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## INVESTMENTS IN WHOLESALE MARKETS AND METHODS OF FINANCING

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Since FAO organized its first technical meeting on the planning and operation of wholesale markets here in Brazil eight years ago, there has been a growing awareness of the improvements required in the wholesale markets of developing countries. Although considerable progress has been made in bringing about required improvements, the lack of adequate technical knowledge on how to plan and implement new wholesale market projects remains a major constraint to the accelerated development of more functional facilities and the adoption of improved operational procedures. In this paper I would like to concentrate on two major aspects namely, the factors involved in preparing suitable feasibility studies for investment and financing and, secondly, the management requirements for planning and implementing projects. Both aspects are, from FAO's experience, the key to the problem as to why investment and financing are lacking. Or, put another way, it is not so much a shortage of finance that restricts investment but rather a lack of reliable economic and technical feasibility studies that holds up the required flow of funds. The aspects discussed in this paper are founded on experience gained by the author in helping to carry out FAO's technical assistance programmes in marketing development, particularly in connection with the preparation of wholesale market feasibility studies for a number of cities in developing countries which in most cases, have been prepared for international financing.

### NEED FOR PROPER FEASIBILITY STUDIES

The principal objectives of technical and economic feasibility studies are, in general terms, well understood. They are to provide the information required to satisfy certain criteria in respect of a proposed investment from the economic and the social point of view. In broad terms, investment projects are developed through a series of different phases, such as:

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- identification of the project;
- pre-feasibility study;
- feasibility study;
- preparation and organization for implementation of the project;
- implementation of the project;
- commencement of operations to provide for the new wholesale market and their successful continuation;
- evaluation of the impact of the project on agricultural producers and on consumers.

The content and presentation of information in a feasibility study for financing has been described and analyzed in various publications to which reference is made (Mittendorf 1976; Interamerican Development Bank 1978) as well as to reports on specific projects (Corporación de Fomento de la Producción, Chile 1977; FAO 1971; FAO/INDECA 1976; FAO/INDECA 1979; Mittendorf and Kahla 1975).

### SOME CRITICAL ISSUES: TEN COMMANDMENTS

A number of issues that have arisen in the past in the execution of wholesale market projects are common to most situations which, in future, will call for more careful consideration.

*1. Size of the Wholesale Market.* Experience has shown that, in relation to the scale of operations likely to be experienced in the first years of operation, many new market buildings are oversized with the result that a large proportion of the available space has become unrentable. This has resulted in considerable financial loss. On the evidence of FAO's experience, it seems to be more reliable to begin by making an assessment of the space actually used by wholesale enterprises (storage and sales area) and then to make provision for future operations on a more efficient scale and, in addition, to provide for future expansion. But buildings needed in the future should only be erected when there is a real demand at realistic levels of rent. In this connection, careful assessments have to be made as to the quantities of produce likely to pass through the market particularly as these will tend to increase as development proceeds. It is also necessary to keep in mind the possibility that an overly costly market could induce potential users to bypass the market if costs of using it are too high.

*2. Size and Shape of Stalls.* A common error has been to adopt a type of building and stall tailored to suit the more advanced requirements of Europe or North America with their colder climates. An example is a market in Latin America provided with a sales area of 100 or more square metres based on European or North American trading conditions while the local trading structure warranted stalls of only 30 m<sup>2</sup> in size with the result that the space allocated to individual traders could not be

made available at economic rents. It is, therefore, crucial for a detailed analysis of the space requirements of the wholesale trade to be carried out in accordance with the following table. When this is done, a dull survey of the wholesale trade has to be conducted of the floor space currently utilized. This information must then be grouped as indicated in the table so as to provide a basis for deciding on specific modules for wholesale stalls. Subsequent action, based on such an approach, would offer greater probability that an investment in such buildings would be well justified and that a minimum turnover (say 15–20 tons/year per square metre) would be achieved. Since this information is the ‘heart’ of the feasibility study, it is essential that the data be collected carefully.

