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**Final Technical Report for IFAD Project:
“Development of a viable Cash-on-the-Bag (COB) transaction
model for small farmers in Kenya, Tanzania and Uganda”**

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SUMMARY

This project aimed at developing a commercially viable and therefore sustainable mechanism for improved market access by farmers. This was to be achieved through a) Developing a "Cash-on-the-Bag" mechanism to pay farmers for their produce in well researched deals that can be reliably tracked to achieve full transparency along the whole chain, b) Building the capacity of entrepreneurs who will provide such secure transaction services as their own business, c) Capturing and documenting all the lessons learned while implementing the pilot efforts in order for the learning to feed back into the design of future efforts, and d) Making sure that IFAD-supported projects throughout Kenya, Uganda and Tanzania can benefit from the achieved learning. Tools were developed, tested and adapted in several cycles that allowed careful analysis of deals between farmers and buyers that were then launched with "Cash-on-the-Bag" advances. The criteria for releasing the advance was that a deal must result in win-win all along the value chain, achieving transparency for all involved. The increased efficiency in the transactions allowed a commission payment to those who organize and control the transaction on behalf of the sellers and buyers. Databases were developed to operate a clearing account that tracked a "COB fund" and all the payments of a deal to achieve transparent accounting to all involved in a deal. What still needs to be done is automation of data-input and data-flow. Traders and small market actors were trained and coached on-the-job to link together in networks that can ensure correct management of deals according to the emerging procedures. The learning was achieved through intensive mentored peer-exchange among the learners, using the Linking Local Learners methodology and online learning platform. While networks of such service providers today exist in all three countries, they have grown much slower than anticipated. It turns out that the required set of skills and changes of behaviour to provide transparent trading take time to master. Also, further bottlenecks emerged such as lack of reliable money transfers to remote areas, lack of reliable transport, and lack of fast legal redress against defaulters. For the networks to grow to commercially viable scales these issues need to be tackled. Six lessons briefs, ten good business practices and twenty impact stories, gleaned from the activities on the ground and from the learning exchange on the web, have been written up and made accessible over the web. Attempts were made to interact with various programs of IFAD in the region. However, success in this was limited by issues around the implementation schedules and administrative constraints in the various programs.

The core achievement of this project is the emergence of a tested alternative business model for "middlemen": Instead of buying at the lowest price possible and selling as high as possible the new model works on a commission that is tied to the price smallholders get. Buyers and sellers are happy to provide commission given the achieved transparency and higher efficiency of the transactions that leaves smallholders with a better price and buyers with better produce than the traditional model. In spite of the abrupt closure of the project, the model has been proven to work over at least twenty six deals that ran the full length: Farmers earn an average of 15% more, efficiency along the chain is high with only average 20% increase of price from farmer to final buyer, and the Cash-on-the-bag advances can usually be paid back well within the 4 week limit that was set for financial sustainability of the COB fund. However, the main drawback of the project is that scales of operation for full economic viability of the whole network are yet to be achieved. To achieve this further work will have to concentrate on two fronts: continued capacitation and 'infrastructure investments'.

- Building the skill sets required for operating the business takes considerably more time than anticipated. While several traders and some of their local agents can now be considered to be on the threshold of operating fully commercially, scaling up to the required numbers of agents and frequencies of deals to break even at the network level will require a "learning COB" fund along with intensive mentoring. A process needs to be built to graduate those traders and agents that have gained enough experience to be entrusted with "commercial COB" coming from commercial banks.*
- During the implementation bottlenecks were discovered that are outside the direct sphere of influence of the business model, eg: lack of reliable formal payment systems to outlying remote villages; lack of structures near enough to farmers for reliable bulking and quality control operations; lack of reliable transports reaching out to villages; lack of fast legal redress with defaulting buyers; etc. At present it therefore turns out that for the COB model to work at scale investments may also have to be considered in a) virtual payment platforms, b) in collection point structures, c) in transport, and d) in legal services for disciplining defaulting market actors.*

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1.0. 'Cash-on-the-Bag' Grant Challenge

The Cash-on-the-Bag (COB) grant addresses one of the most persistent and prevalent reasons for failure of agricultural supply chains in Africa and persistent low prices to small farmers: the absence of a secure and trustworthy transaction environment; and the buy-low sell high business model of traders. COB bundles financing for cash on the bag payments to farmers with transparent and secure deal operations that provides traders with a new business model based on a service commission linked to farmer prices. The COB model provides a commercial incentive for traders to give farmers the highest price possible. The grant goal is therefore to contribute to the establishment of a secure and trustworthy environment for agricultural marketing in East Africa. This contribution will be made through the grant objective to: develop a commercially viable financing system for COB payments within a secure transaction service to small farmers in Kenya, Uganda and Tanzania.

1.1. The Central Role of Capacity Building

This grant builds the capacity of networks of local traders to provide a transparent and secure market access service¹ to small farmers and develops a financing system for COB payment to small farmers involved in such deals. Trader networks can access COB financing where the farmers want to be paid "cash-on-the-bag", and the buyer is not willing to advance the cash. The money is recovered as soon as the buyer pays for the produce. Capacity building is delivered through the Linking Local Learners methodology² coached by international and local mentors. Lessons learned are documented and shared in the form of good business practices, impact stories and policy briefs. Opportunities to expand the networks of local traders providing market access services with COB payments to smallholders will be explored with IFAD-supported projects interested in establishing the COB business model³.

¹ A secure transaction service ensures that buyers get the produce they require according to their specifications and timing, and that sellers are paid according to agreed conditions. A trader with his or her network of local agents, independent of the value chain, provides this service on a commission basis. For every deal, one local agent is responsible for interacting with the farmers who are selling. The agent supervises the bulking operations, does the quality control according to the agreed specifications, and tags and seals the crop for transport. S/he also supervises the payments to farmers. Another local agent takes care of all interactions with the buyer. The trader ensures coordination, control and monitoring of the full transaction. The services of all involved are paid for through a commission on the value of the transaction, which is documented, transparently communicated to both buyers and sellers, and agreed with them beforehand.

