of the City of Tshwane. The differential of 5% in favour of the business unit is based on the fact that the business unit should negotiate the internal charges and demand service unlike a departmental service delivery mechanism where the department is charged by the finance department.
### Department Net Present Value

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<tr>
<td>2011/12</td>
<td>2 429 164</td>
<td>2 162 899</td>
<td>2 382 440</td>
<td>2 525 386</td>
<td>2 676 909</td>
<td>2 837 524</td>
<td>3 007 775</td>
<td>3 186 242</td>
<td>3 379 536</td>
<td>3 582 309</td>
<td>3 797 247</td>
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<td>2012/13</td>
<td>6 911 413</td>
<td>6 615 320</td>
<td>6 767 101</td>
<td>7 173 127</td>
<td>7 603 514</td>
<td>8 059 725</td>
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<td>2013/14</td>
<td>3 484 150</td>
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<td>4 062 816</td>
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<td>5 763 182</td>
<td>6 108 973</td>
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<td>2014/15</td>
<td>3 054 025</td>
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<td>4 654 844</td>
<td>4 934 135</td>
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<td>5 543 994</td>
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<td>53 673 628</td>
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<td>82 563 529</td>
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<td>2017/18</td>
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<td>5 074 347</td>
<td>6 035 976</td>
<td>6 398 134</td>
<td>6 782 022</td>
<td>7 188 944</td>
<td>7 620 280</td>
<td>8 077 497</td>
<td>8 562 147</td>
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<td>Total Expenditure</td>
<td>59 271 987</td>
<td>60 296 495</td>
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<td>81 072 319</td>
<td>87 546 867</td>
<td>94 554 807</td>
<td>102 141 184</td>
<td>110 354 922</td>
<td>119 249 159</td>
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<td>Indirect Cost</td>
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<td>10 434 113</td>
<td>11 263 452</td>
<td>12 160 848</td>
<td>13 132 030</td>
<td>14 183 221</td>
<td>15 321 178</td>
<td>16 553 238</td>
<td>17 887 374</td>
<td>19 332 242</td>
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<td>Total Expenditure after Contribution</td>
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<td>69 340 969</td>
<td>79 994 870</td>
<td>86 353 135</td>
<td>93 233 167</td>
<td>100 678 897</td>
<td>108 738 028</td>
<td>117 462 362</td>
<td>126 908 161</td>
<td>137 136 533</td>
<td>148 213 856</td>
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<td>Debtors Revenue</td>
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<td>11 869 466</td>
<td>13 243 600</td>
<td>13 911 500</td>
<td>14 616 100</td>
<td>15 493 066</td>
<td>16 422 650</td>
<td>17 408 009</td>
<td>18 452 489</td>
<td>19 569 639</td>
<td>20 733 217</td>
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<td>Total Income</td>
<td>108 519 085</td>
<td>112 208 900</td>
<td>121 286 346</td>
<td>130 758 055</td>
<td>137 126 400</td>
<td>144 370 115</td>
<td>153 032 322</td>
<td>162 214 261</td>
<td>171 947 117</td>
<td>182 263 944</td>
<td>193 199 781</td>
<td>204 791 767</td>
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<td>Surplus</td>
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<td>Capital Expenditure</td>
<td>40 356 301</td>
<td>42 867 931</td>
<td>41 291 476</td>
<td>44 404 920</td>
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<td>44 294 294</td>
<td>44 751 899</td>
<td>45 038 956</td>
<td>45 127 411</td>
<td>44 965 924</td>
<td>44 579 526</td>
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<td>Total Surplus/ (Deficit) after Capital Expenditure</td>
<td>40 356 301</td>
<td>42 867 931</td>
<td>41 291 476</td>
<td>41 904 920</td>
<td>8 893 233</td>
<td>(1 308 782)</td>
<td>(5 705 706)</td>
<td>(5 248 101)</td>
<td>25 038 956</td>
<td>25 127 411</td>
<td>24 985 924</td>
<td>24 579 526</td>
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<tr>
<td>Discount Rate and Factor</td>
<td>10%</td>
<td>0.91</td>
<td>0.83</td>
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<td>0.62</td>
<td>0.56</td>
<td>0.51</td>
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<tr>
<td>Annual Net Present Value</td>
<td>17 640 837</td>
<td>17 349 779</td>
<td>(983 307)</td>
<td>(3 897 074)</td>
<td>(3 258 658)</td>
<td>14 133 838</td>
<td>12 894 335</td>
<td>11 656 118</td>
<td>10 424 118</td>
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<td>Net Present Value</td>
<td>75 162 614</td>
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</table>
## Annexure C: Business Unit Net Present Value

