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THE BUSINESS OF INFORMAL TRADING IN THE FOOD SECTOR IN MAFETENG URBAN

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ABSTRACT

In Mafeteng Urban, there are Informal traders of vegetables and fruits who sell products at various public places. The paper describes informal marketing of vegetables and fruits, and highlights the challenges facing the sector. The study uses multiple techniques of data collection including observations and interviews. Descriptive analysis was employed in the study. The results indicate that traders use a price value system of size and numbers. The informal fruits and vegetable sector provides services, employment and income to the people. Unfair competition, business malpractices, lack of access to finance, shelter, storage facilities and support services, and lack of collective action are the main challenges facing the sector. The upgrading of business systems and trade, legal and agricultural policies and public sector support are the strategies to be considered to activate and enhance the informal fruits and vegetable marketing sector.

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INTRODUCTION

Fast developing urban townships have some major strategic implications for the agricultural marketing sector, specifically with regard to demand of agricultural products (Karaan, 1993). Lombard, cited by Morris (1992) and Marketing Mix (1989) indicated that the demand from the urban community constitutes a large part of the total demand for food in many countries. In particular the inability of the formal sector to serve the market adequately led to the emergence of alternative informally organized marketing systems to satisfy the demand (Karaan and Myburgh, 1992). According to Karaan (1993), informal marketing has several advantages including the absorption of labour in the face of high unemployment. It is a consumer-oriented form of trade, and thus demand driven. It serves in the promotion of the economy and monetary flow within the townships as it is largely cash driven. Moreover, it is a valuable source of income for many township dwellers and thus it serves as a measure to ensure food security in the townships. Informal traders encourage consumption, both by selling at relatively low prices and making items available at wider range of locations and for longer periods. Informal traders are sometimes prepared to extend credit, and are generally prepared to break bulk and sell in very small quantities, which increase the distributive

network (Krige, 1988). Despite its advantages, informal marketing have received relatively little attention, both from empirical analysis and policy making. Nevertheless, support systems will have to be designed with care to facilitate progress and innovation. Bureaucracy and red tape could hamper some economic, albeit rational, initiatives. In Mafeteng Urban there are people who sell fruits and vegetables in the streets and some of them have been in business for decades. However, all the street vendors struggle with poverty. There is a weak market perception of the products from the public. This paper reports on a case study aimed at describing informal marketing of vegetables and fruits in Mafeteng Urban. The challenges facing the sector and proposals to enhance the sector are discussed.

MATERIALS AND METHODS

Study Area

The study was undertaken in Lesotho, a small landlocked country found in Southern Africa. It is surrounded by the Republic of South Africa. It has agriculture as its main industry based on livestock production. The study was carried out in Mafeteng Urban which is the commercial centre of Mafeteng District. It is situated about 80 kilometers south of Maseru which is Lesotho's capital city. The area has a population of about 15,000 people. It has retail sector as its main industry with the informal trading as one of the main contributors to gross domestic product (GDP).

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Data collection in some township settings poses peculiar problems, *inter alia*, because no formal or formalized procedures can easily be adhered to (Chiruka, 2009). This endeavour typically would require the following steps, viz: a legitimate contact had to be established first; a "CIVIC" group responsible for the protection of Informal traders' rights provided necessary linkage with some Informal traders while the Councilors facilitated contact with the other traders. The groups informed the Informal traders about the survey and facilitated cooperation.

Data collection and data analysis procedures

For the purpose of this study, informal personal interviews and observations were used to collect data from selected Informal traders in Mafeteng Urban. A semi-structured questionnaire was used to guide the interviews and to facilitate the recording of data. Informal traders were selected at random by the researcher and only those traders who were available and willing to respond by the time of the interviews were included as respondents. A total of 100 respondents were interviewed and observed. Respondents were found tending to the vendor business at taxi ranks, taxi routes, near established business premises, schools and other areas with "high population densities". The data collected were subjected to descriptive statistical analysis including frequencies and means.

