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## The corporatization of the Tshwane Fresh Produce Market in South Africa towards creating an enabling institutional environment: A case study

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### ABSTRACT

The global food sector is a highly interdependent and competitive sector that strives for food security, food affordability and sustainability. In South Africa, Fresh Produce Markets (FPMs) are faced with increasing competition in the form of direct contracting by retailers in response to consumer demand for better quality. These FPMs lack the ability to compete with retailers. Over the past two decades there has been an increased pace of corporatization of State-Owned Enterprises (SOE). The main focus of this research is to determine, by using the method of paired comparisons, whether corporatization into a Municipal Entity is indeed the best solution to allow for faster adaptability and improved performance.

**Key words:** *Corporatization; South African fresh produce markets; paired comparison; sustainability; performance*

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### Introduction

The expected increase in the world population during the next three decades to 9.7 billion people by 2050 will place significant strain on future food supply and food safety. In an attempt to meet the current and future growing demands of consumers the global fresh produce markets (FPM) should strategically work towards attaining improved technologies, improved efficiencies, innovation and sophistication to achieve food security and affordability. It is expected that the supply to cater for the growing food demand would come from emerging and developing markets such as South Africa, Brazil, Mexico, India and China. In response to this view the South African national FPMs have been critically analysed to identify potential challenges that might hamper the development of improved technologies and innovation towards attaining increased market sophistication. Given the institutional environment in which South African FPMs operate, the main concern and also research question was whether the institutional environment in which the South African national FPMs operate is conducive to enable improved technologies and innovation towards improved market efficiencies and ultimately improved value chain performance.

The purpose of this paper is to structure the process of corporatization that was followed in a case study of a fresh produce market in the South Africa. Corporatization was the strategy to ensure that the market was prepared to

become institutionally more competitive in a changing and globalised environment with improved technology and improved efficiencies in the value chains.

### The global PFM industry

The global fresh produce industry sets the scene in which the Tshwane Fresh Produce Market (TFPM) operates. It establishes the playing field to which fresh produce markets are subjected to and also to an extent defines the characteristics attributable to the future success and level of competitiveness of fresh produce markets. The TFPM’s vision is to be geared towards enhanced sustainability and performance in order to achieve the 2055 vision of the City of Tshwane.

In order to establish the environment in which the TFPM operates, it is important to analyse the global competitive environment and position the TFPM on the map. Figure 1 below shows the results from a global FPM perspective indicating the level of sophistication of markets and the level of development of countries with FPMs on the two axes. It is evident that the TFPM is highly sophisticated, even though South Africa remains to be a developing country. This analysis also shows that the level of sophistication inherently implies relatively strong levels of infrastructure and technological development.