### Business Unit

<table>
<thead>
<tr>
<th>Salary escalation</th>
<th>8%</th>
<th>8%</th>
<th>8%</th>
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<tr>
<td>Normal inflation</td>
<td>6%</td>
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<td>6%</td>
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### Tshwane Market Operating Budget and Actuals

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<td>Admin Expenditure</td>
<td>2 429 164</td>
<td>2 162 899</td>
<td>2 382 440</td>
<td>2 525 386</td>
<td>2 676 909</td>
<td>2 837 524</td>
<td>3 007 775</td>
<td>3 188 242</td>
<td>3 379 536</td>
<td>3 582 309</td>
<td>3 797 247</td>
<td>4 025 082</td>
<td>4 266 587</td>
</tr>
<tr>
<td>Capital Charges</td>
<td>6 911 413</td>
<td>6 615 320</td>
<td>6 767 101</td>
<td>7 173 127</td>
<td>7 603 514</td>
<td>8 059 725</td>
<td>8 543 309</td>
<td>9 055 907</td>
<td>9 599 262</td>
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<tr>
<td>General Expenditure</td>
<td>3 484 150</td>
<td>3 278 587</td>
<td>4 062 816</td>
<td>4 306 585</td>
<td>4 564 980</td>
<td>4 838 879</td>
<td>5 129 212</td>
<td>5 436 964</td>
<td>5 763 182</td>
<td>6 108 973</td>
<td>6 475 511</td>
<td>6 864 042</td>
<td>7 275 885</td>
</tr>
<tr>
<td>Municipal Rates &amp; Services</td>
<td>5 054 025</td>
<td>2 018 896</td>
<td>4 654 844</td>
<td>4 934 135</td>
<td>5 230 183</td>
<td>5 543 994</td>
<td>5 876 634</td>
<td>6 229 232</td>
<td>6 602 986</td>
<td>6 989 165</td>
<td>7 419 115</td>
<td>7 864 262</td>
<td>8 336 117</td>
</tr>
<tr>
<td>Raw &amp; Consumption Materials</td>
<td>423 953</td>
<td>441 706</td>
<td>481 561</td>
<td>510 455</td>
<td>541 082</td>
<td>573 547</td>
<td>607 960</td>
<td>644 437</td>
<td>683 104</td>
<td>724 090</td>
<td>767 535</td>
<td>813 587</td>
<td>862 402</td>
</tr>
<tr>
<td>Remuneration</td>
<td>38 304 223</td>
<td>40 704 740</td>
<td>45 176 019</td>
<td>48 790 100</td>
<td>52 693 308</td>
<td>56 908 773</td>
<td>61 461 475</td>
<td>66 378 393</td>
<td>71 688 664</td>
<td>77 423 757</td>
<td>83 617 658</td>
<td>90 307 070</td>
<td>97 531 636</td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>4 865 056</td>
<td>5 074 347</td>
<td>6 035 976</td>
<td>6 398 134</td>
<td>6 782 022</td>
<td>7 188 944</td>
<td>7 620 280</td>
<td>8 077 497</td>
<td>8 562 147</td>
<td>9 075 876</td>
<td>9 620 428</td>
<td>10 197 654</td>
<td>10 809 513</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>59 271 967</td>
<td>60 296 495</td>
<td>69 586 756</td>
<td>74 637 922</td>
<td>80 091 999</td>
<td>85 951 366</td>
<td>92 246 644</td>
<td>99 010 672</td>
<td>106 278 880</td>
<td>114 089 387</td>
<td>122 483 225</td>
<td>131 504 572</td>
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<tr>
<td><strong>Indirect Cost</strong></td>
<td>10%</td>
<td>5 927 199</td>
<td>6 029 649</td>
<td>6 956 076</td>
<td>7 463 792</td>
<td>8 009 200</td>
<td>8 595 139</td>
<td>9 224 664</td>
<td>9 901 067</td>
<td>10 627 888</td>
<td>11 408 939</td>
<td>12 248 322</td>
<td>13 150 457</td>
</tr>
<tr>
<td><strong>Total Expenditure after Contribution</strong></td>
<td>65 199 156</td>
<td>66 326 144</td>
<td>76 515 832</td>
<td>82 101 714</td>
<td>86 101 199</td>
<td>94 546 524</td>
<td>101 471 309</td>
<td>108 911 739</td>
<td>116 906 769</td>
<td>125 498 325</td>
<td>134 731 547</td>
<td>144 655 029</td>
<td>155 321 086</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>64 522 626</td>
<td>11 019 943</td>
<td>11 869 466</td>
<td>13 243 600</td>
<td>13 911 500</td>
<td>14 616 100</td>
<td>15 493 066</td>
<td>16 422 650</td>
<td>17 408 009</td>
<td>18 452 489</td>
<td>19 559 639</td>
<td>20 733 217</td>
<td>21 977 210</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>164 589 885</td>
<td>112 208 900</td>
<td>121 286 346</td>
<td>130 758 055</td>
<td>137 128 400</td>
<td>144 370 115</td>
<td>153 032 322</td>
<td>162 214 261</td>
<td>171 947 117</td>
<td>182 263 944</td>
<td>193 199 781</td>
<td>204 791 767</td>
<td>217 079 273</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>43 319 900</td>
<td>45 882 756</td>
<td>44 769 514</td>
<td>48 656 341</td>
<td>49 025 201</td>
<td>49 823 591</td>
<td>51 561 013</td>
<td>53 302 522</td>
<td>55 040 348</td>
<td>56 765 619</td>
<td>58 468 233</td>
<td>60 136 739</td>
<td>61 758 187</td>
</tr>
<tr>
<td><strong>Total Revenue after capital</strong></td>
<td>43 319 900</td>
<td>45 882 756</td>
<td>44 769 514</td>
<td>48 656 341</td>
<td>49 025 201</td>
<td>49 823 591</td>
<td>51 561 013</td>
<td>53 302 522</td>
<td>55 040 348</td>
<td>56 765 619</td>
<td>58 468 233</td>
<td>60 136 739</td>
<td>61 758 187</td>
</tr>
<tr>
<td><strong>Discount Rate</strong></td>
<td>10%</td>
<td>0.91</td>
<td>0.83</td>
<td>0.75</td>
<td>0.68</td>
<td>0.62</td>
<td>0.56</td>
<td>0.51</td>
<td>0.47</td>
<td>0.42</td>
<td>0.39</td>
<td></td>
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<tr>
<td><strong>Net Present Value</strong></td>
<td>129 550 811</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