² The Linking Local Learners (LLL) methodology is a mentored learning and knowledge management system that enables rural entrepreneurs to learn from each other while being coached by business mentors. The mentored learning combines face-to-face action learning with business-to-business online exchanges. Local entrepreneurs working in the same business use this knowledge management system to improve their own business operations through exchanging ideas and experiences with their peers in other places. They also coach and advise each other on how they can be more successful. For more details see www.linkinglearners.net

³ IFAD programmes that have expressed interest are: Agricultural Sector Development Programme in Tanzania, Vegetable Oil Development Programme in Uganda, and in Kenya the Small Holder Horticulture Marketing Programme

The grant challenge is formidable as developing commercially viable market access services to give small holders better prices and improve efficiency of value chains is widely recognised to be a very difficult and complex challenge. Pride Africa was contracted to deliver the following outputs:

- Financing mechanism developed that provides cash-on-the-bag payments to small farmers within secure transaction operations on a commercial basis, including systems to manage information flows, and databases associated with registering and tracking deals.
- Capacity established in local market trader networks across Kenya, Uganda and Tanzania to provide commercial volumes of COB payments to small farmers within secure transactions.
- Lessons learned captured and shared in the form of policy briefs, good practices and impact stories, all made available through the NEMAS network and on www.linkinglearners.net.
- New local market linkage networks of value chain players and service providers established in IFAD-supported projects in Kenya, Uganda and Tanzania.

This final report presents the activities that were undertaken over the project period from April 2011 to June 2012. It describes the achievements against the project outputs and highlights the further challenges for the COB business model to achieve commercial scale.

2.0. Project Activities

This section describes the activities undertaken by Pride Africa staff, consultants and local mentors from April 2011 to June 2012. These activities are described in four major components: 1. Develop an innovative financial management system; 2. Build capacity of traders and their network of agents; 3. Document and share learning outcomes; and 4. Link with IFAD supported programmes. Each of these categories is presented as follows.

2.1. Develop COB Financial Management System

Activities in the project to develop a financial management system for COB focussed on the following: setting up banking arrangements; setting up COB finance tracking databases; setting up deal operations and impact databases; exploring a Web/mobile payments management system; and closing the COB fund. Negotiations were held with banks having operations in Kenya, Uganda and Tanzania. Of these Kenya Commercial Bank (KCB) had the greatest penetration of local branches in all three countries and offered online monitoring of accounts. Barclays and Standard Chartered banks had smaller branch networks and no online banking. Other banks, like Equity and NMB, had good branch coverage but limited to their own countries.

A dedicated USD account with KCB for COB funding was established and three different banking arrangements to move COB money from Pride Africa to traders and from buyers back to Pride Africa were explored. In Kenya funds were transferred from the KCB 'COB float' account directly to the accounts of the Kenya trader networks to finance the deals approved for receiving a COB advance. All trader networks in Kenya opened bank accounts with KCB for the purpose of receiving COB funds. Kenyan buyers paid directly into the KCB COB float account. In Uganda a service agreement was signed between Pride Africa and AgriNet (our commercial partner in developing the COB business model) for the latter to manage the 'COB float' account on behalf of Pride Africa. AgriNet opened a dedicated COB float account with Stanbic Bank and requested all traders to open accounts with Stanbic for the purpose of managing COB funds. Ugandan buyers paid directly into this COB float account with Stanbic. In Tanzania, the absence of a national commercial partner meant that service agreements were signed between Pride Africa and the Trader network companies. Here COB funds were transferred to dedicated 'COB float' accounts with NMB managed by the two traders Bahat Tweve and Mark Farahani. Tanzanian buyers paid directly into these NMB 'COB float' accounts.

Once a COB advance for a deal was approved by Pride Africa funds were released from the 'COB float' accounts to the trader network. The trader provided cash-on-the-bag payments to small farmers through bank transfer to their agents. Agents then paid the farmers with cash or mobile money. In addition to the service agreements for managing 'COB float' accounts Pride Africa signed Memoranda of Agreements, or 'COB training contracts' with all trader networks. These MoA's defined the roles and responsibilities of each party and the procedures for disagreements and termination.

Considerable time was invested in developing and testing databases for managing the COB financing system. As with all development work the online learning platform was used so that traders could provide their input into the design work along with finance and database management staff. The COB financing system has two components.

- The first, based on the deal plans of traders, allows for the projection of financing requirements a month in advance.
- The second component, based on actual deals registered and completed, allowed for COB fund use to be tracked through the deal cycle. (For details see Annex A. COB Tracking Database).

Considerable time was also invested in developing and testing centralised data handling for registering and tracking deal operations along with scoring how each person involved in the deal performed. Databases captured, for each deal, its registration number, short description, dates of key steps in the deal process as well as a short assessment of the deal. The same database also maintained a track record on the performance of traders, agents, transporters, buyer and sellers involved in each deal. (For details see Annex B. COB Deal Registration Database). Tracking the performance of all involved allowed due diligence checks and credit worthiness assessment for COB financing to be made.

A further set of databases were developed that track the social impact of each deal based on a set of Key Performance Indicators (KPI). For each deal this data captured number of farmers' involved, total and average incomes. Also the prices local middlemen paid were captured so that price differences could be calculated to show the added farmer income due to dealing with the introduced system as compared to the presently prevailing marketing system in their locations. The commodities and their volumes that farmers sold were also captured. Impact on the Trader's business captured total value of the deal as well as the commission earned and its breakdown between trader and agents working with sellers and buyers. Deal efficiency was calculated as percentage of cost against total deal value. (For details see Annex C. COB Deal Impact Database).

Web/mobile applications to automate data entry and reporting were specified for Webgate to begin their development of an online application for managing the COB deal registration database.⁴ Exploratory work was conducted on the possibility of using a mobile phone payment system to reduce risks of moving cash and free up time of traders from the burden of making payments. Discussions with Mpesa in Kenya directed us to the company SoftwareGroup, as it had worked successfully on integrating Mpesa in various MFI's for payment systems including 'Mobikash'. SoftwareGroup was contracted in September to understand the COB business processes and prepare a functional specification for a mobile-based payment management system. The processes associated with reporting and audit requirements were examined to determine the information

⁴ *Webgate, the Swiss software company that provides the LLL online learning platform invested their time and resources into application development at their own cost.*

needed to be captured to ensure that all transactions are traceable for audit purposes. (For details see Annex D. TSS/COB Payment Management System).

2.2. Build Capacity of Trader Networks

Activities in the project to build the capacity of traders and their agents comprised of online mentoring using the LLL online learning platform supplemented by face-to-face visits by local mentors and network manager meetings in and between countries.