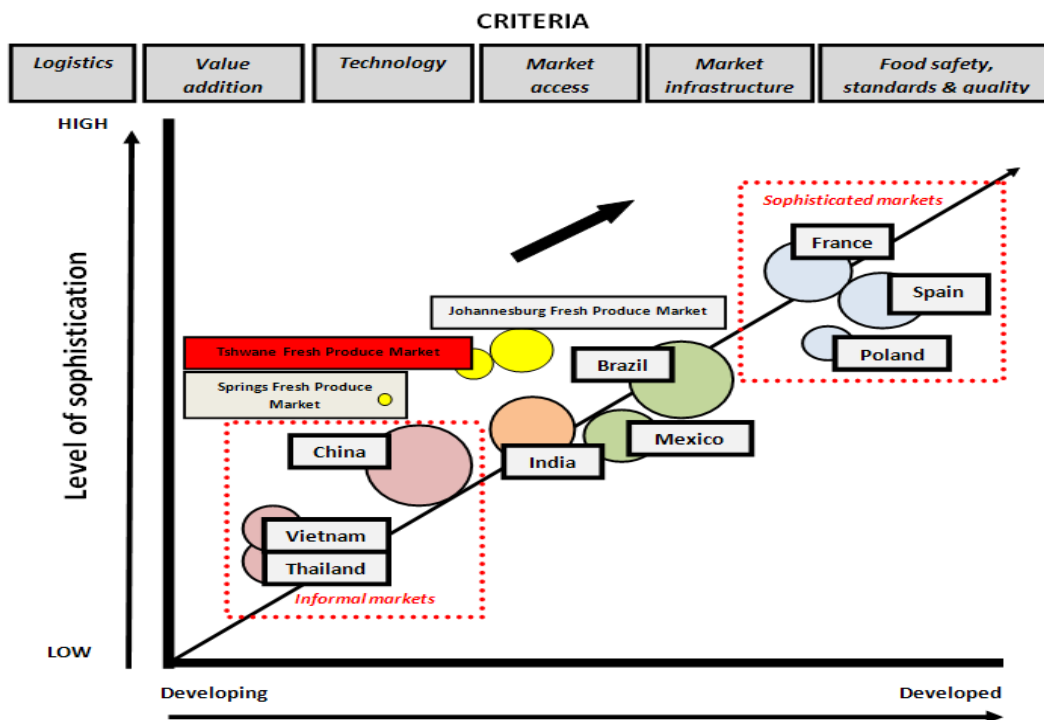


Figure 1: Global fresh produce market analysis  
Source: Adapted from authors, 2015

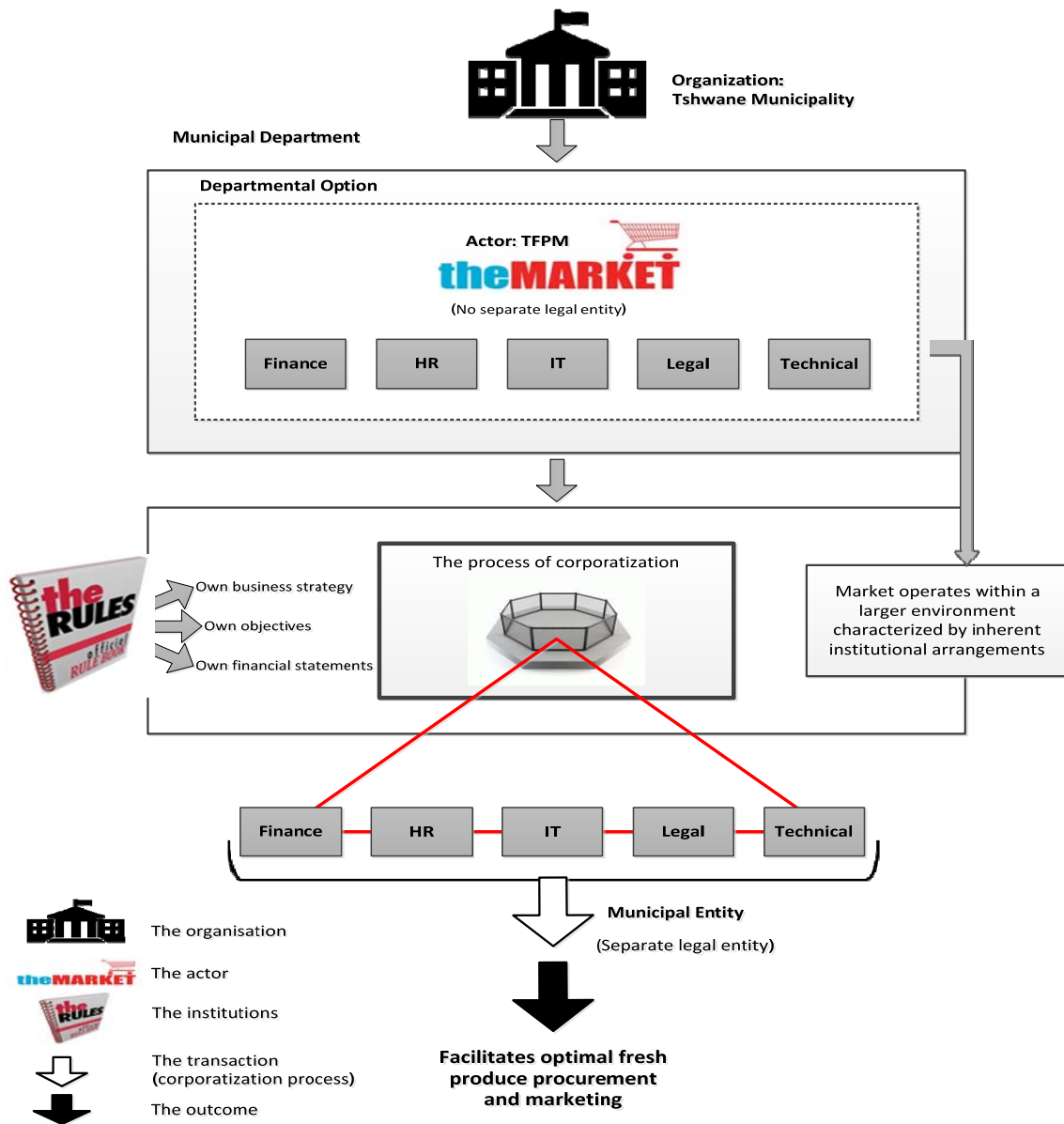
From the international study it was found that the global trend is that larger markets dominate the fresh produce market industry due to their locations, their focus on the buyers they serve, their value addition capabilities as well as their supply of fresh produce in terms of the distribution channels and infrastructure. In the most successful FPMs for example Spain, France and Poland, high capital investments prevail in these areas mainly from government as well as other stakeholders. Fresh produce markets around the world, regardless of size, do however still face major risks which include perishability (specifically in the absence of efficient cold chains), competition with supermarkets and hypermarkets as well as food safety regulations, specifically with regard to international trade.

