

INEQUALITY AND ECONOMIC MARGINALISATION

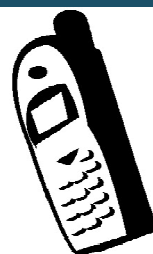


Mediating from the margins: The role of intermediaries in facilitating participation in formal markets by poor producers and users

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ABOUT THIS RESEARCH

The 2007 Annual Report of the Accelerated Shared Growth Initiative of South Africa (AsgiSA) identified a need to focus on what was then called 'the second economy', and on mechanisms to ensure shared growth reaches the margins of the economy. The Second Economy Strategy Project was initiated in this context. It reported to the AsgiSA High Level Task Team in the Presidency, but was located outside government in TIPS.

A review of the performance of government programmes targeting the second economy was completed in early 2008. The project then commissioned research and engaged with practitioners and policymakers inside and outside government. A strategic framework and headline strategies arising from this process were approved by Cabinet in January 2009, and form part of the AsgiSA Annual Report tabled on 16 April 2009.

In South Africa, people with access to wealth experience the country as a developed modern economy, while the poorest still struggle to access even the most basic services. In this context of high inequality, the idea that South Africa has 'two economies' can seem intuitively correct, and has informed approaches that assume there is a structural disconnection between the two economies. The research and analysis conducted as part of the Second Economy Strategy Project highlighted instead the extent to which this high inequality is an outcome of common processes, with wealth and poverty in South Africa connected and interdependent in a range of complex ways. The different emphasis in this analysis leads to different strategic outcomes.

Instead of using the analytical prism of two economies, the strategy process placed the emphasis on the role of structural inequality in the South African economy, focused on three crucial legacies of history:

- The structure of the economy: its impacts on unemployment and local economic development, including competition issues, small enterprise, the informal sector, value chains and labour markets.
- Spatial inequality: the legacy of the 1913 Land Act, bantustans and apartheid cities, and the impacts of recent policies, looking at rural development, skewed agriculture patterns, and the scope for payment for environmental services to create rural employment.
- Inequality in the development of human capital: including education and health.

TIPS's work around inequality and economic marginalisation is built on the outcomes of this strategy process.

The research undertaken under the auspices of the Second Economy Strategy Project continues to be relevant today as government explores policy options to reduce inequality and bring people out of the margins of the economy. This report forms part of that research.

A list of the research completed is available at the end of this report. Copies are available on the TIPS website: www.tips.org.za.

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Policy has tended to attempt to circumvent and substitute for the role of market-based intermediaries... Instead of circumventing them and substituting for them, the priority is to find ways to partner appropriately with market-based intermediaries as a key part of any attempts to bridge the gap (Philip 2008:229).

INTRODUCTION

Patrick Sathorar acts as a marketing consultant for a group of 25-30 HIV-positive women in Nyanga, Cape Town. They produce textile and beaded products¹ and Patrick facilitates their participation in the formal market by sourcing and negotiating contracts for them. Patrick's role comprises the following: first, he meets with a client (typically a conference organiser) to discuss the items required (such as beaded lanyards or conference bags) and to negotiate the quantity. Then Patrick sources the raw materials. Often he needs to source fabric from various and geographically dispersed suppliers. Thereafter, Patrick commissions a designer to make up a sample, which is costed and presented to the client. If the client is satisfied, the parties negotiate terms of the contract, including the price per item.

If the client rejects aspects of the design, it is back to the drawing board for Patrick and his producers, who must produce new samples. Often, conference organisers require several samples to send to clients overseas. The negotiation process can last up to three months. Once the parties have contracted, the producers learn to reproduce the sample. Patrick is responsible for quality control; the women for the packaging; and Patrick for delivery of the products to the client. In between, Patrick sources contracts from small retailers.

Patrick generates contracts that produce a turnover of approximately R40 000 per month and each woman earns between R1 000 and R2 000, depending on how much work is available, and how many units she has made.² Although this amount does not represent a decent wage, it does make a critical contribution to the women's livelihoods. It also fulfils another important social goal – that is, to facilitate their economic agency. Without Patrick's intermediary role, these women, who are functionally illiterate, have a poor command of English, have no formal sector experience and limited numeracy, and would be unable to manage the complex communications and networking necessary to sell products to the formal economy. They would be unable to do this because they do not have the skill set necessary to manage the negotiation process, and because they do not have the necessary resources - such as transport, design expertise,³ or the ability to manage bulk orders.

[U]nderstanding the market and ensuring that the product has a market is one aspect of a business. Getting the product to the market on time and at the right price is another (Elk 2010).

Elk's observation encapsulates the sophisticated skill set necessary to participate in the craft value chain. The majority of survivalist crafters/producers are marginalised from the English-speaking mainstream economy.

¹ These 25-30 women are the core producers. The organisation has over 100 women on its database. Some arrive from time to time when they need to produce income and others come when they are needed for a big order.

² Patrick's modest income is dependent on the contracts too. The non-profit organisation, Etafeni, which supports these HIV-positive women with health care and pre-school education for their children, covers a small basic salary.

³ Designers are 'typically highly trained individuals with knowledge and access to sophisticated and fast-moving/changing markets. The designer is thus more able than the "maker" to intervene in the craft production process and innovate, re-invent or re-create products that satisfy First World customers' (Elk 2009: 5).

[They] don't have the confidence to carry out complex discussions in English and don't have literacy skills to communicate in writing. Much negotiation takes place using e-mail. Producers don't have technology, and even if they did, they do not have the literacy skills or command of English to do so (Hay, Mckenzie and Thompson 2010: 21).

Retailers who have attempted to contract directly with producers have found it challenging because of the 'gulf of understanding' between what producers thought retailers wanted and what retailers felt they had contracted for.

Many believed they had gone the extra mile to find ways to support local and rural producers, but often at too high a cost and risk, as the constraints faced on the supply side translate into a litany of tales of late delivery, poor quality, wrong quantities and more (Philip 2008: 213).

Intermediaries such as Patrick thus are critical to facilitate participation of marginalised crafters or producers in modern markets,⁴ even if on adverse terms.⁵

But the growing prevalence of intermediaries is driven by another global phenomenon. Relations of production have increasingly shifted from formal labour contracts, in terms of which employees enjoy benefits, protection and bargaining power associated with union membership, to more informal arrangements characterised by outsourcing, subcontracting and casual labour. In developing countries, the informalisation process is associated with 'poverty, precariousness and persistent informality' (Standing 1999; Beneria 2001; Chen 2005). Worldwide, capital has reduced its labour costs and workers now bear the insecurity of inconsistent workflow. They have also been deprived of benefits (such as leave, medical aid and pension), social protection (such as unemployment insurance) and voice, as they are unorganised and unrepresented. The economic relationship between poor, informal producers and formal companies is often mediated by intermediaries, who manage bulk orders by sourcing products from different producers and who can navigate the sophisticated world of formal markets.