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Annexure D: Draft Letter to Organised Labour

DATE

The Chairperson
IMATU/SAMWU
Postal Address

Sir/Madam

Investigation in Accordance with Chapter 8 of the Municipal Systems Act into an Alternative Service Delivery Mechanism for the Tshwane Fresh Produce Market

Fresh Produce Markets play a role in stimulating local and regional economic development and bolstering food safety and security.

The National Agricultural Marketing Council’s Section 7 investigation into Fresh Produce Markets, confirms that since 1996, very little volume growth has occurred in National Fresh Produce Markets (NFPMs) throughput, despite substantial growth in overall fresh produce production. NFPMs are losing market share in the fresh produce sector as a result of commercialisation and direct marketing. Improved logistics and electronic systems resulting in easier market access to more direct off-takers and the changing nature of the wholesale function of the markets has resulted in direct delivery of fresh produce to a growing retail and wholesale sector, resulting in relatively reduced procurement through NFPMs.

While most of the NFPMs remain in the hands of the Municipalities, there has been an increased movement towards some form of separation of ownership and management in order to allow increased adaptability to sector trends.

As a result, NFPMs need to be restructured to enable them to adjust quickly and decisively to market changes and requirements.
Consequently, the City of Tshwane made a Mayoral Committee Resolution on 19 July 2012 which endorsed the commencement of a Local Government: Municipal Systems Act No. 32 of 2000 (Municipal Systems Act) Section 78 Assessment and that Consultants should be appointed to assist in this regard to investigate alternative service delivery mechanisms for the Tshwane Fresh Produce Market (hereafter referred to as the Tshwane Market).

Why a Municipal System Act Section 78 assessment is required to investigate alternative service delivery options for the Tshwane Market.

A Market is listed in the Constitution as a Schedule 5 Part B Local Government function. Any change to the service delivery mechanism in the provision of municipal services is subject to the requirements of Chapter 8 of the Municipal System Act.