Learning was driven by a commercial target for each trader and their network of agents. The target for a network was to reach forty deals in a month giving a gross income to the network of USD 12,000 per month assuming they collect 10% commission on deals worth USD 3,000 each. Traders report that at this level they would consider themselves commercially viable.

Mentoring started with developing a learning agenda and organizing for online and face-to-face events. The learning focussed on doing real deals using the COB business operational processes and then learning from how each deal went (For details see Table 1. Operations of the COB Business Model). Traders were mentored at each step of the full transaction as they shared their experiences of negotiating, registering, executing and closing deals over the LLL online learning platform. Particular emphasis was given to developing deal plans, analysing, clarifying and checking deals before registration. Special attention was given to traders whose deals went wrong both to learn lessons and come up with good practice solutions. Two international mentors and four local mentors supplemented their online mentoring with face-to-face visits to traders and agents. This included bringing traders and their agents together for cross network business development meetings. In their turn, traders coached their own agents directly by phone and visits as not all of them yet have access to sufficient bandwidth on the Internet.

In addition to the online mentoring international and local mentors made two extended field visits to Kenya, Uganda and Tanzania. Visiting all the network managers in their areas of operation including visits to farmer groups and buyers. Other key market chain players like transporters, warehouse operators and input suppliers were also involved in the discussions. The first field assessment exercise was conducted between 7th November and 14th December 2011 in Kenya and Uganda and 2nd November and 17th December 2011 in Tanzania. The second assessment exercise was conducted between 21st February and 16th March 2012 in Kenya and Uganda and 24th February and 2nd March 2012 in Tanzania. Key events during these visits were as follows:

- November 23rd 2011 Kenya network managers meeting in Nakuru identified the major constraints they faced in operating COB deals on the ground.
- November 25th 2011 Ugandan and Kenyan network managers meeting in Busia identified the major problems they faced in conducting cross border deals through Malaba and Busia border posts.

- December 5th 2011 Uganda network manager meeting in Kampala identified the major constraints to improving the frequency of their deals.
- March 8th 2012 Kenyan network managers meeting in Nakuru identified the major constraints to them achieving their trading targets to achieve commercial scale.
- March 13th to 14th 2012 Kenyan, Ugandan and Tanzania cross network meeting in Kampala identified new business operations and rules to reduce risks of the COB business model.

Bahat Tweve, the trader network manager from Tanzania, at the invitation of IFAD, participated with Pride Africa in the conference: “From Islands of Success to Seas of Change: Scaling Inclusive Agri-food Markets” at the Carlton Beach Hotel, The Hague, The Netherlands, April 11-13 2012. This international gathering brought together 100 leading practitioners from business and development organisations to explore the question, “What works when scaling inclusive agri-food markets?”.

2.3. Document and Share Learning Outcomes

Activities to document and share learning outcomes focussed on analysing the online discussions on LLL and identifying topics for impact stories, good practices and briefs. Documented outcomes were shared on the LLL online learning website at www.linkinglearners.net.

International and local mentors spent considerable time analysing the online discussion on LLL for good practice ideas and lessons learned. A number of practical ideas emerged and were synthesised into guidelines for good business practice. Lessons were learned in the areas of risks to the business operations were synthesised into a short lessons learned briefs.

Once topics for good practice and lessons learning are identified full development of these knowledge management products requires interviews and verification on the ground. Field visits to Kenya, Uganda and Tanzania were conducted by international and local mentors in November-December 2011 and February-March 2012 for this verification.

Online discussions on LLL also helped mentors identify ideas for impact stories. Ideas were followed up with authors of potential impact stories by email. First drafts were prepared. Arrangements were then made for interviews during field visits in November-December 2011 and February-March 2012. Interviews were conducted so that the identified stories could be finalised and shared.

Finalised documents resulting from the knowledge management are made available on the linking learners website at www.linkinglearners.net and have also been sent directly to IFAD staff, programme coordinators and other development professionals including donor representatives through email lists and also through Pride Africa’s participation in the new IFAD grant-funded ‘Network on Enhanced Market Access for Smallholders’ (NEMAS).

2.4. Link with IFAD Supported Programmes

Activities in the project to link with IFAD supported projects focussed on working with the Smallholder Horticulture Marketing Programme (SHOMAP) in Kenya. Introductions were also made to the IFAD programme coordinators of the Vegetable Oil Development Project (VODP) in Uganda, and the Marketing Infrastructure, Value Addition and Rural Finance Support Programme (MIVARF) in Tanzania. Substantial links were established with the new IFAD grant-funded 'Network on Enhanced Market Access for Smallholders' (NEMAS) where the COB business model and local learning methodology was taken up as an example of innovative practice in market access.

Pride Africa participated in the 2nd meeting of the partners for the 'Network for Enhanced Market Access by Smallholders in East and Southern Africa' held in Nairobi, on 27th and 28th June 2011. Through a series of meetings and online exchanges in July we assisted in the development of a demonstration on linked local learning to be conducted in collaboration with SHOMAP. With further support from NEMAS Pride Africa designed, organized and implemented a field assessment visit for three of its most experienced traders to meet with SHOMAP producer groups in Bungoma, Nyeri, Nyandarua, Meru, Embu, and Nakuru between the 1st and 28th August 2011. Further meetings have resulted in new collaboration agreements between PA, SHOMAP and NEMAS. This collaboration will see SHOMAP contracting traders experienced with local learning and the COB business model to introduce local learning and the COB business to selected SHOMAP supported horticulture producer groups.

Key events to link with IFAD programmes during the project were as follows:

- June 27th and 28th 2011. Participate in NEMAS partners (donors and NGO service providers) meeting at the Jacaranda Hotel, Nairobi. Presenting the Local Learning model for facilitating value chains.
- August 30th and 31st 2011. Participate in the NEMAS IFAD market access programmes meeting at the Massai Lodge Hotel, Nairobi. Presenting the Local Learning model for facilitating value chains and the COB business model.
- November 10th 2011. Participate in NEMAS, SHOMAP, IFAD meeting on furthering collaboration in Nairobi.
- November 21st 2011. Field visit with network manager to Mount Kenya region for discussions with local government and producer on market access opportunities.
- December 8th 2011. Discussions with VODP and AgriNet in Kampala on Local Learning model and the COB project purpose and progress.
- December 14th Discussions with NEMAS and network manager on potential deals for SHOMAP trial.
- February 23rd and 24th 2012. Participate in the NEMAS Regional Service Providers meeting at the Gracia Gardens Hotel, Nairobi. Co-facilitate sessions on the Local Learning model as a new methodology for learning between key players in value chains.