The existence of intermediaries is thus driven by two imperatives. The first is the need to mediate access to formal markets for poor producers or users⁶ in value chains; this imperative may also facilitate a shift in the value distribution⁷ from the top of the value chain down to producers or users.⁸ The second imperative is the informalisation of global value chains (including the outsourcing trend) and has the opposite distributional effect, in that inclusion of intermediaries in the value chain facilitates an erosion of employees' existing legal entitlements and a re-distribution of value from employees at the bottom of the value chain to intermediaries and lead firms further up the value chain.

⁴ In her chapter, Lowitt describes the three dominant characteristics of modern markets as 'convenience purchasing', 'private label consumerism' and 'contract-based production networks'.

⁵ Adverse, as they are paid as little as R10 per hour. However, this is substantially more than they earn as street traders. Interview with Patrick Sathorar on 18 November 2010.

⁶ Users have their own independent businesses and are able to participate in the markets (sometimes only with backward linkages) independently, without the assistance of an intermediary. They become a member of an intermediary (a co-operative or association) to access services, such as marketing services, or to reduce their transaction costs.

⁷ Value distribution refers to how the profits are distributed among the participants in the value chain.

⁸ Most intermediaries only mediate access to a value chain and have little impact on the distribution of value in the value chain. But in a few cases, particularly where intermediaries mediate for users rather than producers, their mediation has a re-distributional effect, by which value is shifted from further up the value chain down to users.

The South African policy response that seeks to ‘circumvent’ and ‘substitute’ market intermediaries (reflected in the quotation from Philip at the head of this chapter) risks conflating two distinctly different types of intermediary.

South Africa is engaged in a fierce debate about labour brokers who facilitate outsourcing, subcontracting and/or casualisation of labour and who have the effect of eroding existing employee rights, benefits and protection. This chapter seeks to illustrate that regulatory responses that conflate these two categories of intermediary are likely to have unintended, adverse implications for poor producers, most of whom are unable to participate in markets without intermediation.

This chapter is concerned with forms of intermediation that provide access to participation in value chains (that would otherwise preclude producers concerned) and/or that facilitate the re-distribution of value in value chains in favour of producers. The focus of the chapter is two-fold. First, it is concerned with highlighting the need to create an enabling institutional and legal environment for these intermediaries. Second, it argues for the necessity of identifying leverage points to shift the distribution of value from lead firms to intermediaries and producers. The normative framework adhered to is that of the ILO’s decent work agenda for informal workers. The ILO defines ‘decent work’ in terms of four pillars, which Chen, Vanek and Carr (2004) have rephrased as ‘employment opportunity, accompanied by rights, protection and voice’.⁹ The intention of this chapter is to embark on a conceptual exploration rather than to outline detailed policy proposals.

The research draws on 23 semi-structured interviews with intermediaries, primarily in the craft and agri-business sectors. Interviews were conducted with non-profit organisations (NPOs), businesses, and senior managers or directors of the two retail giants, Pick n Pay and Woolworths.

The first part of the chapter outlines the objectives and methodology of the empirical work and classifies the different intermediaries. The next part outlines in more detail the International Labour Organisation (ILO)’s decent work agenda and how it relates to the informal economy. The last part is divided into two sections. The first discusses intermediaries who mediate for users. The second discusses intermediaries who facilitate participation in markets for producers.

In the case of intermediaries for users, two principles common to the case studies and that are borne out by case studies in the literature are extracted. In the main part of the chapter (the discussion of intermediaries for producers), two policy responses are proposed. The first is practical, and pertains to institutionalised support for intermediaries. The second is conceptual and pertains to shifting value from lead firms to intermediaries and producers. The chapter argues that the Black Economic Empowerment (BEE) policy framework could provide a unique opportunity to shift some of the responsibility for providing decent work for informal producers up the value chain to South African retailers.

OBJECTIVES AND METHODOLOGY

Twenty-three people were interviewed, the majority being owner-managers (in the case of for-profit enterprises) or managers (in the case of not-for-profit organisations) and senior managers or directors in the case of the two retailer participants. Ten intermediaries were

⁹ The ILO defines ‘decent work’ as ‘opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organise and participate in the decisions that affect their lives and equality of opportunity for all men and women’ (Chen et al 2004).

interviewed in the craft sector and 10 in the agri-business sector. The other three are retailers and an intermediary for spaza¹⁰ owners.

The objective of the semi-structured interviews was to understand the legal and institutional nature of the relationship between the intermediary and the producers or users and to explore the implications for producers and users in so far as ownership, profit share, working conditions (specifically security, benefits and protection) and wages are concerned.

The questionnaire included a focus on the nature of embedded services, such as design input, procurement support and favourable credit terms provided by the intermediary to the producers or users and whether the intermediary provides developmental support beyond direct business-related support. It soon became evident that one could differentiate between two groups of intermediaries. The first group act as facilitators for independent contractors and are not part of the value chain. They provide embedded services to the producers or users. The second group is part of the value chain and the producers for which they mediate seldom operate as independent contractors. These producers are more like casual employees and the focus here included an enquiry into the nature and extent of embedded services offered to intermediaries by retailers.

A subsidiary enquiry was whether producers are reliant on one particular intermediary and if so, whether they potentially could interface independently with other market players. The proxy for assessing the latter question was 'educational attainment'. However, this proved a problematic variable, since interviewees often did not know the educational attainment of the producers; it was instead translated into an imprecise assessment of literacy and numeracy levels, rather than educational attainment.

Given the qualitative nature of the study, the sample is relatively small and unrepresentative. The sample was selected on the basis of geographical convenience (all except three are in Cape Town or surrounds), known or perceived success in linking producers or users to the market, and there was an element of snowballing, as intermediaries identified other 'successful' intermediaries. Interviews, which were face-to-face unless geographically impossible, took between one and three hours. One interview was conducted telephonically and one, the Red Meat Project, was written up by Mike de Klerk, who was project manager when Commark managed the project.