From the country analysis it is evident that the key drivers towards successful, sophisticated FPMs are: i) investments in value addition food safety technology, ii) infrastructure and logistics (specifically towards improved cold chains) and iii) improving market access by focusing on the demographics of the buyers or consumers at the FPMs to cater for the specific requirements of the clientele base. These factors provided most of the fresh produce markets included in the analysis with a competitive advantage. If they are developed suitably, are consumer focused, have the financial support and executed with operational correctness, they might provide the same competitive edge to the South African FPMs. The goal of the TFPM is to become more competitive and improve its functional efficiency, which therefore requires a service delivery mechanism with inherent institutions that enables efficient operations.

The TFPM, South Africa's second largest FPM, is currently in a less competitive position as a result of institutional challenges in terms of ownership and management. One of the solutions for inadequate performance by State Owned Enterprises (SOE) structured as internal departments such as most of the South African fresh produce markets, in particular the TFPM, was corporatization. Research done by Aivaziana, V. A., Geb, Y. and Qiuc, J. (2005), found that corporatization leads to significant growth in output, assets, sales and workers' productivity. It was furthermore evident that internal state ownership was linked to poor performance of SOE performance (Aivaziana *et al.*, 2005) which supported the notion that a reduction in state ownership is likely to increase value chain performance. Following the global trend of increased sophistication of FPM's, the TFPM was evaluated institutionally to determine the potential benefits from corporatization to become a sophisticated FPM with associated increased value chain performance and to reposition itself as a modern sophisticated market of the future.

### **Objectives of the study**

The TFPM resides within the internal organisational and institutional structure of the City of Tshwane Metropolitan Municipality (CoT) and is currently institutionally not optimally structured to take advantage of its opportunities and manage threats. The main focus of this research is to determine the most appropriate governance mechanism (or level of transformation) to allow for quicker adaptability to rapid changing competitive environments and to reap the benefits of the separation of ownership and management. The main objective is therefore to conduct an institutional analysis of the change of governance mechanism, that is, the corporatization of the TFPM to the proposed new service delivery mechanism that is a Municipal Entity (Figure 2).



**Figure 2: The process of corporatization**

The unique problem of the TFPM indicated an analysis of the institutions at play and the available governance mechanisms available for service delivery at the TFPM. This analysis will eventually determine the effectiveness of a change in the governance mechanism. This will ultimately create an enabling institutional environment for improved technologies, innovation and improved value chain performance.

## Methodology

The institutional analysis (as developed by Kirsten, J., Dorward, A. R., Poulton, C. and Vink, N. in 2009), conducted within this research serves to be indicative of the efficiency of the current institutions governing the activities of the TFPM and their efficiency after adopting a new service delivery mechanism, i.e. a Municipal Entity (a corporatized entity – an entity where the municipality holds the controlling share).

The paired comparison method (Kendall & Smit 1940; Tarrow 2010) was also used as it is especially useful where priorities are not clear and where there are not objective data to base decisions on. The method makes it easier to choose the object that will provide the greatest advantage. The method of paired comparison is accordingly used to decide whether a Departmental Entity or a Municipal Entity would be the most sustainable service delivery mechanism for the Tshwane Market, given the strategic vision of the City of Tshwane.