- March 5th to 8th 2012 Field assessment visit to Mount Kenya region on the progress of the SHOMAP-COB collaboration trial.
- March 9th 2012 Participate in the SHOMAP horticulture value chain multi-stakeholder workshop at the Panorama Hotel in Naivasha. Facilitate sessions on the COB business model and experiences of the SHOMAP-COB collaboration trial.
- March 15th 2012 Discussions with VODP and AgriNet in Kampala on experiences of SHOMAP-COB collaboration trial and potential for conducting similar trial with VODP in northern Uganda on sunflower, soya, and other oil seeds.
- April 19th to 21st 2012 Participate in the NEMAS Kenyan Local Learning Facilitators workshop at the Kivi Hotel, Nairobi. Co-facilitate sessions on developing local learning business skill for local BDS providers in market access.
- May 16th 2012 Presentation to IFAD in Rome of the COB project outcomes and challenges to achieve commercial scale.
- June 25th to 27th 2012 Participate in the NEMAS Zambia/Malawi Local Learning Facilitators workshop at the Golden Bridge Hotel, Lusaka. Co-facilitate sessions on developing local learning business skill for local BDS providers in market access.

3.0. Project Achievements

This section describes the achievements over the twelve months of the project towards the project outputs. Each of the four outputs is treated separately. Achievement in the development of a financing mechanism that provides COB payments to small farmers is described first. How far we have got in building the capacity of local traders to provide COB services is discussed next. The lessons learned over the project are presented in terms of delivering the planned numbers of policy briefs, good practices and impact stories. Achievements in the last output: "establishing new local market linkage networks in IFAD-supported projects in Kenya, Uganda and Tanzania", ends this section.

3.1. COB Financing Mechanism

A financing mechanism for Cash on the Bag payments to farmers has been worked out, tested and grasped by the involved actors. A dedicated float account for operating the deals was set up in Kenya, Uganda and Tanzania respectively as a centrally managed clearing account in order to avoid the risks inherent in 'hands-off' arrangements. All float accounts were centrally managed. These accounts therefore acted as clearing accounts in which also the COB float in each country was monitored.

The complete COB finance operating system is now successfully tested. Any failures in deals are not due to the financial system that was developed, but inherent in the operation of the deals. This achievement would not have been possible without the development of a secure transaction system that occurred in the earlier IFAD grants to Traidcraft and FAO⁵ and initial start-up investment in Cash-on-the-Bag financing by Rural African Ventures Investments Ltd., UK. The management information systems for tracking trade and financing are now considered suitable for meeting the requirements for commercial investments.

A structured set of business operational steps has been developed and tried out. These twelve steps allow adequate control over the trader networks to ensure that 'win-win' transactions are financed (see Table 1. Operations of the COB Business Model). The clearing account allows to control the financial settlements to the trader and farmers and third party funders of a deal. Experiences over the twenty-six deals completed suggest that the process works. Compliance with each step has been difficult for some traders, but that appears to be a problem of capacity rather than of the process itself.

⁵ Work started on transaction security operations in 2008 with IFAD grants to Traidcraft Exchange, "Local Market Services Development East Africa" (1038-Traidcraft), and FAO "The Rural Knowledge Network (RKN) Project for East Africa" (580-FAO). RAVI first provided COB funds to trader networks in June 2010.

Table 1. Operations of the COB Business Model

Step	Process	Description
1	Trader takes responsibility and submits details of deal to HQ	Fill in a 'COB deal' excel sheet template with all the details of buyer, seller, prices, middle costs and trader agents involved. Upload spread sheet to centralized payment management database on website www.linkinglearners.net .
2	HQ checks deal	Analyse viability of 'win-win' deal including due diligence on all involved. Request documentation and further clarifications.
3	Local agent requests for full registration	Edit the deal information and provide clarification and Local Purchase Order from buyer. Upload finalised deal and request approval.
4	HQ approves deal	Check deal information and availability of COB finance. Approve deal and release funds to agent to pay farmers; transporters; and other middle costs.
5	Local agents with buyers and with sellers execute deal	Organize buyer, sellers, and transporter to execute deal. Enter farmer identity, contact and preferred payment details into register book for reporting.
6	Local agent with sellers collects produce and requests COB payment	Check quality and quantity of produce at collection point. Request payment of COB to farmers for produce accepted via mobile phone. Enter payment and farmer signature into cashbook for reporting.
7	Local agents check transport and delivery	Field agent checks loading of transport (escort produce when necessary). Agent with buyer checks quality and quantity of produce delivered to buyer. Record and report problems to HQ for action if necessary. Get buyer to sign delivery note for reporting.
8	Payment by buyer into clearing account at HQ	Send invoice to buyer directly or through agent on delivery. Check receipt of payment by cash, cheque or bank transfer ⁶ .
9	Trader finalises deal	Enter actual costs into deal excel sheet to determine commissions and possible bonus to farmers. Upload spreadsheet to centralised payment management database with HQ.
10	HQ pays deal settlements via clearing account	Replenish COB fund. Pay COB fees and management fees for HQ. Pay commissions to agents. Pay deal savings as bonus to farmers.
11	Trader shares lessons learned	Upload short report on lessons learned to payment database.
12	HQ closes deal	Enter Key Performance Indicator data spread sheet together with learning points. Upload finalized spreadsheet on centralised database.

⁶ It is crucial to follow up on buyers who pay late and get legal advice to determine when they are declared to have defaulted. Agents auction the produce when buyers either change prices or refuse to take delivery.

A tested 'COB deal' registration form is now available as an Excel spreadsheet. When a trader takes responsibility to coordinate a deal s/he uses this deal registration spreadsheet to request COB financing from HQ. The spreadsheet records the details of buyer, seller, middle cost estimates, and coordinator and agents involved. HQ uses this form to decide whether to provide a COB advance to finance a deal or not. At the close of every deal the trader updates the spreadsheet with the actual costs and payments. The standard spreadsheet works well for sourcing produce for buyers. Variations for livestock and other deal types like auctions and double loop delivery are also available.