CATEGORIES OF INTERMEDIARY

I interviewed four broad types of intermediary:

- *Non-profit organisations (NPOs) active in the small business sector* that mediate for producers to access markets, or for users to form a collective that can negotiate terms with wholesalers: these included the Triple Trust Organisation; Learn to Earn and the defunct Commark's Red Meat project, which is now being managed by the Kwazulu-Natal Department of Agriculture.
- *NPOs active in social sectors* such as literacy or HIV-Aids that realise that their interventions are limited if their beneficiary community has no access to income: the NPO establishes itself as an intermediary that trains beneficiaries to make products, which it then sells to local and overseas markets, often very successfully. These operate mainly in the craft sector and include NPOs such as Etafeni, WolaNani, Philani, KidzPositive, HeartFelt Project, Iziko Crafters and Westlake Community Trust. Several have won design prizes and most access both local and overseas markets.

¹⁰ Spaza, meaning 'camouflage' in Zulu, is a grocery store in black metropolitan areas. They range in size, but are small retail outlets.

- *For-profit hybrids*, which are for-profit entities (such as companies or most commonly close corporations (CC)), having as their primary objective a social outcome: this could be the alleviation of poverty, the empowerment of women, or simply contributing to livelihoods by facilitating the participation of poor people (usually women) in value chains. In most cases, the member (of the CC) or the main shareholder does not draw a salary for years and any salary now drawn is modest.¹¹
- *Not-for-profit hybrids* that comprise more than one entity, one being a for-profit entity and the other(s) not-for-profit: for example, an NPO, Afrique du Sud Bidonvilles (ASB) assists women to establish co-operatives and provides embedded services, such as training, pre-cut fabric and a distribution system for the creation of biodegradable bags, cosmetic packaging, fashion and decor. It has also registered a CC with one member. The CC markets these goods to Pick n Pay and overseas retailers, and has opened a store in an upmarket retail centre.

In the hybrid categories, it can be difficult to ascertain whether the pursuit of social goals is primary or secondary, whether non-profit structures are used as vehicles to qualify for procurement opportunities with large retailers, or whether shareholding is allocated to employees to improve a BEE scorecard. Where a company procures products from co-operatives, does the arrangement reflect a commitment to the co-operative to empower it to operate as an independent contractor or is it simply a vehicle for the trading company to outsource and reduce its costs and risks?

The lines between for-profit and not-for-profit are thus blurred, making it difficult to determine whether an organisation is motivated by social outcomes or not (Peredo and Mclean 2006). Arguably, the legal form is of less consequence than whether or not the contract¹² between the intermediary and the producers/users reflects a progressive realisation of decent work for the producers and users. For this report, intermediaries are categorised on the basis of whether they mediate for producers or users. Table 1 outlines additional features of different types of intermediation such as differences in their role in the value chain, the service they provide and whether or not they initiate the contractual relationship between themselves and their beneficiaries.

Table 1: Distinguishing features of intermediaries

	Role in the value chain	Service provided	Beneficiaries	Contracting initiative
Intermediary for producers	Constitutes a business that is part of value chain – potentially competes with its beneficiaries	Mediates participation in the value chain – does not re-distribute value	Producers who make products designed by the intermediary and which are sold by intermediary	Contract initiated by intermediary – ‘from above’
Intermediary for users	Facilitates access or more equitable distribution of value – does not compete with its beneficiaries in the value chain	Re-distributes value in the value chain (beneficiaries already have access)	Users – businesses or independent contractors who use the intermediary to reduce transaction costs or to add value to existing products	Contract initiated by user – ‘from below’
Dual intermediary		Facilitation of access AND re-distributes value		

¹¹ These included Kunye CC, Mielie CC, The T-bag Project CC, Khayelitsha Cookies CC, Goedgedacht Trust and MFJ Jam Kitchen (Pty) Ltd.

¹² In most cases, contracts are verbal.

Some intermediaries like Patrick Sathorar simply facilitate producers' participation in a value chain. Others shift the distribution of value in the value chains. For example, as will be illustrated in section 5 below, user intermediaries produce economies of scale that reduce their members' transaction costs. The power of collective organisation facilitates accessing goods for less in backward linkages or better prices in forward linkages, which effectively re-distribute value to users in the value chain.

Some intermediaries fulfil both functions. Intermediaries that provide access only are often businesses themselves, and thus may compete with their producers if they are also providing the market with goods. Others that provide access or that re-distribute value (whether by providing services that enhance the users' products or reducing their economies of scale) generally do not compete with their users in the value chain and may not in fact form part of the value chain at all. The Cape Craft and Design Institute that provides users with a wide range of services, is such an example.

Last, the contractual relationship between the intermediary and its beneficiaries may be initiated by the intermediary. This is referred to as a 'top-down' relationship, as beneficiaries typically have little bargaining power to negotiate the terms of the contract. Where users have shares in the intermediary and thus own the intermediary, the contractual relationship between the users and the intermediary reflects a more equal power relation and for purposes of this chapter is referred to as a 'bottom-up' initiative.

DECENT WORK: A GOAL TO PROGRESSIVELY REALISE

In 1998, the tripartite membership of the ILO (comprising transnational businesses, governments and labour unions) adopted the 'Declaration on the Fundamental Principles and Rights at Work', which incorporated the right to freedom of association, the right to collective bargaining, the elimination of forced labour, the abolition of child labour, and the right not to be discriminated against in the context of employment. These rights were given content in eight conventions,¹³ which member states of the ILO were obliged to sign, and to give effect to in domestic legislation.

At the close of the century, as the three constituents deliberated to define the ILO's role in the twenty-first century, the rights framework was expanded and the ILO's 'decent work agenda' was born (ILO 2003). It is perhaps important to underline that the departure point for the ILO is a moral commitment to the universality of decent work as critical to all humans' well-being, the spirit of which is encapsulated by its slogan 'Decent Work for All' and is expressed by the ILO as follows:

Work is central to people's well-being. In addition to providing income, work can pave the way for broader social and economic advancement, strengthening individuals, their families and communities. Such progress, however, hinges on work that is decent. Decent work sums up the aspirations of people in their working lives.¹⁴

Decent work means work that:

takes place under conditions of freedom, equity, security and dignity, in which rights are protected and adequate remuneration and social coverage is provided (Barrientos 2007).

The decent work agenda articulates a set of values, but also sets out to provide a strategic framework. Four pillars are identified – namely, the opportunity to work; rights (in particular the right to freedom of association and the right to organise); social protection (in particular

¹³ These Conventions are: No. 87 Freedom of Association and Protection of the Right to Organise Convention; No. 98 Right to Organise and Collective Bargaining Convention; No. 29 Forced Labour Convention; No. 105 Abolition of Forced Labour Convention; No. 111 Discrimination (Employment and Occupation) Convention; No. 100 Equal Remuneration Convention; No. 138 Minimum Age Convention; No. 182 Worst Forms of Child Labour Convention.

