REPORT OF THE MINISTERIAL INTERIM COMMITTEE ON THE RESTRUCTURING OF FRESH PRODUCE MARKETS IN SOUTH AFRICA

SEPTEMBER 2009
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To: The Honourable Ms. Tina Joemat-Pettersson, MP
Minister of Agriculture, Forestry and Fisheries

We, the undersigned, appointed by your predecessor, Ms. Lulu Xingwana, on 12 December 2008 as members of the Ministerial Interim Committee, have the honour of submitting our report with recommendations as requested.
Restructuring of Fresh Produce Markets in South Africa

Signed on this day 28 September 2009 in Pretoria

Mr. André Young
Chairperson

Ms. Jean Davidson
Member

Mr. Johan Kruger
Member

Mr. Trevor Steyn
Member

Mr. Kgosientso Ramokgopa
Member

Dr. Julie Dyer
Member

Ms. Ntombi Msimang
Member

Dr. Sam Motsuenyane
Member

Ms. Zodwa Moya
Member

Ms. Makgoro Mannya
Member

Mr. Tshepo Khasi
Member

Ms. Ntomvu Meya
Member
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# Glossary of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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</thead>
<tbody>
<tr>
<td>APAC</td>
<td>Agricultural Produce Agents Council</td>
</tr>
<tr>
<td>ARC</td>
<td>Agricultural Research Council</td>
</tr>
<tr>
<td>BBBEE</td>
<td>Broad Based Black Economic Empowerment</td>
</tr>
<tr>
<td>CSI</td>
<td>Corporate Social Investment</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>DAFF</td>
<td>Department of Agriculture, Forestry and Fisheries</td>
</tr>
<tr>
<td>DCGTA</td>
<td>Department of Cooperative Governance and Traditional Affairs</td>
</tr>
<tr>
<td>DTI</td>
<td>Department of Trade and Industry</td>
</tr>
<tr>
<td>FPMDA</td>
<td>Fresh Produce Markets Development Agency</td>
</tr>
<tr>
<td>GLOBALGAP</td>
<td>Global Good Agricultural Practices</td>
</tr>
<tr>
<td>HACCP</td>
<td>Hazardous Analysis of Critical Control Points</td>
</tr>
<tr>
<td>IMSA</td>
<td>Institute of Market Masters of South Africa</td>
</tr>
<tr>
<td>MIC</td>
<td>Ministerial Interim Committee</td>
</tr>
<tr>
<td>MP</td>
<td>Member of Parliament</td>
</tr>
<tr>
<td>MSA</td>
<td>Municipal Systems Act, Act No 32 of 2000</td>
</tr>
<tr>
<td>NAMC</td>
<td>National Agricultural Marketing Council</td>
</tr>
<tr>
<td>NFPDs</td>
<td>National Fresh Produce Markets</td>
</tr>
<tr>
<td>PPECB</td>
<td>Perishable Produce Export Control Board</td>
</tr>
<tr>
<td>RSA</td>
<td>Republic of South Africa</td>
</tr>
<tr>
<td>SETA</td>
<td>Sector Education Training Authority</td>
</tr>
<tr>
<td>SMME</td>
<td>Small, Medium and Micro Enterprise</td>
</tr>
<tr>
<td>SLA</td>
<td>Service Level Agreement</td>
</tr>
<tr>
<td>DoA</td>
<td>Department of Agriculture</td>
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</table>
ACKNOWLEDGEMENTS

The Ministerial Interim Committee (MIC) wishes to express its appreciation to all individuals that contributed to its deliberations and for the manner in which the committee approached the difficult task of reaching agreement. A special word of thanks is due to Mr. Billy Morokolo, Director: Marketing in the Department of Agriculture, Forestry and Fisheries (DAFF) and his team (Mr. Madime Mokoena, Mr. Stanford Manthata and Mr. Mogala Mambolo) for the logistical support provided to the committee. Thanks are also extended to Mr Tshepo Khasi of the Department of Cooperative Governance and Traditional Affairs, and Mr Strover Maganedisa of the National Treasury.

The MIC further extends its appreciation to the initial Section 7 Committee as well as the National Agricultural Marketing Council for their work and report as well as the stakeholders who participated in that process.
EXECUTIVE SUMMARY

The establishment and appointment of the Ministerial Interim Committee (MIC) follows the National Agricultural Marketing Council’s (NAMC) Section 7 report to the erstwhile Minister of Agriculture and Land Affairs, which made specific recommendations on the restructuring of National Fresh Produce Markets (NFPMs) in South Africa.