Data from these COB deal registration forms feed into the centralised Management Information System (MIS). A centralised MIS for registering and tracking deal operations along with scoring how each person involved in the deal performed is designed, set up and tried out (see Annex B. COB Deal Registration Database). The database includes a further spreadsheet that, again, uses data from the COB deal registration to track the impact of each deal. Based on a set of Key Performance Indicators (KPI) the impact of each deal on farmers as well as the traders and the value chains is recorded (see Annex C. Deal Impact Database). Users report that due to the manual inputting the same data is often inputted into different spreadsheets. This not only slows down data entry it also introduces more possibility for data error. Automation of these processes has yet to be undertaken.

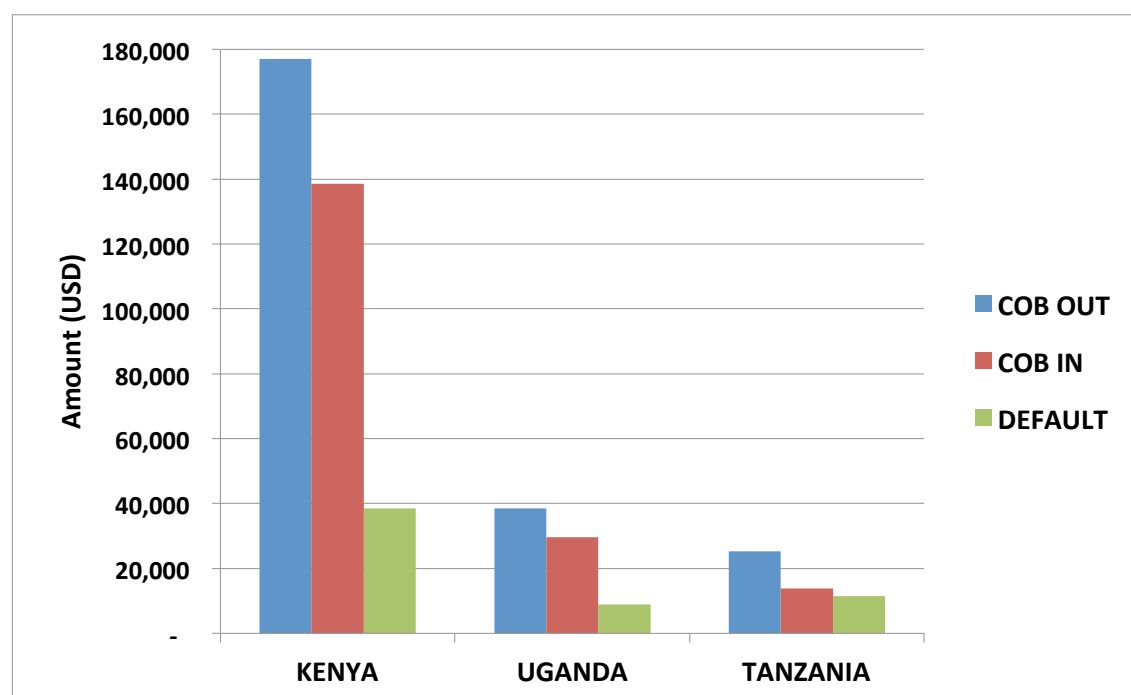
The tools for a centralised finance management system for projecting and tracking COB payments has been designed, developed and tested. The finance management system comprises two parts. Part one simply tracks the use of COB funds from start to projected finish and thereby records projected balances in the 'COB float accounts' available for future deals. The inclusion of pending deals enables projections of demand for COB financing to be made a month in advance. Part two manages a clearing account that tracks the daily movement of money and balances of the 'COB float' accounts for each deal throughout the deal cycle (see Annex A. COB Tracking Database). Amounts are tracked at each of the following steps: 1 COB paid out; 2 Buyers paid in; 2a pay back to COB float; 2b paid back to third party debt; 3 Bonus paid to farmers; 4 Commissions paid to agents; 5 COB finance fee paid; 6 Registration management fee paid. Users report that the system is complex with multiple entries of the same data that takes a lot of time to manage. Here too automation of the database will be required. The system does not yet track or provide the necessary paperwork of invoices, delivery notes and receipts for a sound audit trail. This too is yet to be achieved to provide an appropriate audit trail.

So, the design and implementation of the necessary financial management tools has been successful. Now urgent work is needed on automation of the centralised MIS. Similarly, a payment management system needs to be developed that reduces risk, increases security and cuts time and cost of operations for reaching commercial scales. Softwaregroup were contracted to develop a functional systems description (FSD) for such a payment platform. (See Annex D. COB Payment Management System). The aim must be to be able to make all money transfers through ICTs so that any cash that the involved people of a deal

finally hold in hand is cash that they own, whereas no cash shall be in hands that need to give it onwards or use for a specific purpose to be accounted for.

By the end of the project the volumes of deals are still far below commercial scale, ie. the targeted 40 deals per month and network. Over the project period nearly two hundred and forty one thousand dollars has been advanced to agents to pay COB to small farmers. Of this amount about one hundred and eighty two thousand has been recovered. The greatest activity occurred in Kenya as there were five traders operating there compared with three in Uganda and two in Tanzania. (see Graph 1. COB Activity by Country).

Graph 1. COB Activity by Country from June 2011 to May 2012.



Only a third of the original COB was recovered before the end of the project. The level of default across all the countries was nearly fifty nine thousand dollars. These losses were expected as this was a learning effort. COB for deals were often authorized that were risky, explicitly in order to explore how to go about them and learn. So while doing the utmost to recover any spent COB, the decision to spend it was more oriented towards pushing the envelope of learning rather than towards recovery. The learning was intensive and can be seen in the many stories and the debate on the exchange platform among the agents. It was made sure that each loss and problematic deal yielded its related lessons. (See Annex J. COB Default Deals by Country).

In summary the lessons learned with using the COB are the following:

- *Side-usage of available cash:* Cash is in such short supply, and commitments of market players so diverse, that any available cash in hand automatically goes to where the biggest pressure is to meet a commitment or chase an opportunity. This means that when people hold cash that is to be used for a specific purpose at some later time, the risks are very high that the available cash will be used to do something else, with the intention of recovering it by the time it needs to be put to the designated purpose. More often than not, the recovery doesn't work on time or not at all and the cash has effectively been lost. This phenomenon is wide-spread and not only with our deal operations.