¹⁴ www.ilo.org/global/about-the-ilo/decent-work.../index.htm accessed on 30 March 2011.

protection against all forms of loss of income – thus health, unemployment and disability insurance); and voice (effective representation). While the ILO's decent work agenda notionally included informal workers, the 2002 Convention of the ILO crafted a strategy to realise the four pillars of decent work for informal workers.¹⁵

The South African decent work discourse has tended to reflect a binary construct of 'non-decent' versus 'decent' work, with decent work being held up as the requisite standard. The ILO's articulation reflects a different perspective. For the ILO, decent work is not a 'standard' but a progressively realisable goal. It envisages informal and formal workers along the same continuum, with those at the bottom of the continuum suffering the most 'decent work deficits' and workers further up the continuum suffering fewer deficits. It articulates its goal of progressive realisation as one that should start with those who suffer the most decent work deficits:

For the ILO and its constituents, decent work is a goal, not a standard, to be achieved progressively. A progressive approach would imply starting with the informal end, where most new job creation in recent years has been taking place, and promoting the transition upwards along the continuum toward the formal, decent and protected end (2002).

This chapter's focus is on informal workers and is concerned with two aspects of decent work, namely employment opportunity and adequate remuneration. The chapter's argument is that for unemployed, marginalised people, intermediation is critical to providing employment opportunity. For independent contractors or users, who may have backward or forward linkages within value chains, intermediation has the potential to facilitate the re-distribution of value to these businesses, thereby progressively realising adequate income.

The next section discusses two categories of intermediary, being intermediaries for users and for producers respectively. In the case of the former, two case studies are presented. These illustrate the potential of intermediaries to re-distribute value in the value chain and thereby to realise progressively the goal of adequate remuneration for informal users.

INTERMEDIARIES FOR USERS

Typically, an intermediary for users is an association or co-operative and its users or clients are informal businesses. The intermediary thus provides services of some kind to the businesses. In the case of a co-operative, these users are also members (and thus owners) of the intermediary.

Since the 2003 Presidential Growth and Development Summit, co-operatives have been mooted as a job creation strategy in South Africa. The debate culminated in the Co-operatives Act 14 of 2005. The idea of worker co-operatives as a democratic alternative to small enterprises enjoys widespread support, and is often the legal vehicle required by donors (Philip 2003) or by retailers that procure goods produced 'by the community'.¹⁶ However, worker co-operatives (in which members are both owners and employees producing and marketing the co-operative's products) have enjoyed limited success in South

¹⁵ International Labour Conference 90th Session 2002.

¹⁶ One interviewee related that a large retailer refused to register it as a vendor as it was constituted as an association not for gain, rather than a co-operative.

Africa (Philip 2003).¹⁷ Philip rightly argues that user co-operatives rather than worker co-operatives are more viable as enterprises.

Members of a user co-operative are not employed by the co-operative and are thus not dependent on the co-operative for their livelihood. They operate as independent enterprises, but use collective organisation to produce economies of scale that reduce transaction costs and to shift the balance of power between their individual enterprises and other firms in the value chain.

Two cases studies are discussed below. The first is Shopnet, an association for spazas that takes the form of a buying co-operative. The second is COOPAC, a user co-operative of 3 098 illiterate farmers in Rwanda, which pools the washing and selling of coffee beans. Shopnet is a facilitator, whereas COOPAC is part of the value chain. Two key lessons are extracted from these studies.

Shopnet: An association for spazas

The Triple Trust Organisation (TTO), an NPO with offices in Cape Town, Gauteng and East London, was established in 1988 as a micro-enterprise support organisation that gave unemployed people skills and business training and offered them mentoring and micro-credit. In 2000, TTO changed its focus, by adopting a Business Development Services (BDS)¹⁸ approach and later a Making Markets Work for the Poor (M4P)¹⁹ approach. One of its BDS interventions is Shopnet, a voluntary buying group established to reduce the transaction costs of spazas and to contribute to a more efficient spaza supply and distribution chain.

TTO found that in the late 1990s supermarket chains established grocery stores in the townships in Cape Town and threatened the livelihoods of spaza owners. Spazas traded on convenience (being proximate to their customer base), being open at night, and selling products in quantities that suited their customers (such as single cigarettes). But supermarkets undercut spazas on price and threatened their continued existence.²⁰

Value-chain analysis revealed that the spaza owners' transaction costs were high, as (a) they received no discounts from wholesalers, and (b) they used public transport, which meant that they had to accommodate all purchases on their laps, and could not buy in bulk (Smith et al 2002). With the assistance of donor funding, TTO established Shopnet. Initially, TTO envisaged establishing Shopnet as a consumer co-operative, which would be managed by the spaza owners themselves. They soon realised that the skill set required to mediate the competitive environment meant that the consumer co-operative would not be viable without the assistance of TTO or a skilled manager. TTO thus continues to manage it.

Shopnet has three programmes: a voluntary buying group (the focus of the interview), a training programme for spazas – in the Western Cape, Eastern Cape and Soweto – and a wholesaling function that is in the process of being established in Cape Town.

¹⁷ See Kate Philip, 2003 'Co-operatives in South Africa: Their Role in Job Creation and Poverty Reduction' for the South African Foundation, at www.sarfn.org.za/documents/.../P872-Co-ops_October2003.pdf for a detailed analysis of why worker co-operatives generally fail in South Africa.

¹⁸ Business Development Services (BDS) refers to non-financial interventions that facilitate more effective participation by informal business in a particular value chain. Such interventions should ultimately become a sustainable business that services informal businesses.

¹⁹ The M4P framework starts with an analysis of the market, not the business (or the assets or capabilities of poor producers). Initially called 'sub-sector' analysis and now 'value-chain analysis', the particular value chain is analysed to ascertain who supplies who and the value added in each stage of the process. The analysis examines (i) how informal business participates in the particular market, (ii) where there is market failure (barriers to the poor participating) and (iii) strategies to overcome such constraints. The objective is to facilitate more effective participation by informal businesses or poor producers as consumers or users in the market.

²⁰ Interview with Donovan Pedro, Operations Director, on 16 November 2010.

The voluntary buying group accepts orders from its members, buys from Cash 'n Carry and makes two deliveries per area per week. Initially, the service was subsidised. When its value was evident to members, Shopnet charged its members R30 per month for eight deliveries. Currently, there is no membership fee, as the fee is embedded in the service. Shopnet now charges a market-related fee, which is a percentage of goods delivered. Contrary to usual market practices, Shopnet has adopted a progressive policy in terms of which smaller orders are charged a smaller percentage and bigger orders are charged a larger percentage, with a ceiling of five per cent. Thus smaller spazas benefit, rather than the more usual subsidisation of larger customers by smaller customers. Shopnet's focus is thus on increasing the number of members, rather than on the value of the orders.