Section 77 of the Municipal Systems Act sets out the occasions where a municipality must review and decide on mechanisms to provide “municipal services” where such “municipal service” is provided through an internal mechanism or an external mechanism. Section 77 states that a

“municipality must review and decide on the appropriate mechanism to provide a municipal service in the municipality or a part of the municipality...in the case of a municipal service provided through an internal mechanism contemplated in section 76, when...an existing municipal service is to be significantly upgraded, extended or improved”

The City of Tshwane Integrated Development Plan and the recently completed Tshwane Market Master Plan has identified upgrading and extension work to be done at the Tshwane Market including substantial upgrading and improvement of Tshwane Market infrastructure to make provision for accelerated economic growth and essential food safety and health standards compliance. In addition, NFPM trends, as defined by the National Agricultural Marketing Council, point towards the need to implement separation of ownership and management of NFPMs in general in order to render them more competitive and economically viable.
Due to the above, and the Mayoral Committee decision by the City of Tshwane, a Section 78 assessment comes into effect, which proceeds as follows:

The municipality must first consider whether there is appropriate internal mechanism for delivering the service (the Municipal System Act Section 76(a) internal service delivery mechanism provisions). The mechanism must be assessed in terms of the provisions of Section 78(1) of the Municipal System Act.

Further, the Municipal System Act, in section 73 (2) states that municipal services must be

(a) equitable and accessible;

(b) provided in a manner that is conducive to:

   (i) the prudent, economic, efficient and effective use of available resources; and

   (ii) the improvement of standards of quality over time;

(c) financially sustainable;

(d) environmentally sustainable; and

(e) regularly reviewed with a view to upgrading, extension and improvement.

Thus the Municipal System Act Section 78(1) assessment must also consider the internal mechanisms for compliance with the above requirements.

As part of the review, the Municipality must consider the views of organised labour. The purpose of this letter is therefore to request your views as provided for in Section 78(1)(a)(v) of the Municipal System Act. In view of the urgency and importance of the matter, you are requested to provide your views within two (2) weeks of the date of this letter to the undersigned by registered post and fax a copy to [FAX NUMBER] marked for attention [NAME].
After the Municipal System Act Section 78(1) assessment is completed, a report will be submitted to the Municipal Manager and/or Council and Municipal System Act Section 78(3) assessment may follow, depending on the outcome of a possible decision to do so in terms of Section 78(2)(b) of the Municipal System Act. The Municipal System Act Section 78(3) assessment, if mandated, will consider the most appropriate external mechanism to deliver the Tshwane Market service.

This letter also serves to provide you with pre-notification that you may be requested to provide your views in terms of Section 78(3)(b)(v) of the Municipal System Act. However, this request will be made formally only if the Municipal Manager or Council mandates the Municipal Systems Act section 78(3) assessments.

Your urgent attention to this request will be appreciated and we look forward to receiving written feedback from you within 14 (fourteen) days of this letter. Should you require further information, please contact [NAME] in my office.

Yours faithfully

-------------------

NAME
MUNICIPAL MANAGER
/lc
Copy: NAME
CONTACT NUMBERS
2. Annexure E: Municipal Systems Act Section 78 Flow Chart

**MSA Section 78(1)**
- [date] Tshwane Market receives MSA Section 78(1) report.
- [date] Present report to top management.
- [date] Presentation of report to Council.
- [date] Council approves report for distribution to labour.
- [date] Distribute letter to Local Labour Forum for comment on MSA Section 78(1) report.
- [date] Allow for two weeks Receive labour views (if any).

**MSA Section 78(2)**
- [date] Submit final MSA Section 78(1) report to Council for MSA Section 78(2) decision.
- [date] Council approves internal service delivery mechanism (process stops) or Council advises to explore external service delivery mechanisms in terms of Section 78(3) of the MSA before it takes a final decision of the appropriate service delivery mechanism.
- [date] If an external service delivery mechanism is to be explored the process proceeds to a MSA Section 78(3) assessment.
- [date] Council approves communication to community advising that Tshwane is exploring external service delivery mechanisms for rendering the Tshwane Market function.