The means to deal with this is the design of a virtual payment platform with ICTs that makes sure that whoever holds cash is the final recipient and therefore owner of that cash, whereas nobody will hold any cash that needs to be accounted for. This is an important further development to be taken up in the future

- *Professional embarrassment:* On the exchange platform the agents in the network get to know each other rather well. They also personally meet during infrequent face-to-face meetings and workshops. So there is quite a measure of group-pressure and group-reputation at stake when things go wrong in a deal. People feel so embarrassed to have made serious mistakes like side-usage of money that they prefer to not talk about it or share their experience with that mistake. They then try to find other means to cover the loss, fail again, etc. Several deals could have been saved or at least the loss mitigated, had the coordinating traders and their involved agents immediately reported that something was going not as expected.

The means to deal with this is a clear understanding that making a mistake and owning up to it is okay, as long as it is shared and a serious effort is made to analyse and share the learning that can be achieved for the whole network. Also, rules and regulations for conducting deals and "codes of conduct" are best explored by the whole group through analysis of such mistakes on the exchange platform. This, however, takes time because deep-seated behavioural mechanisms in the local communication traditions have to be overcome.

- *Buyer delays:* A very frequent problem was delays of payment by buyers. This must not always mean that buyers were not serious about the deal. Often they themselves face delays of payment of funds that they were counting on to pay for the agreed deal. These types of chain-reactions of missing payments is very frequent in markets in general and several deals fell victim to them.

The means to deal with this have turned out to be a) keeping up the pressure for payments because available cash always moves to solve the most serious headache at hand, and b) to keep in touch with buyers who themselves have been victimized and work with them on how to overcome their cashflow problems. Another more systemic approach

would be to ensure trade-credits become available. That would allow buyers to pay when they need to as opposed to having to wait and hold off the creditors until they themselves have been paid.

- *Buyers changing prices:* Quite a number of deals suffered and lost money from buyers who suddenly decided not to honour the agreement and offered a lower price. Such buyers of course need to be educated about the difference between a negotiated deal and a spot market (most only know the spot market).

The most effective means to deal with this has turned out to be what came to be called an “emergency store”: When this happens, or any other problem with a buyer emerges, the produce is offloaded in a safe store and immediately auctioned off using the procedures developed for auctions, whereby the offers of the defaulting buyer are automatically disregarded.

- *Sitting on produce:* Amazingly quite a number of deals made big losses when deliver to the buyer didn’t work for some reason and then the coordinators decided to wait for an improvement of the market, to find a buyer who would at least pay enough to recover the invested COB. However, the quality of the produce of course deteriorates, leading to increasing losses as time goes by. It was puzzling to see that even experienced traders would rather hold on to produce than sell it off and recover what can be recovered, suffer the loss, but then move on and do further deals to recover. Agents to whom this happened said they were embarrassed to admit they were losing COB and tried their utmost to recover it – of course to no avail and making the situation only worse.

The means to deal with this is the understanding that it is better to auction off such produce as fast as possible, even if it means making a loss on recovering the COB, than to wait and hope for a buyer who will pay what it takes to recover the COB. Again, sharing such experiences is a challenge for most. The culture of sharing such experiences needs to be actively nurtured on the exchange platform.

- *Scams and cartels:* A number of deals made a total loss of invested COB because they fell victim to often elaborate scams. Again, quite amazingly this also happened to experienced market operators working as agents and traders. It seems such scams are rampant in various markets and often intricate.

Here the exchange platform was critically important to spread the news about how a new scam works and how to try to avoid becoming a victim. A most important core rule also emerged from such experiences: Either you are in control of the produce or of the money for it. Should you ever be asked to be separated from the produce without the payment having been correctly made (or delivery notes correctly signed), then all the alarm bells should begin to ring. Also, in several cases, it turned out that persistent legal follow-up and police action yielded satisfaction in taking out the crooks. But the effect goes further: The news that the network does not give up in chasing defaulters has begun to make its rounds and

the reputation as a serious network not to be fooled around with has risen.

- *Unreliable transport:* Almost all deals faced some sort of transport trouble, resulting in delays of delivery and in some cases resulting in loss of buyer, etc. The reasons for the poor transport are yet to be understood in detail, but it appears that vehicles that ply the rural roads to villages are those at the end of their life-span. They often break down with mechanical failure and/or are driven by people with scant documentation, resulting in troubles on the road.

The means to deal with this are yet to be explored. One idea that emerged was to make bulk deals with transporters (eg. for 50 regular trips for a repeat deal), and/or nurture the emergence of a cargo service with regular schedules of trucks, for which “space on the truck next Tuesday for my 5 bags” can be booked just like on a bus service. This idea still needs to be explored further.

- *Collection point infrastructure:* Most collection points quite simply lack the infrastructure and logistics to allow for suitable quality checking, packaging and loading. Some deals suffered because they didn't even have scales to check the weights. So COB was paid for tins or bags, while the buyer paid for kg – resulting in losses of course.

The means to deal with this are “Trading centres” rented by agents. These centres have small storage space that is used for bulking and shipping. They will need to be equipped with proper scales and moisture meters, etc. They should if possible also have internet-connections (solar powered). The point to make is that such structures must be privately owned and operated as a fully commercial venture, ie. rented out to agents doing deals, who will pay the rent from the commissions they make or by adding rent as middle costs into the deal.

Examination of the twenty-six closed deals suggests that the COB business model can work well. COB-recovery times are good ranging from one to five weeks across all the deals with an average repayment time of two and a half weeks. Payback performance between traders was similar and well within the commercial target of four weeks for COB financing. However, with the high levels of defaults Returns on Investments (ROI) for closed deals are poor. (See Table 3. Returns on Investment for COB Deals).

Table 2. Returns on Investment for COB Deals.

<i>in USD</i>	Advance	Repaid	ROI
Uganda	38,578	29,662	0.76%
Tanzania	25,235	13,810	0.55%
Kenya	177,609	138,609	0.78%
TOTAL	241,422	182,081	0.75%

3.2. Trader Network Capacity

Some eleven trader networks operated during the project period. However, two of the Uganda networks ended up being managed by Paul Nyende of AgriNet. The network's engagement and business operation has been achieved in various degrees but we are still a long way short of reaching the commercial scale of 40 deals per network and month. The idea of national companies to support the trader networks has not worked in all instances. This is mostly because there has been insufficient trading to provide any real incomes from 'management fees' to keep a national company solvent. So only AgriNet in Uganda has managed to firmly establish itself but only because they have been successful in getting financial support from other donor projects.