Shopnet has reduced the transaction costs of spazas in at least three ways: first, Shopnet has negotiated a five per cent discount from the wholesaler, as it buys in bulk. and represents a substantial client base. During the quarter previous to the interview, the group spent R870 674. Second, the larger spazas can now buy in bulk, as they are no longer constrained by the space available in a taxi. Third, spaza owners no longer pay the opportunity cost of being away from their businesses while sourcing supplies. TTO has recorded growth of its members' businesses in terms of a diversification of products and a bigger turnover.

TTO is in the process of establishing a wholesaling function. In partnership with the Violence Prevention through Urban Upgrade (VPUU) project and supported by the German Development Bank (KFW) and the City of Cape Town, a purpose-built warehouse is under construction in Khayelitsha. The wholesaler will be run by a company in which 51 per cent of the shares are held by the spazas in a trust; 19 per cent by private investors; 10 per cent by NPOs; and 20 per cent by local residents. Thus, the primary beneficiaries will be spaza owners, and the secondary beneficiaries those who shop at the spazas, the township residents, who will be able to buy shares. Based on current distribution, the wholesaling function is projected to make a profit in its third year, provided it has a membership base of 1 800 spazas. The current membership totals 1 000, although not all are active. TTO is also exploring a partnership with manufacturers.

COOPAC: A co-operative for Rwandan farmers

Bean There (Pty) Ltd was established in 2004 'with the goal of making a sustainable difference in the lives of African producers, by doing business ethically'.²¹ Bean There is an intermediary between coffee co-operatives in Ethiopia, Rwanda and Kenya and the Southern African market. It buys the beans from the co-operatives and roasts, packages and distributes beans to retailers in South Africa, Namibia and Botswana. It is the first Fairtrade coffee company in South Africa and the first Fair Trade Company in the world where both producers and the market are in the 'South'.²² One of the most successful of the co-operatives from which it purchases coffee beans is the Rwandan co-operative, COOPAC. This section describes how COOPAC works and is based on the interview with Sarah Robinson of Bean There and on information from COOPAC's website. While it is not South African, its members are illiterate farmers, not dissimilar to poor, rural South Africans. The case study illustrates principles that are relevant to the South African context.

COOPAC was established in 2001 as a co-operative. Its 3 098 members are illiterate coffee bean farmers who have title to land.²³ For a farmer to become a member, she/he must own a minimum of 100 coffee trees. This entitles the farmer to acquire an interest in the co-

²¹ Telephonic interview with Sarah Robinson on 3 December 2010. Sarah co-owns the business with her brother.

²² This was conveyed to me in the interview with Sarah Robinson.

²³ Whether this is individual title or communal title could not be established.

operative. Thus the co-operative does not grow coffee beans itself – each member farmer (representing a household) produces coffee beans and members pool their beans for purposes of washing and selling them collectively to a coffee broker. The co-operative owns land and four washing stations. These were financed with loans and grants from various sources such as USAID, the Clinton Foundation etc.

The co-operative is governed by a representative board or committee of members and is managed by a Rwandan, Emmanuel Rwakagera, who holds Agricultural and Business degrees.²⁴ The co-operative has facilitated at least two outcomes. First, as a collective it has shifted the power in negotiations with coffee brokers and has enabled it to negotiate fairer terms than individual coffee growers are able to achieve.

Where local middlemen might offer 80 to 100 Rwandan Francs per kilo of [beans] in other regions of the country, [our beans] are fetching 100 to 130 Francs at the peak of the season.²⁵

Second, it has used some of the 'Fair Trade Premium' to build schools, clinics, infrastructure (such as roads and bridges), and to establish programmes to 'assist in the well-being of women and the young'.²⁶

Analysis and comment

Two studies generate insufficient data for policy recommendations, but do illustrate the potential of user co-operatives to re-distribute value down the value chain to users. The case studies confirm two principles that are reflected in the literature on co-operatives.²⁷ First, intermediaries for users require significant start-up capital and running costs for some years²⁸ and some may never be financially self-sufficient.²⁹ Second, while the structure may be a democratic one, such as COOPAC, both the case studies and literature suggest that the intermediary's success relies in part on being managed by an educated, competent champion, who is not a member, but is an employee.

INTERMEDIARIES FOR PRODUCERS

As the research findings from the craft sector reflect greater coherence than the findings from the agri-business interviews, this section is primarily about craft. However, the policy implications discussed at the end of the section have traction in the agri-business sector too.

This section begins with a description of the craft sector and the critical role of intermediaries in accessing employment opportunities for producers. This leads into a reflection on the nature of the relationship between producers and intermediaries and how this generally falls within the ambit of employment law, despite producers being notionally independent. When this is true, producers have a legal entitlement to secure 'decent work'. However, enforcing their entitlement is likely to result either in the demise of many intermediaries, or a restructuring of operations. The latter is likely to increase the precarious

²⁴ Interview with Sarah Robinson, Director of Bean There.

²⁵ <http://www.Coopac.com>. accessed on 19 January 2011.

²⁶ <http://www.Coopac.com>. accessed on 19 January 2011.

²⁷ See Marilyn Carr and Mariama Williams 2010 (eds.) *Trading Stories: Experiences with Gender and Trade* London: Commonwealth Secretariat, for case studies in Africa that illustrate the need for partnership with users by government, private sector and NGOs to establish and manage user intermediaries.

²⁸ See Philip's example of the NUM's Mining Development Agency (MDA) in 'Enterprise on the Margins: Making Markets Work for the Poor?' unpublished doctoral dissertation.

²⁹ In South Africa, this is illustrated by Commark, which among others started The Red Meat Project; by the example of the Cape Craft Design Institute and the Triple Trust Organisation. As Philip (2008) points out, demanding financial sustainability of intermediaries sets them up to compete in the same markets as the businesses for which they are mediating.

nature of the work and production costs are likely to be passed down from intermediaries to producers.

Two policy suggestions are made. The first relates to institutional support for intermediaries. The second is that intermediaries should not alone bear the costs of providing producers with decent work. These costs should be shared by other firms in the value chain.

Description of the craft sector and the role of intermediaries

The Department of Trade and Industry's 2005 Sector Development Strategy on Craft defines the craft sector as follows:

Craft refers to the creation and production of a broad range of utilitarian and decorative items produced on a small scale with hand processes being a significant part of the value-added content. The production of goods uses a range of natural and synthetic materials (2005: 3).