The primary task of the MIC is to advise the Minister of Agriculture, Forestry and Fisheries on clarifying the programme for implementation of the NAMC’s Section 7 Committee recommendations. The MIC approached the task by being informed of the NAMC’s Section 7 report and other subsequent documents such as the National Fresh Produce Development Agency report, Global trends in fresh produce markets, legal opinion on application of local government legislation to the restructuring of fresh produce markets, and Satellite and N2 markets.

The MIC in essence found that there is a general decline of the NFPMs in terms of growth in market share and infrastructure. The MIC proposes that the Minister of Agriculture, Forestry and Fisheries establish a Fresh Produce Market Development Agency (FPMDA) for the purpose of transforming, coordinating, regulating, marketing, enhancing access and improving the functioning of NFPMs. The MIC further endorses the recommendation that there be a separation of ownership and management of NFPMs and the preferred model is the municipal entity/corporate model. It recommends that a moratorium be placed on Local Authorities in respect of any planned privatization or other ownership and management models currently being considered.

In terms of legal framework, the MIC’s recommendation is that the formation of a FPMDA be given priority and that legislation be enacted to give effect to this. In addition it recommends certain amendments to the Agricultural Produce Agents Act and makes comment on the need for standardization of the Municipal Bylaws under which Markets currently operate.

The MIC strongly recommends that certain system weaknesses currently facing the commission system should be addressed through the FPMDA.

The themes of increasing market access and transformation are integral to all recommendations, and run through all sections of the report. The committee recommends specifically that a comprehensive sectoral quota for market agents be introduced. Furthermore, the MIC proposed various measures that will assist in achieving suitable levels of representivity.
Those measures include the introduction of a transformation scorecard system and its monitoring by the FPMDA.

In terms of infrastructure development, the FPMDA should develop a plan on upgrading and improving infrastructure taking into consideration local and regional needs. Furthermore, the FPMDA should submit a motivation to National Treasury to allocate a substantial amount of investment for the NFPMs infrastructure development.

The MIC made certain recommendations on how the envisaged FPMDA should be established and how it should function. Furthermore, the MIC made additional recommendations on how the NFPMs should be restructured in line with the broad transformation experienced by other industries.

This proposal of a FPMDA with its focus on repositioning the fresh produce sector and aligning it to the current commercial environment, coordinating the marketing of fresh produce both domestically and internationally, and streamlining and transforming the marketing, regulatory and developmental activities within the broader fresh produce industry, will stand this industry in good stead and bring it closer to best practices.
1. BACKGROUND AND INTRODUCTION

Historically, the marketing of fresh agricultural produce in South Africa has been mainly done through National Fresh Produce Markets (NFPMs). Some of these marketing institutions were established many years ago and have since undergone little substantive change in line with the macro-economic and industry reforms currently taking place in South Africa.

NFPMs are an integral, although diminishing, part of the price-making, distribution and marketing of fresh produce in South Africa. Since deregulation, very little volume growth has occurred on the NFPMs. However, over the same period, overall production of fresh produce has increased. National production figures for potatoes show that NFPMs have steadily lost market share since 1996/97. However, the most significant market share loss for NFPMs has occurred in the fruit sector.

The performance of NFPMs relative to the production growth in the agricultural sector indicates that NFPMs are finding it difficult to grow their operations and respond to the challenges of a deregulated agricultural sector. Throughputs of most of the smaller NFPMs indicate downward trends.

It is against this background that the NAMC was requested by the erstwhile Minister of Agriculture and Land Affairs in 2006 to investigate the fresh produce marketing system in South Africa and to make recommendations to her on how these markets should be restructured in order to address these challenges. The investigation had to consider the following:

- Concerns regarding the apparent slow pace of transformation of the NFPMs;
- Market access problems highlighted by black producers and buyers;
- Concerns regarding the apparent declining competitiveness and efficiency of NFPMs (as a marketing channel) in the light of their important role in providing a service to low-income consumers and the informal sector; providing a service to consumers, producers and other stakeholders; and food security and safety.

The NAMC’s Section 7 Committee (established in terms of Section 7 of the Marketing of Agricultural Products Act, Act 47 of 1996) discovered
that the majority of role players within the industry are of the view that the NFPMs need to be restructured in line with the broad transformation agenda set by the government.

The NAMC’s Section 7 Committee report was presented at a workshop with stakeholders in November 2006 where it enjoyed the full support of the broader fresh produce industry. It was agreed at that consultative workshop that an Interim Committee should be established to assist the DAFF in implementing the recommendations and that stakeholders should be represented on such a committee. The NAMC’s Section 7 Committee submitted their report to the Minister with recommendations in February 2007.