However, in order for the TFPM to adopt a new service delivery mechanism it must be subjected to a Municipal Systems Act Section 77 trigger event which will then be followed by a Municipal Systems Act Section 78 Assessment (institutional assessment). After the assessment has been completed an appropriate service delivery model can be adopted (Standard Bank, 2006). The TFPM was triggered by the need to expand or improve operations towards a more sophisticated market and completed a Section 78 Assessment.

## Results

The TFPM is currently in the process of being corporatized into an external service delivery mechanism known as a Municipal Entity. This involves changes in the institutional arrangements within which the TFPM operates making the market responsible for the business and management functions whilst the City of Tshwane remains responsible for governing and administering the institution.

Corporatization into a Municipal Entity is expected to provide an enabling service delivery mechanism that enhances the efficiency of the service delivery model and ultimately the FPM as well as the value chain performance (Table 1). Although the principal of corporatization has approved, the implementation phase will be done during the next six to nine months.

The change in the governance mechanism at the TFPM to a Municipal Entity is expected to lead to the following improvements:

- Improved financial positioning in the industry
- Immediate local economic development benefits
- Reduction of risk associated with the management and ownership of the business
- Compliance with national government direction regarding the separation of ownership and management of FPMs
- Increased and rapid commercial adaptability resulting in placing TFPM in a stronger competitive position
- Fast tracking the facilitation of health and food safety standards.

**Table 1: Analysis of the institutions applicable to the process of corporatization**

Variable	Departmental Option		Municipal Entity (through Service Delivery Agreement (SDA))	
	Characteristic	Mechanism	Characteristic	Mechanism
<b>Institutional arrangement</b>	Internal to the institutional structure of the City of Tshwane (CoT).	TFPM by-law and an internal department or division performs the <i>“municipal service”</i> .	External to the institutional structure of the CoT, but the CoT remains accountable as a result of the <i>“municipal service”</i> status of <i>“markets”</i> .	New TFPM By-law, new market driven Schedule of Tariffs, SDA, Sale of Business Agreement, Board of Directors and Annual Business Plan – CoT to implement shareholder and contract management units.
<b>Accountability</b>	Accountable to the CoT.	Accountable to CoT – Service through an ill-defined <i>“Service Performance Agreement”</i> .	Performance reporting by Municipal Entity in terms of a SLA with the CoT.	Municipal Entity Service Performance Agreement, annual business plan and legally enforceable SDA– the CoT remains ultimately accountable for the TFPM service as a <i>“municipal service”</i> .
<b>Responsibility</b>	The responsibility of the Tshwane Market business remains that of the CoT.	Responsible by means of a <i>“Service Performance Agreement”</i> and can be managed in terms of the performance reporting as per the CoT management reporting system.	Performance reporting by Municipal Entity in terms of a SLA.	As per Municipal Entity Service Performance Agreement, annual business plan and SDA. The responsibility for operations is transferred to the Municipal Entity.
<b>Separation between ‘service authority’ and ‘service provider’</b>	Weak	N/A	Strong and in compliance with National Agriculture Marketing Council Section 7 Committee recommendations.	Sale of Business Agreement, Lease Agreement and SDA.
<b>Governance</b>	Directly accountable to Mayor and Mayoral Committee.	Internal CoT reporting system.	Accountable to the board of directors of the Municipal Entity and the CoT.	Sale of Business Agreement, SDA and annual business plan – City to implement shareholder (shareholder relationship) and contract management (service performance relationship) units who are responsible to the Mayor and Mayoral Committee as well as the City Manager.

Source: Louw et al, 2015

## Conclusion

The institutional assessment of the TFPM effectively indicated that the TFPM is currently not optimally structured to take advantage of its strengths and opportunities, to overcome its weaknesses and manage threats towards a more sophisticated global competitive market. It is expected that a change in the governance mechanism by means of corporatization of the TFPM into a Municipal Entity will equip the TFPM with institutional arrangements that are more suited to enhance global competitiveness, increase the market's performance and ultimately the fresh produce value chain towards increased improved efficiencies and technologies, food security, affordability and sustainability. Although the approval process has been concluded, the implementation phase of this project can however be challenging.

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