Traditionally crafters are classified as sole traders, businesses and community projects (Elk 2009). As argued earlier, categorisation on the basis of legal form is unhelpful in this discussion as most of the 'community projects' operate their intermediary function along business lines and most of the 'businesses', while incorporated as close corporations, have historically relied heavily on donations and subsidies, and in particular on the owner not drawing a salary.

Elk (2009) distinguishes between 'craft producers' and 'designers', arguing that designers can demand high prices for their products, while craft producers earn very little and 'remain largely survivalist'. She describes the qualities necessary to run a profitable craft business as follows:

To manage a profitable business that makes and sells products that are competitive in local and global markets requires *high levels of skills, deep personal motivation and consistent human resources* (2009: 19) [Author's emphasis]

'High levels of skills' imply design, business and financial management skills, and the ability to navigate sophisticated modern markets. The necessity of a deep personal commitment and 'consistent human resources' for the success of a business is perhaps less self-evident. Interviews underscored how critical both elements are to successful intermediation. The issue of 'consistent human resources' raises complex trade-offs. These are all discussed in some detail below.

Lize Engelbrecht, the founder of Love Projects, a small craft retailer that is an outlet for over 40 craft projects, sums up the commitment of social entrepreneurs in the craft sector to social change, to the individual producers and to ensuring the sustainability of the intermediary that they manage, a commitment that was evident in every interview:

Most 'projects'³⁰ are run by women for women. Most projects were started by white women who trained producers, had marketing contacts and skills and transport. All the projects have a champion. Most do it for the love and few are paid. This prejudices the sustainability of the project.

³⁰ Lize uses the term 'projects' loosely. Many of her clients are community projects, but many others are businesses in the form of CCs. This underscores the fact that the legal form is not an indicator of whether the intermediary is a sustainable business.

The term ‘champion’ is apt and, as Hay et al (2010) point out, a leader or champion is the most critical ingredient for a viable craft business. That these champions seldom draw salaries may indicate a lack of business acumen on their part, a reluctance to reduce earnings for producers, or that the businesses are simply not viable if it pays the champion a salary. One could argue that such businesses are unsustainable. But these intermediaries have all been operating for longer than five years, the period of time that the Global Entrepreneurship Monitor uses as a proxy for sustainability.

Each intermediary interviewed provides access to markets for an average of 30 producers. In addition, all provide embedded services such as design, sourcing of and absorbing the costs of raw materials, costing of products and training producers to make new products. In addition, they provide non-business-related developmental support to producers, such as assistance with opening bank accounts, arranging workshops on issues such as HIV-Aids and breast cancer and supporting individuals when ill or suffering set-backs. It would be hard to overstate the commitment of the owner-managers of these intermediaries, particularly as their businesses absorb ‘the consequences of poverty and HIV-Aids on a daily basis – time off for queuing for the clinic, inability of producers to concentrate because of hunger and too little sleep in noisy informal settlements’³¹ These factors all undermine ‘consistent human resources’.³² The key policy question is how to provide institutional support to intermediaries to enable them to expand their impact, without opening the door for intermediaries to exploit producers. .

All the interviewees reflected on the tension between the business imperative to maintain ‘consistent human resources’ and the social imperative to establish producers as independent contractors. This tension has two facets. The first, as articulated by one interviewee, is that ‘in order to source contracts, one needs to keep a competent group’.³³ Competence implies a group that can be relied on to fulfil the orders efficiently and to meet exacting ‘first world’ standards. In many cases, this translates into producers working from the intermediary’s premises, as it ensures a reliable core group and makes quality control easier. In addition, most producers don’t want to be independent. The manager of Kunje, which has a staff of three and facilitates access to markets for up to 100 producers at any one time, comments as follows:

*In general, producers want an income, want to ‘go to work’ and want to have a measure of flexibility to produce as much or as little as they choose. There is little desire or demand to ‘own’ the entire process. Producers are generally reluctant to shoulder the risk involved in brokering and fulfilling these large orders – this is the risk that Kunje absorbs on their behalf.*³⁴

Adri Schultz’s experience echoes these views. Mielie, the intermediary that Adri started, has five permanent employees and provides design, quality control and access to markets for approximately 30 craft producers, who are home-based. These producers, who are all women, come to Mielie’s premises once a week to receive orders and to return completed orders. Adri comments:

Ideally people want a job, and ‘to come into work’ carries status in their community and thus has value for them. Most producers want to

³¹ This comment was made by Jill Heyes of T-Bag designs and echoed by several other interviewees.

³² This point was made by several interviewees.

³³ Interview with Roche van Wyk, Managing Director of Learn to Earn on 2 December 2010.

³⁴ Interview with Alison Coutros on 3 December 2010.

*come in to work and to produce a steady flow of work that they have not had to solicit and that they don't have to manage.*³⁵

The dilemma is that while the intermediaries would prefer for producers to be more independent, the reality is that not only do most producers not want the independence, but markets are sophisticated, and intermediaries have to be hands-on in terms of product design and quality control. In the process, these intermediaries may be transgressing employment and other laws.

In an attempt to provide benefits and protection to 'non-standard' or 'atypical' work spawned by outsourcing, sub-contracting and casualisation of relations of production, the Labour Relations Act 66 of 1995 was amended in 2002 to broaden the scope of who is to be regarded as an 'employee'. Additional amendments are currently under discussion 'to ensure decent work by regulating sub-contracting, contract work and outsourcing'. In section 200A of the Labour Relations Act, there is a presumption that someone is an employee if they earn less than a minimum amount stipulated in the Basic Conditions of Employment Act 75 of 1997; if they work for more than 24 hours a month; and if only one of seven further factors is present, which include: whether the person is economically dependent on the other person for whom he or she works or renders services; whether the person is provided with tools of trade or work equipment by the other person; and whether the person only works for or renders services to one person.

Some producers have other sources of income,³⁶ but most depend on the work generated by intermediaries for their livelihood, and most are reliant on the intermediaries to finance the raw materials and tools – for example, sewing machines and paper-making machines. Thus, producers could be classified as employees under the Labour Relations Act.

If producers qualify as employees under section 200A, that triggers employment rights, benefits and protections provided by the Basic Conditions of Employment Act and other employment laws. Few intermediaries interviewed could absorb the financial implications. Two scenarios are likely.