STRUCTURE OF FRUIT AND VEGETABLE WHOLESALE TRADE ACCORDING TO THE SIZE OF FLOOR SPACE OF THE STORE OCCUPIED(an example)<sup>a</sup>

Average Size of Floor Space Occupied <sup>b</sup> m <sup>2</sup>	Number of Stalls		Total Floor Space		Average Size of the Stall	Proposed Module <sup>c</sup>
	No.	in % of total	m <sup>2</sup>	in % of total		
–20	20	8	240	2	12	
20–30	20	8	520	4	26	
30–40	30	12	1,050	8	35	
40–50	40	16	1,680	13	42	
50–60	60	24	3,420	26	57	
60–70	50	20	3,450	26	69	
70–80	20	8	1,800	14	90	
80–120	6	2	960	7	160	
more than 180	1	0	200	2	200	

<sup>a</sup>This is a hypothetical case to illustrate the type of information needed to complete the final column on the different types of module, i.e. wholesaling units proposed for different sizes of wholesaling enterprises.

<sup>b</sup>The area of the ground floor utilized daily for short-term storage and sales of produce, including space for walking but without office space and storage room for empty crates.

<sup>c</sup>The modules proposed should meet best average size of wholesalers floor space requirements.

To ensure that wholesalers will be willing and able to pay a cost designed to cover an economic rent it is to be recommended that they are persuaded at an early stage in the planning to enter into contracts to rent stalls. This provides a more realistic basis for estimating commercial demand for space and provides a basis on which suitable buildings can be designed.

There are many cases in developing countries where the majority of wholesale traders require less than 20 square metres and this could be provided by an open type shed store.

3. *Type of Building.* Although it is repeated continuously that economi-

cally viable projects can only pay for low cost simple buildings, architects are often inclined to propose sophisticated and costly structures which wholesalers are unable to pay for and which cannot reasonably be amortized. A simple shed type of market providing protection against sun and rain with a firm and easily cleaned floor is in most cases adequate for the small volume trade. A wholesale market is first and foremost a means of selling produce economically and effectively and the aspect of prestige is secondary.

4. *Layout.* The layout has to be based on local trading patterns and must produce for a functional and low cost operation.

5. *One or More Wholesale Markets?* While an argument is made in some advanced countries for one central wholesale market with exclusive rights to conduct wholesale transactions, we have found in multimillion cities, catered for predominantly by small traders with no motor vehicles, there is a need to plan for one central market, able to absorb 50 to 60 percent of the total supply, to be supplemented by satellite distribution markets capable of providing a convenient supply point for the small-scale retailers in distant residential zones.

6. *Location.* A number of wholesale markets have been located too far from residential areas, with the result that the predominantly small-scale retailers who depend on public transport, push carts and taxis, have been unable to attend the market regularly. In general, we consider that 20 to 30 minutes should be the maximum time spent by retailers in travelling to the market.

7. *Cooperation with Wholesalers.* In principle, wholesale markets are constructed for wholesalers. However, wholesalers are often not involved, or are even ignored, in the planning of new markets which tends often to preclude the possibility of the market later being used by or supported by the wholesalers. It is therefore essential to encourage full participation of the trade in the project from the outset.

8. *Ownership.* Various forms of ownership have to be considered in relation to management and financing requirements: municipal or state, private, a mixed corporation (public and private), or cooperative ownership.

In some countries the tendency is to argue for public ownership on the basis that this is more likely to ensure the maintenance of fair pricing practices. We consider that, in view of the shortage of capital in public control, more effort should be made to encourage the trade to participate in making the investment, even to the extent that stalls are sold or rented for a long period, as is at present under discussion in Mexico City. If there is sufficient land available for expansion of the market, there is no risk of the trade monopolizing operations. Such participation in financing by the trade requires that it also participates in the management of the market facilities.

9. *Policies on Rents.* Policies of low rents or the absence of a rent policy is a major obstacle to new investments on wholesale markets. Rents paid by wholesalers in many old wholesale markets are often nominal and are hardly able to cover administrative, cleaning and repairing costs, without mentioning capital costs. This has had, in many situations, to a distortion of the market situation and to a serious discouragement of new investment. The concept of fees covering costs has to be advocated and considerable effort is needed to convince wholesalers that they must pay higher fees in new wholesale markets which offer considerable opportunity for increasing the productivity and growth of efficient organizations.