The objective of the MIC is to assist the DAFF in unpacking the recommendations of the Section 7 Committee in preparation for implementation. The MIC was comprised of the following individuals:

- Mr. André Young – Durban Fresh Produce Market, APAC and NAMC;
- Mr. Kgosientso Ramokgopa – Johannesburg Fresh Produce Market and IMSA;
- Mr. Johan Kruger – Port Elizabeth Fresh Produce Market and IMSA;
- Dr. Julie Dyer – Pietermaritzburg Fresh Produce Market and IMSA;
- Ms. Jean Davidson – ARC and Farmer;
- Ms. Makgoro Mannya – NAMC, PPECB and Farmer;
- Ms. Ntombi Msimang – NAMC and Farmer;
- Ms. Zodwa Moya – Farmer;
- Ms. Nomvula Maya – Farmer;
- Dr. Sam Motsuenyane – Farmer;
- Mr. Tshepo Khasi – Director: DCGTA;
- Mr. Trevor Steyn – Consultant and member of the previous NAMC’s Section 7 Committee.
2. TERMS OF REFERENCE

The following Terms of Reference formed the basis of the task at hand for the MIC:

2.1. Unpack all the recommendations from the NAMC’s Section 7 Committee report with regard to the following:

- **Ownership and management**
  - Explore the legal framework on the ownership and management of NFPMs;
  - Explore various options on ownership and management models as proposed by the section 7 committee report.

- **Legal framework**
  - Market by-laws
    - All prevailing by-laws relating to markets;
    - Explore possibility of more relevant/single set of by-laws;
    - Present draft report on the set of by-laws.

- **Agricultural Produce Agents Act**
  - Review of the APA Act with emphasis on the structure and representation on the APAC and its committees and also enforcement mechanisms;
  - Explore the possibility of having the APAC serve as the fresh produce development agency.

- **The Commission versus Wholesale systems**
  Assess both systems by identifying the advantages and disadvantages. The preferred system(s) should be tested against the proposed legal framework and best practice.
• **Transformation**

Explore creative ways of increasing market access by the previously disadvantaged groups.

• **Infrastructure**

Suggest creative ways of dealing with infrastructural backlogs in the markets. The committee should take into consideration the background to the investigation and recommendations of the NAMC’s Section 7 Committee.

### 2.2. Review the proposal on the model of a FPMDA

Assess various options on the model of a FPMDA. The MIC should decide and advise on the best model that can be adopted for the fresh produce markets in South Africa.

### 3. PROCESS

The MIC met on four occasions between 24 February 2009 and 24 August 2009. Three task teams of the MIC were formed and each met on average, twice between the said periods. The subcommittees formed were based on the following three key areas:

• Infrastructure, ownership and management (Co-ordinator: Trevor Steyn);

• Commission vs. Wholesale systems, market access and transformation (Co-ordinator: Kgosientso Ramokgopa);

• Legal framework (Co-ordinator: Johan Kruger).

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*Restructuring of Fresh Produce Markets in South Africa*
### Table 1: Schedule of MIC and sub-committee meetings

<table>
<thead>
<tr>
<th>Date</th>
<th>Main purpose of meeting</th>
</tr>
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<tbody>
<tr>
<td>24 February 2009</td>
<td>MIC agreed on the terms of reference and program of action. MIC received the documents for review and assessment.</td>
</tr>
</tbody>
</table>
| 16 – 17 March 2009 | MIC deliberated on the reports from the first meeting and made recommendations on the following:  
- Separation of ownership and management of markets  
- Infrastructural development  
- Review of both the commission and wholesale system and that the proposal should be tested against legal framework  
- Market access and transformation  
- The legal framework with particular reference to  
  - All prevailing by-laws relating to markets  
  - Explore possibility of more relevant/single set of by-laws  
  Explored the legal framework necessary to establish a FPMDA and to regulate markets. |
| 08 April 2009      | The infrastructure, ownership and management task team discussed the best model of ownership and management, and recommended an infrastructural development plan for the markets.                                               |
| 14 April 2009      | The legal framework task team discussed and prepared a report on the necessary legal framework for the establishment of the FPMDA as well as the market by-laws.                                                                          |
| 15 April 2009      | The commission vs. wholesale system, market access and transformation task team discussed the best model between wholesale and commission systems and recommended market access and transformation plans for the markets.                       |
| 05 May 2009        | The infrastructure, ownership and management task team finalized a report on the best model of ownership and management as well as an infrastructure development plan for the markets.                                        |
| 21 May 2009        | The commission vs. wholesale system, market access and transformation system task team finalized a report on the best model between wholesale and commission systems as well as market access and transformation plan for the markets.           |
| 09 -10 June 2009   | Task teams (infrastructure, ownership and management, legal framework as well as commission vs. wholesale system, market access and transformation) presented their findings to the plenary.                                          |
| 01 July 2009       | The chairperson, deputy chairperson and task team coordinators discussed and prepared a draft report.                                                                                                                  |
| 26 August 2009     | Finalisation of the report.                                                                                                                                                                                            |
| September 2009     | Present final report to the Minister of Agriculture, Forestry and Fisheries.                                                                                                                                             |
| October 2009 – date to be determined | Update industry organizations on progress.                                                                                                                                                                                      |
4. RECOMMENDATIONS

4.1. Ownership and Management

The MIC identified facilitation of economic activity, poverty alleviation, capacity building, transparency, decision making process, food security, transformation, accountability, food safety and market access as key principles for market development. A model that will be chosen should support most, if not all, of these principles.