RESULTS AND DISCUSSION

Employment Creation

From the area surveyed, it was established that 52% of the respondents were male. It is believed that high employment has forced more men into this sector which in the past few years was regarded as female territory. Majority (80%) of the respondents was under the age of 45 years and had attained secondary education, which could be attributed to the lack of employment opportunities in the other sectors. All the interviewed vendors regard the business as their only source of employment and income (Table 1). The regularly sold vegetables and fruits include potatoes, tomatoes, onions, cabbages, oranges, bananas, apples and pears. Only 25% of the traders sell vegetables while 75% sell a variety of fruits. All people who do not sell vegetables indicated inferior quality of vegetables as the reason for not selling vegetables.

Table 1. Demographics of Informal fruit and vegetable traders

		Number of respondents
Gender	Female	48 %
	Male	52 %
Age	Under 45 years	80 %
	Between 46 & 50 years	15 %
	Above 50 years	5 %
Education	Primary	14 %
	Secondary	80 %
	Post secondary	6 %
Business	Vegetables	25 %
	Variety of fruits	75 %

Marketing Processes

Supply of Stock

Informal traders get their supply of fruits and vegetables from the Chinese and/or Japanese-owned fruit and vegetable

wholesalers. Only 2% cited local vegetable farmers as sources of supply. It should be noted that Informal traders generally are not "supplier loyal" in the sense that they go to a supplier who gives them the best deal. It was indicated by 60% of the respondents that they move from one supplier to the other in search for lower prices thus a "haggling culture" is practiced on the purchasing side (Table 2). All of the Informal traders indicated that high and fluctuating supplier prices affect the smooth running of their day to day activities. When the prices are high in the markets, some Informal traders are forced to adjust their prices accordingly and this puts them at loggerheads with consumers. This is reflected in the statement of one female respondent in Mafeteng Urban that "Consumers complain about our prices without even asking how much the suppliers charge us". All traders indicated "unfair" practices by fruit and vegetable wholesalers from whom Informal traders are forced to buy "inferior quality" products while "superior quality" products are reserved for supermarkets. When the general quality of products available is good, Informal traders are sometimes confronted with immediate "sold out" situations. This means frustrated expensive retail purchases.

Table 2. Marketing Processes

		Number of respondents
Suppliers of stock	Chinese and Japanese wholesalers	98 %
	Local farmers	2 %
Pricing	Use of size	100 %
	Use of numbers	100 %
Price Variation (by informal traders)	No variation	95 %
	Variation	5 %
Loyalty to suppliers	Don't change suppliers	1 %
	Frequently change	60 %
	Less frequently change	39 %

Pricing

Unlike in formal retail outlets where weight is used, informal traders in response to consumer requests, use numbers and size in pricing their vegetables and fruits (Table 2). As an example, the price of one head of cabbage ranges from M4.50 to M6.50, depending on the size of the head. The use of numbers and size makes it difficult for one to compare prices among traders selling similar products. It also makes it difficult to compare the prices of vegetables and fruits sold by Informal traders with prices of similar products sold in formal retail outlets. Pricing policies are also highly consumer focused as 95% of the respondents indicated that they strive to keep their prices "constant" so as to avoid clashes and haggling with consumers. Only 5% reported some form of price variation. It was also established that the majority of the traders on the same site charge the same prices for similar products (Table 2). A "haggling culture" is clearly not practiced in the informal trade sector of Mafeteng Urban.

Competition

The Informal traders indicated competition as one of their major constraints. Listing competition as a constraint, however, can put one at loggerheads with economic theory as competition is desirable for a free market economy to survive (Van Rooyen, Estherhuizen and Doyer, 2001). In Mafeteng

Urban, it seems as if there is a “freedom of entry” in the informal marketing of vegetables and fruits. There are more than 1000 informal fruit and vegetable traders and the number increases daily (Mafeteng Urban Council, 2012). The freedom of entry results in congestion of traders for the same consumers. This renders traders price takers from consumers due to intense competition. Majority (85%) of the Informal traders indicated that they go home without selling what quantity they want to sell and these results in losses due to spoilage. All of the Informal traders indicated “unfair competition” by the Chinese and Japanese. These Chinese and Japanese fruits and vegetable wholesalers who happen to be sole suppliers to the Informal traders exercise a business practice of employing casual labour to sell fruits and vegetables in the streets and taxi ranks, and therefore compete for consumers with the Informal traders. The Informal traders all cited this as the biggest challenge they encounter in the business. As to what action was taken to address this injustice, 15% had approached the local community council and 85% had reported to the Ministry of Trade Officials but these efforts proved futile. Thus, State institutions are ineffective in terms of enhancing business environment, the informal sector in particular.