10. *Financing.* If projects are prepared on a viable basis, with proper account being taken of the points made above and an assurance is given that the capital invested will be recovered, the necessary funds can be attracted from local and international sources. This, however, requires that the project be fully supported by the Local Authorities, the trade and the producers. For some of the markets being built at present in India, the Government has succeeded in attracting IDA funds at favourable interest rates and repayment conditions. Particular attention has to be given to the effects of inflation on construction costs. Where inflation rates are very high, realistic account of this must be taken in planning financial requirements.

### **NEED FOR A DYNAMIC AND OBJECTIVE ORIENTED MANAGEMENT AGENCY**

While the feasibility study, which often calls for some outside technical assistance, can be prepared in a reasonably short time, say 4 to 6 months, which helps to promote the project and facilitate the decision making progress, detailed planning and implementation requires action by the autonomous agency, fully supported by the Local Government and the trade. The agency's efficiency, effectiveness, reliability and technical competence are decisive factors in its success. Here, considerable support and skill are needed to overcome the continuous problems encountered and to achieve a concerted approach by the various groups of people and vested interests involved. It is here, in the field of management and human relations, where the principal problems are encountered and these can only be solved effectively by the local people themselves. But much can be done to assist local personnel at the technical level to become competent and determined to face and solve the many daily problems. In this respect, we are most grateful for the efforts being made by IULA in organizing regular courses on the planning and management of wholesale markets. In spite of progress made in this field, there appears to be considerable scope for preparing management personnel more realistically and systematically to deal with the many problems confronting a

manager in his daily round. Modern training methods based on case studies, simulation situations and business games can help considerably to develop the necessary management competence and confidence required to master the situation.

### FAO'S CONTRIBUTION

FAO has organized a series of regional technical meetings on market planning for big cities (in Brazil in 1971, in Kuala Lumpur (Malaysia) for Asian countries in 1975 and in Dakar (Senegal) for French speaking countries, also in 1975). We are now concentrating on providing technical assistance in the preparation of initial feasibility studies, such as for Mexico City (Mexico), La Paz (Bolivia), Guatemala City (Guatemala), Nairobi (Kenya), Seoul (Korea), Bangkok (Thailand), Asuncion (Paraguay) and now a number of Indian cities. We considered that such assistance could help in the initial planning phase to identify the various options open and to provide technical guidance on the steps to be followed (see Annex). Through close working contacts with developing countries and potential finance agencies, we are able to facilitate the exchange of information and experience in this sector as well as facilitate communications with international and financial agencies. Since, however, our resources are limited, we encourage any qualified consultant company to provide assistance or encourage partnerships between well established wholesale markets and those on process of development.

In conclusion, I would like to emphasize that problems of investment and financing can be overcome if we succeed in preparing viable projects and in establishing and supporting dynamic and technically competent wholesale market agencies able to solve the many local problems most usually encountered in the rather long and complex process of establishing new wholesale markets.

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ANNEX

List of Selected FAO Technical Cooperation Projects at present in operation  
Improvement of Food Wholesale Marketing

Country	Objective
<i>South America</i>	
Mexico	Marketing planning and training
Ecuador	Improving marketing management
Brazil	Training in food marketing
Bolivia	Feasibility of establishing a new wholesale market in La Paz
<i>Africa</i>	
Mali	Livestock marketing improvement
Kenya	Improving food marketing policies and services
Tanzania	Government marketing policies and services
Lesotho	//
Senegal	Fruit and vegetable marketing improvement
Nigeria	//
<i>Near East</i>	
Near East Regional Marketing Development Project	Marketing improvement and training
Pakistan	Government marketing policies and services
Libya	//
<i>Far East</i>	
India	Planning of seven new wholesale markets
FAO/DSE Asian Rural Market Development Project	Development of rural markets in ten Asian countries



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(a) Books

Forrester, J. W., 1971, *World Dynamics*, Cambridge, Mass: Wright-Allen Press, Inc.

(b) Article in edited anthology

Parsons, H., 1958, "The Value Problem in Agricultural Policy," pp. 285–299 in *Agricultural Adjustment Problem in a Growing Society*, edited by E. O. Heady and et al., Ames, Iowa: Iowa State College Press.

(c) Journal article

Choe, Y. B., 1978, "Toward an Idea of Agricultural Economics: A Critique on the Idea of the Applied Economics of Agriculture," *Journal of Rural Development* 1 (Nov.): 1–21.

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