Ownership and management models as outlined in the NAMC’s Section 7 report were unpacked by the MIC members and evaluated with reference to the national objectives for the NFPMs.

Model 1: Local Authority Department or Business unit

This is an internal service delivery mechanism and is the most common institutional mechanism used by municipalities to provide the fresh produce market function.

While this model meets the requirements of local accessibility and oversight, and supports implementation of other government imperatives such as transformation and promotion of emerging businesses, it subjects markets to the full range of local government policies, procedures, processes and committees. This impedes decision making, particularly with respect to procurement and development. The MFMA and municipal processes do not lend themselves to a business, income-generating, competitive environment. While surpluses are retained in the local area they are not specific to the market, with reinvestment in the business, but are rather often diverted to fund other local authority priorities. It was agreed that this model will not be suitable for the future development of the NFPMs.

Model 2: Private entity

This option entails selling the business operation without attempting to first improve the business. The option further entails leasing of property to future operator(s) or other tenant(s) as part of a separate contractual arrangement. An example of this model is the Cape Town Fresh Produce Market.

This model enhances the ability of market management to operate in a business-like manner, with rapid decision making and efficient
processes. Management is locally accessible, although not locally accountable.

However observation has shown that there tends to be a lack of corporate social investment, little investment in infrastructure, and no support for emerging farmers and buyers. The model lacks government oversight or involvement, and the market operations cannot be influenced to meet any other national objectives. The need for access to nutritious food by the local population is unlikely to be a priority concern in a pure business model.

**Model 3: National entity model**

In this model the business of the NFPM is transferred to a national entity. There are several international models for this as outlined in the FPMDA proposal document. A national entity would hence first have to be created. The municipalities are rewarded for the assets transferred in terms of a predetermined valuation formula.

A parastatal structure would allow for national developmental, social and empowerment objectives to be incorporated. It would facilitate standardization of processes. Profits would be removed from the local level, but retained within the national market system.

However, this model would require changes to the constitution which clearly places the responsibility for markets at local authority level. This option would also remove local involvement, responsiveness and accountability. Local accessibility to decision makers is removed, as management would be reporting to a distant structure. With a new parastatal organization created, it has the potential to become bureaucratic with delayed decision making.

**Model 4: Municipal entity/corporate body**

This model has a local government business enterprise with a Board of Directors. The only market currently operating under this model is the Johannesburg Fresh Produce Market. It is established in terms of national legislation, fully or substantially funded either from the Municipal Revenue Fund, or by way of a tax, levy or other money imposed in terms of legislation. It is owned by the municipality, who are the majority shareholders, and the CEO is accountable to the Board of Directors.
While still subject to the MFMA, the model frees the NFPMs from the constraints of many local authority internal bureaucratic processes. Decision making is enhanced and it allows a more competitive and rapidly responsive business model. Both management and the board are locally accessible to market users. It facilitates the retention of profits/surpluses to reinvest locally in the market. It has the potential for a strong Corporate Social Investment (CSI) component due to the oversight role played by the local authority. It can remain subject to government influence in terms of certain developmental objectives towards emerging farmers, small buyers, Broad Based Black Economic Empowerment (BBBEE) and food distribution.

The guiding principles informing the choice of ownership and management model for NFPMs are summarized in Table 2.

**Table 2: Guiding principles for Ownership and Management Model**

<table>
<thead>
<tr>
<th>Guiding principles</th>
<th>Ownership &amp; Management Models</th>
<th>Local Authority Department or Business unit</th>
<th>Private entity</th>
<th>National entity</th>
<th>Municipal entity / corporate body</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilitation of economic activity</td>
<td>X</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Poverty alleviation</td>
<td>√</td>
<td>X</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Capacity building</td>
<td>√</td>
<td>X</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Transparency</td>
<td>X</td>
<td>X</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Food safety</td>
<td>X</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Food security</td>
<td>√</td>
<td>X</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Decision making process</td>
<td>X</td>
<td>√</td>
<td>X</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Transformation</td>
<td>√</td>
<td>X</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Market access</td>
<td>√</td>
<td>X</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Accountability</td>
<td>√</td>
<td>X</td>
<td>X</td>
<td></td>
<td>√</td>
</tr>
</tbody>
</table>

√ Sufficiently supports the principle
X Insufficient potential to support the principle
In arriving at its recommendation, the MIC employed the guiding principles summarized in Table 2 to compare the various ownership and management models. The municipal entity/corporate body model was considered to have the highest potential to be successful.