In the first scenario, intermediaries could restructure to avoid the seven presumptions applying to the way they structure the relationship with producers. The implications for producers would be two-fold. First, they would have to work from home and absorb the costs of raw materials and tools – implying a transfer of costs down the value chain from intermediaries to producers. Second, intermediaries would have to choose producers who have other sources of income – either another survivalist business or other clients for their craft items. Thus the most marginalised producers currently working with intermediaries are likely to be disqualified. These are illiterate women, many of whom don't speak English, many of whom are HIV-positive and who are unlikely to be able to finance the cost of raw materials.

The second scenario is more likely. Given that few craft intermediaries have the resources, capacity or administrative infrastructure to bear the legislative burden of employing producers, enforcing compliance is likely to result in closure of the businesses. Enforcing employment laws in the craft sector is thus likely to have the unintended consequence that businesses and NPOs' livelihood programmes will close and the livelihood opportunities of producers would be compromised.

³⁵ Interview with Adri Schultz on 4 December 2010.

³⁶ Intermediaries indicated that some producers owned spazas or generated income from sources other than craft products.

Since intermediaries in the craft sector (and some interviewees in the agri-business sector) generally cannot comply with current labour provisions, an alternative conception is desirable. This is to recognise that informality is here to stay and to consider how the pillars of decent work (rights, social protection and voice) could be realised for informal workers by compelling other firms in the value chain to absorb some of the costs of realising these pillars.

In the sections that follow, two conceptual suggestions are outlined. The first concerns the creation of a membership-based sector body to which intermediaries could belong if they fulfil conditions contained in a charter. Membership would entitle intermediaries to different types of support, including support to grow their businesses and to comply with employment law. All the interviewees supported this suggestion and made concrete recommendations.

The second is based on the premise that even if institutional support improves the viability of craft businesses, intermediaries should not on their own bear the costs of providing producers with decent work, or even at all. The internal labour market that applies intra-firm should apply to the value chain as a whole and it is submitted that the BEE policy framework has the potential to enable the practical realisation of such a notion.

Membership-based sector body

All the interviewees supported the idea of a membership-based sector body. Such a body would differ from sector bodies such as the Institute of Estate Agents or the Institute of Travel Agents, which are regulatory bodies with the objective of protecting the public. The purpose of the proposed body would be to support intermediaries. It would also be different to the defunct Crafters Association, which was a representative body of all crafters. The purpose of an association of intermediaries in the craft (or agri-business) sector would be to support the growth of the businesses and the progressive realisation of decent work for producers. The intermediaries interviewed raised several issues that reflect the needs that they wish to see addressed through membership of such a body. These were supported by the Cape Craft Design Institute (CCDI) as reflective of issues in the sector.³⁷ Although the views are not representative, they contribute to the debate on what a membership body could do. The following three factors were prevalent:

- All the intermediaries profited from the services of CCDI (itself an intermediary), which included workshops on costing, design and branding, and funding to attend and showcase their products at design shows and indabas. They were of the unanimous view that workshops were excellent for individual crafters and designers, but as businesses became established, workshops became less useful. All expressed the need for one-on-one mentoring. One owner-manager, who had benefited from an on-site two-week visit from a mentor, said it revolutionised her business.
- All felt administratively over-burdened and a shared services model was mooted as a desired solution.
- All except one articulated the need for design services. As with the case of shared accounting and administration services, they are willing to pay for this service.

As Elk notes, craft businesses need to purchase services that they cannot perform themselves:

Historically craft producers have been put under pressure to perform in all aspects of the business, from manufacturing to sales. A single person rarely has the skills or competencies

³⁷ Interview with Erica Elk on 1 December 2010.

required for all these functions. If craft enterprises are going to become sustainable, they need to 'buy' those skills into their businesses or engage with people who provide these services (2010: 55).

Such a membership sector-based body could offer shared services that craft businesses would buy. Services would include design, business mentorship and administrative support. It could also undertake policy research and advocate for and represent the interests of intermediaries within a particular sector. For example, it could address the need for bridging finance (for large orders) with institutional partners, and capital needed for production space (easily accessible for agri-businesses interviewed, but not for crafters). In addition, as Philips (2008) points out, there is a need for insurance mechanisms to underwrite the risks inherent in global value chain participation where transactions involve large numbers, in terms of both money and products. Such a membership body could explore solutions and negotiate on behalf of intermediaries in a particular sector.

The membership body could fulfil another function. Intermediaries could qualify as enterprise development facilitators and access companies' enterprise development funds, company expenditure necessary for BBBEE scorecard points and which companies are reportedly struggling to spend.³⁸ These funds could be used to grow users' businesses and develop those producers who have the potential to operate as independent contractors. Intermediaries would be entitled to charge an administrative fee, which would be deducted from the enterprise development funds allocated to it³⁹ The sector body could act as an accreditation facility for accreditation agencies such as Empowerdex, by accrediting intermediaries as enterprise development facilitators, as well as police their compliance. The operational details of these broad suggestions would have to be worked out with stakeholders.

It would be critical to develop a charter detailing the criteria for membership and how compliance with the charter would be assessed. Membership would be withdrawn if any aspect of the charter were transgressed. A grievance procedure, such as a tribunal or internal grievance procedure would have to exist for producers to blow the whistle if members failed to comply with any terms. These are broad suggestions that would have to be worked out in consultation with key stakeholders in the sector.

Intermediaries in the agri-business sector also expressed interest in such a membership-based agri-business sector body for intermediaries, and expressed the need for (different) shared services.

Realising the goal of decent work: Moving costs back up the value chain

Most intermediaries are part of a value chain. Value chain analysis is an analytical tool whereby a particular value chain is analysed from the inception of a product until its final destination to ascertain who supplies what to who and the value that is added at each stage of the process. It is specifically interested in how poor producers participate in the particular

³⁸ One of the BBBEE Scorecard categories relates to enterprise development. The compliance target is that companies spend 3% of taxed profits on enterprise development. These funds are to be spent by accredited 'enterprise development facilitators', who use the funds to develop emerging black-owned enterprises and are entitled to charge an administrative fee to do so. Companies are struggling to reach the compliance target as there are too few accredited enterprise development facilitators. This point was made by the one retailer interviewed, as well as two NPOs, one of which is accredited as an enterprise development facilitator.

³⁹ This is currently how it works, according to one of the NPOs interviewed. It is accredited by Empowerdex as an enterprise development facilitator.

chain, identifying market failure in the form of barriers to their participation, and crafting strategies to overcome such constraints.