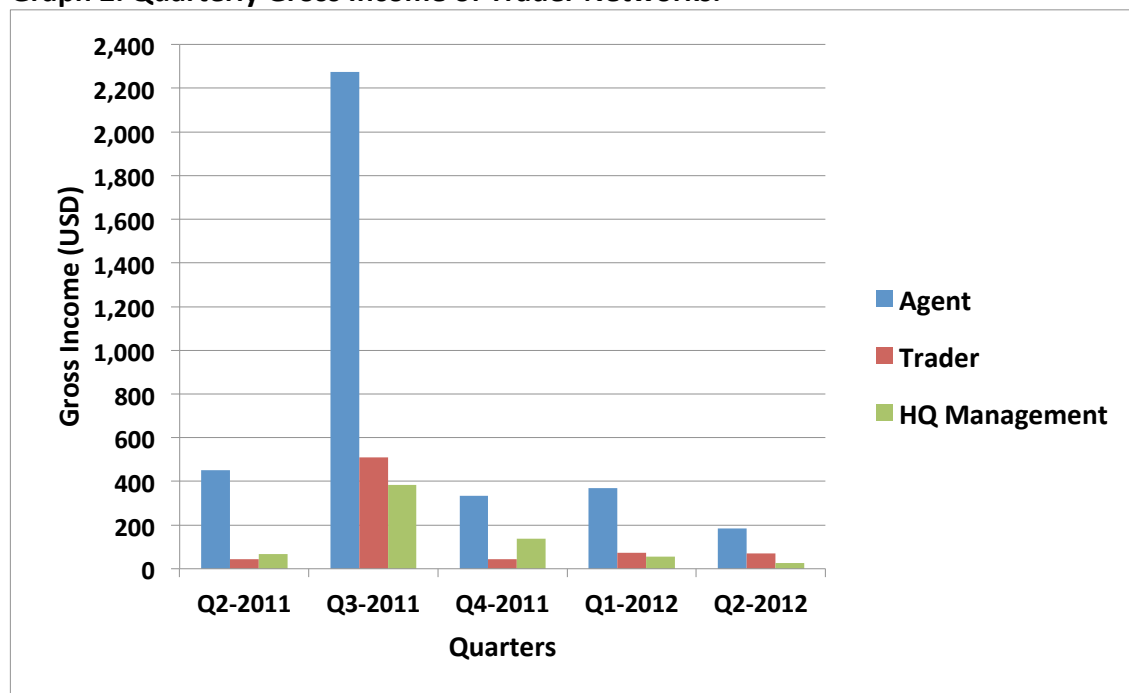
Table 3. Number, Size and Geographical Coverage of Trader Networks

TRADER	AGENTS	COUNTRY	REGION
Solomon Mulindi	15	Kenya	Western (Kakamega, Mumias, Busia, Bungoma)
James Kanye	7	Kenya	Mt Kenya (Nyeri, Igembe, Mbeere, Laikipia, Nyandarua)
Moses Gichuru	8	Kenya	North Rift (Nakuru, Gilgil, Iten, Marigat)
Wilson Ilanet	9	Kenya	South Rift Livestock (Kajiado, Dagoretti, Kiserian, Loitokitok)
Beatrice Obara	15	Kenya	Nairobi (Machakos, Nambale, Rarieda, Bondo, Nyando, Kisumu, Ahero)
Bahat Tweve	15	Tanzania	Southern Highlands (Iringa, Mbeya, Ruvuma, Rukwa, Mafinga, Songea)
Mark Farahani	10	Tanzania	Morogoro (Kilosa, Dodoma, Morogoro)
Sarah Mayanja	6	Uganda	South Western (Kabale, Bushenyi, Rukungiri, Mbarara, Kanungu)
Paul Nyende	10	Uganda	Northern (Lira, Gulu, Dokolo)
PN/Jacinta Namubiru	21	Uganda	Eastern (Tororo, Busia, Mbale, Budala)
PN/Grace Nalukwago	8	Uganda	North Western (Hoima, Kitoba, Busiisi, Bugambe, Kyangwali, Kizirafumbi)

Nine trader networks comprising one hundred and twenty four agents across Kenya (5), Uganda (2) and Tanzania (2) provided COB services to small farmers (see Table 2. Trader Network Number, Size and Geographical Coverage). Within the networks we have seen some turn over of agents. There were a number of dropouts of agents during the course of the project. The dropouts invariably came to us via NGO projects that were attempting to go commercial. As we saw in Tanzania, experience in NGO projects rarely prepares entrepreneurs for commercial enterprise. Where commercially minded and experienced people engaged, the efforts picked up and moved.

Finding trader networks to work with has been fairly easy as has building their capacity to implement the COB business operations successfully. However, it is a slow process as a number of skills have to be mastered that are in stark contrast to the existing behaviour, eg. transparent accounting, sharing of information, focussing on commission rather than a trade margin, etc. Furthermore in Tanzania we face the additional challenge of language, ie. commercially active people in rural Tanzania rarely master English, whereas whoever knows good English either works in the tourist industry or is employed staff in projects or with NGOs or in administration.

Being more efficient along the value chain not only allows for a price rise to farmers but also a commission to the involved trader and their agents plus a small 'management fee' as a cost sharing with Pride Africa for providing the COB finance. Such cost sharing was agreed to reflect the cost of paying interest for commercial financing that would later be solicited from investors or banks. Throughout the project gross income to all the trader networks was just over five thousand dollars. This was split between the traders (\$742) and their agents (\$3,616) with \$668 as the cost sharing 'Management' fee. The breakdown of revenue per quarter for the period of the project is shown in Graph 2. Quarterly Gross Income of Trader Networks. The trend in revenue reflects the difficulties all trader networks faced in dealing with the challenges described above. It is unlikely that revenues would improve dramatically until those challenges have been addressed. Nevertheless, even at the low trading volumes, most agents are ready to switch to the COB business model, ie from a model of buy-low-sell-high to earning a commission that is calculated on what the farmers earn. However, income streams to trader networks are well below commercial scale. This is not surprising as every trader network is well below their target for commercial viability of forty deals in a month. Their target gross income of \$36,000 per quarter is a long way from current performance shown in Graph 2.

Graph 2. Quarterly Gross Income of Trader Networks.