In respect of ownership and management, the MIC therefore

**RECOMMENDS**

That ownership and management of NFPMs be separated, and that the municipal entity/corporate model is the preferred model.

It was also noted that some local authorities are already engaging in processes that could lead to the privatization of their municipal markets. In the light of this the MIC also

**RECOMMENDS**

That the DAFF, in consultation with the Department of Cooperative Governance and Traditional Affairs (DCGTA), sends out a communiqué to municipalities advising them of the national proposals in respect of NFPMs, and imposing a moratorium on all processes that will lead to privatization of NFPMs.

### 4.2 Legal framework

In terms of the Constitution of South Africa, the administration and management of NFPMs is a function of local authorities or municipalities. This means their administration is subject to municipal legislation such as the MSA and MFMA. Each municipality also crafts its own by-laws leading to a situation of inconsistency between markets. Agents on NFPMs are governed by the APA Act, which is administered by the DAFF, and is specific to Agents.

#### 4.2.1 Market By-laws

There are a range of market municipal by-laws which apply to all the NFPMs. The majority of these by-laws are outdated and they vary from municipality to municipality.
The different by-laws tend to address the same issues, albeit in a different manner. They address issues such as definitions, market days and hours of operation, risk of profit and loss, control, packing, stacking and display, cold storage and ripening, general storage, abandoned agricultural produce, produce unfit for human consumption, licensing and conduct of market agents and their employees, lapse and withdrawal of a market agent’s or salespersons licence, procedures for floor sales, powers of the Market and City Manager, sales to employees, fees, appeals, indemnification from liability, offences and penalties as well as repeal of the market by-laws.

The MIC fully supports the recommendations from the Section 7 report on the establishment of a national entity to oversee all NFPMs in the country and therefore at this stage will not consider redrafting any market by-laws as this shall be one of the roles of the proposed new entity. There should be national legislation developed for markets with a provision for local authorities to form their own bylaws as long as there is no contradiction with such legislation.

4.2.2 Agricultural Produce Agents Act

The MIC supports the creation of the proposed new national market development entity, but considers that it is not prudent to amend or use the Agricultural Produce Agents Act for this purpose due to the diversity of roles fulfilled by NFPMs. The MIC proposes the enactment of new legislation to establish the new national entity. The MIC also considered the section of the Agricultural Produce Agents Act dealing with fresh produce agents and resolved that such sections need to be amended and collapsed into the proposed new legislation that will establish the entity.

Issues related to market agents that need to be reviewed and/or strengthened include:

- Market management should be able to pay producers directly where producers so prefer;

- There should be a legal provision to provide for an objective overseeing and auditing of the activities of market agents;

- The code of conduct for market agents should be reviewed and provided with monitoring mechanisms;
• Market agents should not be allowed to operate just outside or in the same vicinity as the market(s) they are established on, in the process competing with the market;

• Market agents from time to time alter the commission rate charged to medium and smaller producers (often in a subtle manner). This impedes market owners from increasing market dues (market commission). The commission structures should be reviewed against the back-drop of what the market agents contribute and invest in the market in which they operate. It is recommended that a statutory committee be established to consider market dues and agent commission rates, and to determine such rates against an established set of criteria. It is recommended that a ceiling be established for agents’ commission;

• Limited licensing periods for agents (a period not exceeding 3 years) should be introduced and enforced. This can be done by developing service protocols with producers. Renewal should be an option based on performance criteria embedded in Service Level Agreements (SLA) with the markets and record of compliance;

The MIC further

**RECOMMENDS**

That new legislation be enacted to enable the formation of a FPMDA and that new standardized by-laws be drafted thereafter.

The development of the new legislation that will give birth to the proposed entity should run parallel with an amendment of the Agricultural Produce Agents Act. Any overlaps that exist between the Agricultural Produce Agents Council and the proposed entity should be identified and properly placed.

Further detail on the proposed legislation is given below.

### 4.3 Commission versus Wholesale system

The MIC endorses the NAMC’s Section 7 Committee recommendation regarding the coexistence of the wholesale and the commission system. However it is recommended that a comprehensive study be undertaken before the introduction of the wholesale system to the same market floor.
takes place. The wholesale system could serve as a possible route for exports.

The MIC is also of the view that many of the challenges currently facing the commission system could be addressed through legislation. It is further recommended that the commission system be revised and strengthened within new legislation in the manner alluded to above, and expanded further below.