**MSA Section 78(3)**
- [date] Tshwane gives notice to the local community advising that Tshwane is exploring external service delivery mechanisms for rendering the Tshwane Market function.
- [date] Commence with MSA Section 78(3) assessment (including feasibility study).
- [date] Tshwane Market receives MSA Section 78(3) report (including feasibility study).
- [date] Present report to top management.
- [date] Presentation of report to Council.
- [date] Council approves report for distribution to labour and for community views.
- [date] Distribute letter to Local Labour Forum for comment on MSA Section 78(1) report.
- [date] Obtain views of community through advertisements as stipulated in Section 21 of the MSA.
- [date] Allow for two weeks Receive labour views (if any) and community views (if any).
- [date] Work labour views (if any) and community views (if any) into Report.

**MSA Section 78(4)**
- [date] Submit final MSA Section 78(3) report (including MSA Section 78(3)(c) feasibility) to Council for MSA Section 78(4) decision.
- [date] Council decides on internal (process stops) or external service delivery mechanism.
- [date] If external service delivery mechanism is approved, proceed to MFMA Section 84 assessment.
Annexure F: Draft Municipal Systems Act Section 78(3) Advertisement

CITY OF TSHWANE

NOTICE IN TERMS OF SECTION 78(3) OF THE LOCAL GOVERNMENT: MUNICIPAL SYSTEMS ACT (NO. 32 OF 2000) (Municipal Systems Act)

Fresh Produce Markets play a role in stimulating local and regional economic development and bolstering food safety and security.

The National Agricultural Marketing Council's Section 7 investigation into Fresh Produce Markets, confirms that since 1996, very little volume growth has occurred in National Fresh Produce Markets (NFPMs) throughput, despite substantial growth in overall fresh produce production. NFPMs are losing market share in the fresh produce sector as a result of commercialisation and direct marketing. Improved logistics and electronic systems resulting in easier market access to more direct off-takers and the changing nature of the wholesale function of the markets has resulted in direct delivery of fresh produce to a growing retail and wholesale sector, resulting in relatively reduced procurement through NFPMs.

While most of the NFPMs remain in the hands of the Municipalities, there has been an increased movement towards some form of separation of ownership and management in order to allow increased adaptability to sector trends.

As a result, NFPMs need to be restructured to enable them to adjust quickly and decisively to market changes and requirements.

Consequently, the City of Tshwane made a Mayoral Committee Resolution on 19 July 2012 which endorsed the commencement of a Local Government: Municipal Systems Act No. 32 of 2000 (Municipal Systems Act) Section 78 assessment and that Consultants should be appointed to assist in
this regard to investigate alternative service delivery mechanisms for the Tshwane Fresh Produce Market (hereafter referred to as the Tshwane Market).

The Municipal Systems Act provides that a “municipal service”, such as the Tshwane Market, may be provided by an internal (i.e. by the municipality) or an external (examples of external mechanisms are listed below) mechanism. Before deciding on the most appropriate mechanism, either internal or external, the Municipality must assess the internal mechanism. This assessment has been completed, and the Council of the Municipality has decided that the possibility of providing the fresh produce market service externally, as provided for in Section 78(3) of the Municipal Systems Act, should be explored as well.

Section 78(3) of the Municipal Systems Act provides that a “municipal service” may be provided in the Municipality’s area or part of its area inter alia through an external mechanism by entering into a service delivery agreement with a municipal entity, another municipality, an organ of state, a community-based organisation (CBO) or a non-governmental organisation (NGO) that is legally competent to enter into such an agreement; or any other institution, entity or person legally competent to operate a business activity.

This notice therefore serves to notify the local community of the Municipality's intention to explore the provision of the fresh produce market service through an external mechanism, as required by section 78(3)(a) of the Municipal Systems Act, and to solicit the views, comments and representations of the local community as required by the said legislation.

MUNICIPAL MANAGER
(Notice No. [XXX] of 2013)
[day] [Month] 2013
Environmental Management Service Department
Fresh Produce Market Division

Market Management Building | 450 President Burgers Street | Pretoria West |
PO Box 266 | Pretoria | 0001
Tel: 012 358 2398 | Fax: 012 358 2301
Email: patrickmp@tshwane.gov.za | www.tshwane.gov.za | www.facebook.com/CityOfTshwane

My ref: 
Your ref: 
Contact person: Shelboy Sedutia

Division/Section/Unit: Fresh Produce Market

Date: 20 May 2014

TO: Mr Nkheteni Muthavhi: Regional Chairperson: SAMWU
Cc Hlase Molapo
    Albert Masemola
    Mpho Tladinyane
    Anna Ntuli

REQUEST TO PROVIDE YOUR VIEWS OF ORGANIZED LABOUR ON THE FRESH PRODUCE MARKET REPORT IN TERMS OF SECTION 78(1)(a)(v) OF MUNICIPAL SYSTEM ACT

In terms of Mayoral Committee resolution 19 July 2012, approval was granted to commence section 78 investigations as prescribed by Municipal Systems Act into an alternative service delivery mechanism for the Tshwane Fresh produce Market.