Infrastructure and Support Services

Shelter and Storage

Majority (70%) of the respondents do not have a fixed, proper and protected place for selling vegetables and fruits. This problem of lack of shelter is aggravated by harsh weather conditions, which affect the quality of vegetables and fruits sold. All of the traders stated that they are negatively affected by lack of shelter in Mafeteng Urban. Spoilage of products due to lack of storage facilities was cited by 95% of the Informal traders, since they deal with highly perishable products. This has led to consumers accusing Informal traders of selling vegetables and fruits of poor quality. Most Informal traders in Mafeteng Urban have lost customers and meaningful income as a result (Table 3).

Table 3. Infrastructure and Support Services

	Number of respondents that reported
Lack of shelter and storage	
Spoilage of products	70 %
Lack of access to credit and financial resources	95 %
Lack of knowledge about financial aspects and services available to SMMEs	88 %
	80 %

Financial and Institutional Support

Majority (88%) of the Informal traders cited lack of access to credit and financial services as one of their challenges. According to Karaan and Myburgh (1992), Informal vegetables and fruits traders lack access to credit and financial services is mainly due to the generic conditions a borrower has to fulfill for example a fixed and legal address, a fixed and stable income, and a life insurance are often the strict requirements to apply for credit even from private loan offering organisations. The majority of the Informal traders cannot meet even one of these requirements. Furthermore,

most (80%) of the traders knew nothing at all about the financial aspects. Knowledge of available financial services to small and medium scale businesses was weak amongst Informal traders (Table 3). There are no supporting services of State or private institutions available to the Informal traders. It was also observed that no effort is organised by the Informal traders to turn their situation around. Lack of motive to organise (collective) activities is the result of an unstable performance in marketing. A lack of mutual confidence and a lack of communication lead also to promotion of individual activities. The distrustful, individual and freedom-minded attitude of the Informal traders explains the aversion towards collectivity.

Conclusion and Recommendations

Sector's Role

Informal traders sell vegetables and fruits which form part of the daily Mafeteng Urban diet. Vegetables like tomatoes, onions, potatoes, cabbages are very popular with Mafeteng Urban Informal traders and with consumers. By bringing these products to the consumers, Informal traders play an indispensable role. The use of size and numbers represent a price: value system which is easily understood by Mafeteng Urban consumers, and even the illiterate are able to understand the system. The Informal sector provides employment and income to the youth of Mafeteng Urban who are hard hit by unemployment. Fruit and vegetable wholesalers play an important role in (directly) supplying vegetables and fruits to Informal traders. Nevertheless, these suppliers form one of the major constraints of the informal sector due to their business “malpractices” which lead to “unfair competition” hence constituting an obstacle in trading.

Challenges Facing the Sector

Lack of shelter and storage facilities affects the quality and quantity of the products sold by the Informal traders. Besides, lack of access to information, and lack of access to credit and support services have been found to be major challenges confronting the sector in Mafeteng Urban. The Informal traders lack motivation for collective action and this has rendered them price takers from both the consumers and suppliers as they were forced to buy at high prices from wholesalers and sell at low prices to the final consumers. Limited produce supply was found to be affecting the Informal traders as the local farmers seem to be playing a relatively minor role in supplying Informal traders with vegetables and fruits. The Informal traders, however, present marketing opportunity for farmers which they should take advantage of. Disregard and disrespect of business rules and regulations coupled with business malpractices by Chinese, Japanese and Pakistani wholesalers and retailers are some of the factors that negatively affect the Informal traders of fruits and vegetables in Mafeteng Urban. Furthermore, the Informal traders are faced with a strong competition emerging within the informal sector due to “freedom of entry” in this sector.