(i) Payment of proceeds to producers

Market owners operating NFPMs should be enabled to pay the proceeds from sale of produce directly to producers.

(ii) Extension of credit to buyers

Provision should be included for the option whereby credit extended to buyers by producers is managed by market owners.

(iii) Provision for the registration of Market Agents and their employees

The proposed new Act should provide for a system of licenses to be issued by the relevant market owner. The registration of sales persons and booking clerks is recommended to be conducted in a similar fashion to that of the market agency;

In particular it is recommended that the exact trading practice rules for booking clerks and sales persons be embodied in a sales permit system to be issued by the market owner. The rules in this regard are also to be linked to the code of conduct for agents and their staff.

(iv) Training of market agency staff

All agency staff should attend induction training presented by or for the market owner to familiarize the relevant staff with, *inter alia*, by-laws, notices/directives; accounting systems in use as well as new systems, trading skills and approaches and associated matters;

The agency should pay for such training and may, where applicable, recoup costs from the training levies (SETA).
4.4 Transformation and market access

The MIC notes the importance of addressing transformation on markets and market access. It further notes that, while Market authorities have reached acceptable levels in respect of market directors and operational staff from the target groups, transformation within market agencies based on NFPMs has been slow, with substantial work remaining to be done. The MIC therefore recommends that the proposed FPMDA drive the transformation process in order to achieve suitable levels of representivity in market agents’ ownership as well as in sales force levels.

The MIC

**RECOMMENDS**

- That a comprehensive sectoral quota be introduced for market agents;

- The training of black market agents should be facilitated with the aim to increase their participation on the trading floors of municipal fresh produce markets.

- There should be statutory training arrangements with the contribution of market agency owners towards such training and coaching (reclaimable in terms of the Skills Development Act.)

- Market agents should be required to develop individual agency transformation plans based on a scorecard approach, to include matters such as employment equity, shareholding, preferential procurement, social corporate investment and skills development. Progress in addressing these should be taken into account during the process of renewal of agency licenses.

The variation of the commission rate is also a tool which could be used to assist with market access by emerging farmers, and to support emerging black market agents.
4.5 Infrastructure

Over the past three decades very little has been invested into infrastructure development of the NFPMs. Currently, markets return their financial surpluses to their municipalities, who decide to re-invest either in the market or other local areas of need. During the NAMC Section 7 investigation it was estimated that the backlog of capital requirements for markets nationally was approximately R2.3 billion in 2003.

The major challenges faced by the NFPMs in terms of infrastructure are as follows:

- The current infrastructure is in dire need of maintenance and upgrading in most markets;

- NFPMs are unable to adequately meet the current and required standards of hygiene and food safety such as Hazardous Analysis of Critical Control Points (HACCP), GLOBALGAP, cold chain, etc. Buildings are deteriorating and cold rooms are not maintained at acceptable hygienic levels. This limits the possibility of markets serving as an export hub, and increases health risks to the population;

- It is difficult for NFPMs to meet requirements for new services which were not needed in the past (e.g. laboratories, space to accommodate new and black entrepreneurs, wholesalers, corporate social investment projects, etc). This impedes the ability of markets to accommodate emerging enterprises and peripheral activities which would both stimulate economic activity and job creation, and also contribute to the national BBBEE objectives;

- It is difficult to convince local authorities to make available capital for infrastructure development. Currently, markets contribute a lesser percentage of total council revenue than in the past, and there are far more competing priorities for capital expenditure than prior to 1994. This applies particularly to the small-to-medium size markets;

- There should be maximum returns from the public funds used in NFPMs’ infrastructural development. While a short term injection of capital funds from national government may be required to address the backlogs which have developed in many markets over the last 30 years, ultimately markets should be financially self-sustaining;
• It is considered critical and important to develop infrastructure simultaneously with farmers’ throughput. It is also important to ensure that, prior to investment in infrastructure; standards should be developed in order to ensure uniformity.

Based on the above mentioned challenges in respect of dealing with the backlog in development of market infrastructure, the MIC

RECOMMENDS

• That the individual infrastructure needs of each NFPM should be identified and be catered for. Thereafter, a plan on upgrading and improving infrastructure should take into consideration local and regional needs. The plan should indicate long term viability of the markets from a throughput perspective;

• That NFPMs should consult with local communities in terms of their expectations (e.g. a market suited for the Western Cape conditions, may not necessarily be appropriate for Limpopo);

• That the proposed FPMDA should be given the task of facilitating and coordinating infrastructural maintenance and development of markets;

• That the proposed FPMDA should submit a motivation to National Treasury to allocate an amount of approximately R2.7 billion for NFPMs infrastructure development in terms a coordinated and comprehensive plan, it being noted that there has been no significant national investment in markets since the 1970’s.