Value chain analysis recognises that economic transactions between different participants in the value chain are infused with power imbalances. An intermediary generally has limited power to negotiate with a retailer or conference organiser on the price for an item of craft, or for an agri-business product – such as olive oil, olives, jam, biscuits, milk or wine.⁴⁰ The bargaining power of the lead firm is often such that it structures the entire value chain and undermines the autonomy of other firms in the value chain, including that of the intermediary (Navdi 2004). The intermediary's lack of autonomy fundamentally impacts on its ability to increase wages and extend benefits and protection synonymous with decent work. In addition, it impacts on the bargaining power of the producers for improved wages, rights and benefits (Navdi 2004).⁴¹

In the introduction, it was suggested that BEE legislation opens up a policy space to explore how internal labour markets could be expanded. It is in this context that the discussion is relevant. Global activist scholar Marty Chen⁴² argues that the process of informalisation has meant that intermediaries constitute an additional 'firm' in the value chain and that this has the effect of masking the fact that the real employer is still the lead firm. She argues for this to be recognised by labour and commercial law and for the internal labour market that applies intra-firm to be extended to the value chain as a whole. Chen recognises that the global nature of production means that it would need a global movement, such as the environmental movement, to realise such a notion. Nevertheless, as she notes, global compacts rely on national pressure for implementation at local level.

While the process of informalisation is evident in South Africa, and Chen's argument is important, the producers we are concerned with are not the direct 'victims' of informalisation. Other structural forces (such as the racist apartheid education system) have marginalised generations of black learners and excluded them from participation in the formal economy. Their marginalisation is not directly attributable to the development of capitalist relations of production.

Nevertheless, the argument does have currency for a different reason. The lead firm, particularly in South Africa, is extracting considerable value from producers – more than just their labour or even the value of the product itself. First, it can leverage marketing value from the fact that the product is sourced 'from the community', termed 'cause branding'. Second, if the producers are organised as a co-operative (even if managed by an intermediary) or if they own shares (even as minority shareholders with no control over the business), the South African lead firm scores BEE points for procuring from black-owned businesses. It is in this context that a policy opportunity presents itself. The BEE scorecard could be used as leverage to re-distribute value in the value chain. As lead firms are not just buying products, but also buying scorecard points, they should bear some of the cost of realising decent work for the value that they extract from the producers via intermediaries.

⁴⁰ One interviewee spoke of how the price was agreed with the retailer's business development officer, but unilaterally revised by the buyer. The buyer also decides on what the producer will be charged as a distribution fee, an advertising fee and the credit terms. Another told of how a buyer drove such a hard bargain that the cost per pair of sandals ultimately did not cover the costs of producing samples and products.

⁴¹ More recently, value chain analysis has extended the analysis beyond firms that form part of the value chain to include the relationship between the workers and their firms.

⁴² Marty Chen is a Lecturer in Public Policy at the John F. Kennedy School of Government, Harvard and is international co-ordinator of the global research policy network Women in Informal Employment: Globalizing and Organizing (WIEGO).

There is precedent for recognising the value of BEE scorecard points in the form of monetary compensation in the commercial sector. However, given the distribution of power in the value chain, individual intermediaries are unlikely to be able to challenge the terms of contracts and insist on monetary compensation for the BEE points that their products earn the lead firm. This calls for government to mediate the power relationship within the value chain by incentivising the lead firm and by regulating the transaction to achieve desired policy outcomes. A discussion of the appropriate instruments falls outside the ambit of this chapter.⁴³ However, in her chapter, Sandy Lowitt suggests tax incentives and proposes changes to the Broad Based Black Economic Empowerment Act 53 of 2003 (BBEE Act) that could provide a platform for dialogue with retailers. A change proposed by one of the retailers interviewed, is that the procurement weighting for the BEE Scorecard is increased and the weighting of other components, such as equity and management, thus decreased⁴⁴.

The ILO encourages social dialogue between stakeholders with a view to reaching consensus on the implementation of measures to realise decent work. In the USA, many transnational companies trading in goods for high-end consumers have committed to charters or codes that they apply across their value chain. The labour standards promoted in a relevant charter are included in contracts with suppliers. NGOs, such as the Fair Labor Association, audit these suppliers and publish the results. These processes resulted from an initiative by Bill Clinton, who facilitated a social dialogue between stakeholders, including civil society organisations, to find solutions to the problem of indecent labour conditions in the global labour chains.⁴⁵ The charter approach has limitations and does not re-distribute value, and so this is not proposed as a solution. Rather, it is suggested that dialogue among all stakeholders would minimise unforeseen consequences of unilateral policy and legislative changes, whether to the BBEE Act or to the tax regime. One could use existing forums, such as the retail committee of the National Empowerment Fund, as long as intermediaries, producers and civil society organisations are involved in the process. Government would have to mediate power imbalances between stakeholders, since collective organisations of intermediaries and producers are still nascent.

CONCLUSION

This chapter has argued that intermediaries are critical to the participation of marginalised, poor, under-educated South Africans in formal markets. While their participation generates little more than subsistence incomes, these earnings are critical to their livelihoods. In addition, their participation represents a foothold in economic processes from which they would otherwise be totally excluded. This holds promise for their agency both as workers and as citizens.

But intermediaries are either part of value chains or facilitate access to value chains that are characterised by power relations. The chapter considers how the balance of power could be shifted in favour of intermediaries and their users and producers, with the objective of progressively realising decent work for these categories of informal workers.

Intermediaries for users enable informal enterprises to reduce their transaction costs by exploiting economies of scale and by shifting the balance of power between individual

⁴³ But see Sandy Lowitt's chapter 'Linking small marginalised producers to modern markets: Are we trying to fit a square peg in a round hole?' Different authors rely on different theoretical constructs, e.g. extending the notion of a social wage (Benner 2005) or social compliance commitments by the private sector 'across their value chains' (University of Manchester 2010).

⁴⁴ The five components' total 100 points, so an increase in one component's points necessarily means the weighting of another component would have to be adjusted.

⁴⁵ See TED video (www.ted.com) by Aurret van Heerden 'Making Global Labor Fair'.

enterprises and other firms in the value chain. But there are two caveats. First, funding is critical for the considerable start-up and running costs of such intermediaries. Second, where users are the members and thus owners, they should not also be the managers.

In the case of intermediaries for producers, the chapter has tried to make a case for using collective forms of organisation for intermediaries to advocate for and develop services for members – such as shared accounting, administrative and design services and shared avenues to acquire insurance, bridging finance and venture capital. In addition, collective organisation holds the potential for incrementally enabling intermediaries to shift the balance of power in the value chain, particularly given the BEE scorecard value they generate for firms in the value chain.

The BEE policy framework could provide a unique opportunity to shift some of the responsibility for realising decent work for informal producers back up the value chain to South African lead firms.

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