Promoting Dynamism in the Informal Trading Sector

Notwithstanding the growth, the strengths and the opportunities created by the market-oriented macro-

environment, the informal sector still has so many challenges. More so when the informal employment opportunities provided in this sector are not necessarily a guarantee for poverty alleviation. Consequently, most of the fruit and vegetable vendors continue to struggle with poverty. The upgrading of business systems, and policy and public sector support are the two broad thrusts that could be considered to activate and enhance the informal marketing of fruits and vegetables in Mafeteng Urban.

Upgrading Business Systems: Towards an Improved Supply Chain

Supply chains are emerging as important business systems to generate added value and enhance competitiveness (Van Rooyen et al., 2001). Efficient supply chain management requires processes of choosing and working with suppliers and the development of personal relationships between employees of firms in the supply chain. They have to recognise that trust in relationships will take root only if all parties are confident to share in the rewards. Various models of "supply chain" business interaction are possible depending on the industry. These include, *inter alia*, formal cooperation, vertical integration and contracts. Possibilities for collaboration will depend on the industry. Vegetable and fruit are generally operating in more formal chain relationships as the spot markets and auctions are becoming less important. Due to their "informal status, Informal traders are vulnerable while limited support systems such as financial services, infrastructure, market information, etc, could be rendered through government funded small business development programmes.

More so when the traders are also price takers. The establishment and effective functioning of municipal markets could assist greatly to improve fair access to stock. It will be important to facilitate chain reactions to integrate this important sector more fully into business, especially to qualify for the various support mechanisms available from authorities. Improved "collective action" through the establishment of co-operative business arrangements to strengthen informal traders should be considered. The new co-operatives Act should be designed to facilitate this organisation structure in the both formal and informal sectors. Urban and community councils should exercise a major role particularly in promoting co-operative business structures.

Policy and Public Sector Support

To increase the potential success of Informal traders so as to limit their risks and to decrease their vulnerability to external factors, several strategies need to be developed. The strategies should emphasise improvement in access to markets (in particular, municipal fresh produce markets), access to knowledge and availability of means (the latter can be improved through several ways viz: credit availability, training and market cooperation). This would reduce uncertainty, vulnerability and the dependency on external factors. The resulting favourable trade-related business perspectives will promote investments. Through such a focus, the cycle of poverty can be broken by promoting durable informed market or trade-related employment and development. However, to

ease the implementation of promoting dynamic informal trade sector, and policy and public support, a legal recognition of the informal sector as a viable market institution is essential. The legal framework will enhance the co-ordination between formal and informal trading. For this purpose also, an efficient development policy and strategy framework, with co-ordination between the different national and local authorities, is imperatively needed. Constraints facing informal traders need to be addressed by this policy. Also, the following recommendations aimed at addressing market or trade constraints should be included in a development strategy focused on improving and/or transforming the informal trade sector; There is a need for improved access to market information, and centrally- placed market facilities to alleviate the problem of high and fluctuating supplier prices. With improved market information, Informal traders will know the prices before going to the market and can make necessary adjustments. Improved access to supply facilities in Municipal markets can play an important role. Innovative shelter and storage facilities tailored to meet the needs of Informal traders should be investigated to address the problem of spoilage of products due to lack of proper storage facilities.

Access to financial support and plans for physical structures can address the problem of lack of proper shelter. Research and technology development support should also be directed at enhancing the quality and quantity of produce from local farmers. Respect of national business laws and regulations by the foreigners particularly of the Asian origin (Chinese, Japanese, Pakistani, etc) to address the problem of "unfair competition" and "business malpractices" predominant in Lesotho should be strongly enforced. Although foreigners' contribution to Lesotho's economic growth is acknowledged and highly appreciated it should not be at the expense of other people. If the suggested strategies could be institutionalized and operationalised, the informal fruit and vegetable traders would be integrated into the economy in a meaningful way hence the realisation of national economic potential of the informal trade sector. More so, when it had been further echoed by former president of South Africa Thabo Mbeki that "No economy can meet its potential if any part of its citizens is not fully integrated into all aspects of that economy" (Mbeki, 2003).

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