4.6. Fresh Produce Market Development Agency

4.6.1 Concept Model

The MIC was in agreement that there is a need for the establishment of a vehicle that is focused on

• Repositioning the fresh produce market sector and aligning it to the current commercial environment;
• Coordinating the marketing of fresh produce both domestically and internationally, and

• Streamlining the marketing, regulatory and developmental activities within the broader fresh produce industry.

This vehicle will focus on eliminating the previous fragmentation in an effort towards standardization and promoting market accessibility, and will work together with NFPMs and industry stakeholders to address these national, provincial and local issues.

The Development Agency was considered using the information presented in the National Fresh Produce Development Agency Report, otherwise known as the Mafuri Document. The Task team looked at international best practice, and considered the Mercasa (p23) to be a better model than most. However the Mercasa also operates markets as a management company, with the Local Authorities and Mercasa both owning shares. This aspect was not favoured as a local management option was preferred for South Africa to allow markets to address local needs, both within the market and from any excess profit which may accrue.

The Development Agency should be called the Fresh Produce Markets Development Agency (FPMDA) in order to avoid confusion with other organizations having similar acronyms such as the National Development Agency, and to specify that its focus is Markets.

The MIC therefore

**RECOMMENDS**

That a Fresh Produce Market Development Agency (FPMDA) should be established, and that the objectives of the Development Agency should be to:

• Support the existing fresh produce markets, and any new markets in South Africa to improve and develop their operations to better serve their customers, and to improve their revenue earning capabilities, by promoting and marketing the distribution channels locally and internationally;

• Take the role of an enforcement agent for quality assurance and traceability. As an enforcer, the agency should ensure that all markets comply with the basic quality standards, processes and
procedures that will have been agreed on, including compliance to fresh produce standards and grading requirements.

- Address the need for long-term sustainability of markets, to consider the matter of food security and to address backward integration in the value chain

- Approve/disapprove the development of any new fresh produce markets to be established in the country, taking into consideration the effect upon existing markets, and check that its operations will meet the agreed standards.

- Ensure that the market ownership and management model encompasses and promotes the transformation agenda.

- Strengthen efforts aimed at promoting BBBEE, the development of SMMEs and Cooperatives for meaningful participation of historically disadvantaged individuals in exporting, wholesaling and processing activities;

- Facilitate the training of people involved in the industry for skills development;

- Support markets to recognize and adapt to the needs of retailers and exporters through the provision of improved logistic services;

- To assist the fresh produce markets in sourcing funding from available resources to modernize and refurbish the market infrastructure;

- Serve as a point of information exchange and expertise among various players in the industry and with outside parties, in order to share experience and expertise in specific technical areas;

### 4.6.2 Proposed Legal Framework for the FPMDA

As indicated in section 4.3, it is proposed that new legislation be promulgated under which this FPMDA will be established and operated. The proposed FPMDA will not take ownership of the market’s infrastructure but its mandate will be to provide
guidelines/regulations on operational matters on all municipal and private fresh produce markets.
The NAMC’s Section 7 Committee report reveals that legal advice produce markets do not constitute a basic municipal service. As such is a function or service which a municipality can elect not to provide itself or can do so through an external service provider, but which it may nevertheless administer and regulate.

This proposed development agency does not seek to replace the operations or administration at the fresh produce markets but to create a vehicle that will support, coordinate and regulate for the benefit of all within the industry.

The MIC proposes the enactment of new legislation to establish the FPMDA, rather than using the APAA. In developing the new legislation the MIC proposes some content for the new legislation, to include:

- Powers and authority of the development agency;
- Structure and composition of the development agency;
- The relationship between the development agency and municipalities;
- Funding mechanisms
- Governance and administration of development agency (including the repeal of all by-laws and substitution by a set of regulations);
- Procedures for the establishment of new fresh produce markets;
- Governance of municipally owned fresh produce markets vis-à-vis those that are privately owned and the process of creation of municipal entities;
- The future and place of people trading as ‘markets’ but purporting to be wholesalers.
- Service levels in the NFPMs;
- It should enable the FPMDA to investigate and to register non-registered fresh produce business entities to comply with the provisions of the legislation;
- The definition of consignment sales is to be refined.
4.6.3. Institutional structure for the FPMDA

The proposed institutional structure for the FPMDA will incorporate all the key stakeholders in the industry. Currently the fresh produce industry is fragmented in terms of the marketing function in the industry. The proposed structure is taken from the

Figure 1: Proposed institutional structure for the FPMDA

4.6.4. Proposed management structure of the FPMDA

The proposed management structure of the FPMDA is as follows:

Board of Directors

The Board of Directors will be responsible for the strategic direction and conduct, ensuring that its operations are aligned to government's objectives. The board should be representative of all industry stakeholders.
Chief Executive Officer (CEO)

The CEO should be a visionary leader who can craft the core values culture of the organization while keeping it focused and motivated. In addition to being the strategic leader and administrative head of the agency, the CEO shall liaise with different industry stakeholders such as the government, industry organizations and other professional bodies to ensure that synergies in development policies are established and maintained.