It is with concern that despite numerous occasions in which this matter was tabled for discussion in various structures namely Local Labour Forum and recently Workplace and Services Restructuring Committee, the matter is not receiving attention due to unavailability of constituent members of the committees. To demonstrate these we would like to draw your attention to the following scheduled meetings that failed to pronounce on the matter for various reasons:

Kgoro ya Tsolo ya Tikologo • Departement Ongewingsbestuur • Lefapha la Tsomo ya Tikologo
Ndawo yo Makambano yo uwa Mbangolo • Umgeni Wenzukuphathwa Kwenzelo
Environmental Management Department
1. Local Labour Forum Meeting
   Date: 7 March 2014
   Meeting did not sit due to unavailability of minutes or that the minutes of
   previous meetings were not ready for adaption. The above matter could not be
   tabled as a consequence.

2. Local Labour Forum Meeting
   Date: 19 March 2014
   The above matter could not as such receive any attention. The above matter
   was referred summarily to Work Place and Services Restructuring Committee.

3. Work Place and Services Restructuring Committee meeting
   Date: 15 April 2014
   We were informed by the Secretariat on the morning of the day of the meeting
   that the meeting is cancelled because constituent members could not form a
   quorum.

4. Work Place and Services Restructuring Committee meeting
   Date: 20 April 2014
   We were informed by the Secretariat at the venue that the meeting is cancelled
   because constituent members could not form a quorum.

These are but a few instances in which we interacted with the Secretariat excluding all other
emails and telephonic conversations to try and get set date for organized labor to deliberate on
the matter.

This letter therefore serves as a final request for your views as provided for in Section 78(1) (a)
(v) of Municipal Systems Act. In view of the urgency and importance of the matter, you are
requested to provide your views by 26 May 2014.

We further record that if your inputs are not received by close of business of the date above the
department will have no choice but to table the report at Council without your inputs.

Please refer to the attached report.

Kind Regards

Patrick Mphahlele
EXECUTIVE DIRECTOR: FRESH PRODUCE MARKET

On request, this document can be provided in another official language.
Environmental Management Service Department
Fresh Produce Market Division

Market Management Building | 450 President Burgers Street | Pretoria West |
PO Box 266 | Pretoria | 0001
Tel: 012 358 2398 | Fax: 012 358 2301
Email: patrickmp@tshwane.gov.za | www.tshwane.gov.za | www.facebook.com/CityOfTshwane

My ref: 
Your ref: 
Contact person: Shelboy Sedutla
Division/Section/Unit: Fresh Produce Market

Tel: 012 358-1102/2335/2398
Fax: 012 3582301
Email: mahloraS@tshwane.gov.za
Date: 20 May 2014

TO: Mr Rudy de Bruin: Regional Manager IMATU
Cc Hlase Molapo
Albert Masemola

REQUEST TO PROVIDE YOUR VIEWS OF ORGANIZED LABOUR ON THE FRESH PRODUCE MARKET REPORT IN TERMS OF SECTION 78(1)(a)(v) OF MUNICIPAL SYSTEM ACT

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   Date: 20 April 2014
   We were informed by the Secretariat at the venue that the meeting is cancelled because constituent members could not form a quorum.

These are but a few instances in which we interacted with the Secretariat excluding all other emails and telephonic conversations to try and get set date for organized labor to deliberate on the matter.

This letter therefore serves as a final request for your views as provided for in Section 78(1) (a) (v) of Municipal Systems Act. In view of the urgency and importance of the matter, you are requested to provide your views by 28 May/2014.

We further record that if your inputs are not received by close of business of the date above the department will have no choice but to table the report at Council without your inputs.

Please refer to the attached report.

Kind Regards

Patrick Mphahlele
EXECUTIVE DIRECTOR: FRESH PRODUCE MARKET

On request, this document can be provided in another official language.