Executive Management

The high expectations from the various stakeholders require a management team that is visionary, pro-active, in tune with global developments, and displaying astute business acumen. The management team should be appointed on a service level agreement for a fixed period and their tenure should be performance based, as determined and agreed upon with the Board of Directors.

Marketing and Promotion Unit

The unit will be responsible for the overall promotion of fresh produce both locally and internationally. All marketing activities including advertising and media communication should be centrally coordinated. A single brand to identify South African fresh produce should be developed to effectively it. This should, however, not in any way stifle individual producers’ marketing efforts.

Quality assurance

To ensure that local fresh produce industry adheres to international food safety standards, the quality assurance unit will be responsible for monitoring that both farmers and municipal fresh produce markets are compliant with the HACCP and GLOBALGAP. It will also assist black farmers to acquire the necessary quality assurance certificates in order to penetrate the corporate retail and export markets.

Infrastructure development

The lack of investment in infrastructure by many municipal fresh produce markets requires that development plans and monitoring
mechanisms are put in place to ensure that infrastructure is continuously and routinely maintained and upgraded to meet the demands of the ever evolving stakeholder base. The sourcing of funding to support this would be a function of this unit.

**Transformation unit**

The low participation of black farmers in the overall agriculture industry necessitates the conscious intervention by government to redress the situation. The transformation unit will assist with ensuring that the different market segments are more accessible through logistical support schemes, and facilitating procurement from black farmers by corporate retailers and municipal fresh produce markets.

**Information Technology systems**

The traceability of fresh produce from the farmer to the customer has become an essential component in the trading of fresh produce. The IT-systems functional unit will therefore be responsible for developing, supporting and monitoring such systems in the various municipal fresh produce markets.

**Training and Development**

Working closely with the appropriate SETA’s, the training and development unit of the in FPMDA will facilitate training for new market agents, market personnel and sales-persons; and assist NFPMs with training to upgrade their business operating systems.

**Regulatory Services**

It is envisaged that the FPMDA would perform all major regulatory functions including those that are currently undertaken by the Agricultural Produce Agents Council in respect of fresh produce agents.

### 4.6.5 Funding of the Proposed FPDMA

It is proposed that the FPMDA be financed from money appropriated from the DAFF after consultation with the Minister of Finance. The
Minister of Agriculture, Forestry and Fisheries will be responsible for approving the budget for the proposed FPMDA after consulting the Minister of Finance.

It will be important for the government to provide funding for the FPMDA for at least the first three years. The FPMDA, through legislation, should be given a mandate to generate income from commission sales, without placing a burden on the existing commission, and training and licensing activities etc.

5. CONCLUSION

There can be no doubt that the reasons for Markets losing fair share of the fresh produce industry since the early nineties was due, in large, to markets not being able to maintain their levels of service and quality control, which was once their pride under the Board system. There can further be no doubt that there are many who would like to see the disappearance of the NFPM’s. The MIC has however shown, in line with the Section7 committee, that the NFPMs have a strategic place in the Fresh Produce Industry.

The FPMDA will and should play a major role in the marketing of produce, especially fruit, internationally and locally. There is desperate need for protection of the producers in the form of a fidelity fund. Currently all South African products are only sourced on price and the
risk remains with the producers, many of whom have already lost their business as a result of having no recourse in dealing with unscrupulous agents.

The NFPM should and can be a major role player through the World Union of Wholesale Markets. This will not only create further access to the world Market for South African produce, but will also give us a more competitive edge.

The MIC therefore respectfully submits that it is in full agreement with the Section 7 committee that NFPMs are still a critical part of the fresh produce sector in the country. The MIC further submits that the current status of these markets leaves not only much to be desired but that they are in critical need of attention as per above report.

The issues of price setting, food security and safety, transformation, access and availability of produce within reasonable proximity etc are of utmost importance.

The MIC humbly requests the Minister to accept and act on these recommendations with a relative sense of urgency. Earlier investigations by the Section 7 Committees appointed through the NAMC during 1998 and 2000 highlighted similar constraints in the national fresh produce markets; which were later confirmed by the 2006 Section 7 investigation report. The recommendations from all the three reports thus deserve speedy implementation by the state in partnership with other role-players.
6. REFERENCES

The following sources were used as the basis for information:


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