This output has been impressive from the point of view of agent networks demonstrating their capacity to operate the COB business model. They have shown they can use COB to deliver price increase to farmers and commissions to themselves because they can trade very efficiently. It is too early to tell whether they can use COB financing effectively at scale and at low risk to the investor. Far less progress has been made in terms of trader network capacity to operate at commercial scale. Simply put the frequency at which traders can run COB deals is still too low. Reasons behind the low frequency were identified in the cross network workshop held in Kampala in March 2012. (See Annex E. Report of Kampala Cross-Network Workshop) To-date volumes of commodities trade are too low, the number of small farmers benefiting is too low, and trader network incomes are too low. More serious than this is the potential loss of COB funding through delayed payments and, worse still, defaulting buyers. For ten trader networks to build their competence to achieve the capacity to operate at a commercial scale will require that more COB finance becomes available.

3.3. Capture Local Learning

Achievement in capturing, documenting and sharing local learning lessons, good practices and impact stories meets the level specified in the project outputs: six lessons learned briefs, guidelines for ten good practices and twenty impact stories. All documents produced in this period have been shared on the www.linkinglearners.net website. Lessons learned briefs have been shared directly with concerned IFAD staff and programmes.

The project output target for the synthesis of lessons learned into policy briefs was six. A short summary of each of the six briefs shared is presented in Table 4: Lessons Learned Briefs below. The full brief can be found in Annex F. Briefs.

Table 4. Lessons Learned Briefs

No.	Title	Summary
45	Investment Challenges to Scaling Up 'Inclusive' Businesses.	Scaling up emerging 'inclusive' business models presents many challenges to investors. Experiences over the last year show that transparent transactions along the value chain along with Cash-on-the-Bag (COB) payments to small farmers can be commercially viable. Social impact is demonstrable. Farmers regularly get 20% higher prices for their produce. Value chains operate at 80% efficiency with costs per deal being only 20% of total deal value. However, it is equally clear that such impact will not be enjoyed by large numbers of farmers unless investors come together and address the real world conditions of: very low skills of rural entrepreneurs in money management; in-grained cheating among all value chain players; poor infrastructure, legal systems and policies; and low speed and poor security of financial transactions within and between COMESA countries. The burdens on financing identified here require a close interaction should be established between public and private investors, but who and how should leadership be provided?
44	Facilitating Value Chains the Missing Middle	A business opportunity exists for those who can provide services that solve the problems of the missing middle in agriculture value chains. Facilitating secure transparent transactions between small farmers and scaled processors with Cash-on-the-Bag payments to farmers (COB) is one such service. Key tasks for this service include: transparency in negotiations, quality checks, cash on the bag payments, checks on delivery, and controlled payment systems. Over the last year twelve trader networks across Kenya, Uganda and Tanzania have conducted some eighty deals benefitting over one thousand small farmers. Farmers get an average of around 15-20% more money into their pockets than if they sell through other existing channels. Value chains efficiency has been brought up to 80% with costs per deal being only 20% of total deal value. Of course there remain huge challenges to take this business opportunity to commercial scale. Lastly, others venturing into this opportunity might learn from the lessons we have had in: organising farmers, independence of service providers, trust and control, farmer cheating, starting out commercial, NGO constraints, public investment clarity, and advisory services roles
43	Impact of COB Deals on Smallholders.	Over one thousand smallholders have benefited from COB deals. The value of trade so far has exceeded \$170,000 US dollars. The dollar income to smallholders from this trade has been \$155,000. COB deals increased smallholder prices by some 15% adding \$15,000 more dollars to their income. Price increases were made possible by adding value and increasing the efficiency of value chain operations to around 20% of total deal value. With this kind of impact it is hardly surprising that smallholders like COB deals. However, their interest in COB it is not just about fair and better prices. They also like COB deals because: There are no price or payment games. They can get mobile money not cash. They get opportunities to add value. They get access to larger scale buyers. They get continued service across seasons. They can deal with a local entrepreneurs. They have their produce traced to cut out cheating. COB deals provide win-win solutions not just to smallholders and scaled processors but also to marketing itself.

Table 4. Lessons Learned Briefs (cont.)

42	Learning Where Deals Can Go Wrong.	<p>Over the last year twelve trader networks across Kenya, Uganda and Tanzania have conducted some eighty deals providing cash-on-the-bag (COB) payment advances to small farmers using secure transparent transactions. While less than ten percent of the deals failed completely many experienced problems. In this brief we share the hard lessons learned in the words of the network managers. Farmers broke agreements by side selling, they reneged on volumes, and changed prices at pick up. Buyers cheated on deals by not honouring purchase orders, lowering prices at delivery, delaying or not paying. We had cases of fraud and cartels in markets. We had experiences of our own agents swindling the network by cheating on quality, diverting produce, side-using money and even stealing money. For most of these hard lessons ideas for solutions to try out emerged. The brief ends with solutions in: Improved due diligence; Proper documentation; Prompt payments; Alternative sale; Local and Legal redress; Secure payment systems; Contingency for unavoidable risks. All the lessons learned were captured in stories that are referred to here and available online.</p>
41	Traders Talk About the 'Cash-on-the-Bag' Business Model	<p>Traders' use a 'buy-low-sell-high' business model that, like all speculation, rewards lowest prices to smallholders. Smallholders respond to low prices by cheating, ignoring quality standards, and bagging wet produce with stones and debris. Buyers respond by discounting prices to cover costs of quality rejects and cleaning. Such 'coping' behaviour introduces huge risks and lowers product value for the middleman. The CoB model addresses this problem by providing up-front payments to smallholders within transparent and secure transactions, which reward higher prices to smallholders for high volume, quality produce delivered on time to the buyer. This new business model promotes 'win-win' agriculture value chains for smallholders, traders and buyers by: a) improving the efficiency of the value chain; b) improving the quality of the product; c) reducing the risks of transactions; and d) introducing fair prices for all. The new business revenue is a service commission to traders that is linked to farmer price. Therefore, it is in the interest of the trader to ensure that smallholders get the highest possible prices. COB financing gives traders using COB a chance to grow their business through commission as opposed to high-risk buying and selling. Rather than replacing 'middlemen', COB gives them an operational environment in which they can do their job much more efficiently. Or as one trader Beatrice Obara put it "The COB is trying to release the pressure on the buyers and traders so that they are able to turn over more deals and thus give more business to the farmers. The difference between COB and my business is that COB uses a transaction security operation where all those involved in the transaction (even the smallest farmer) benefit from it." In this brief traders say they are switching business models because COB: increases business turn over, geographical reach, and improves trade efficiency and value. It builds client trust, farmer loyalty and solves buyer constraints.</p>

Table 4. Lessons Learned Briefs (cont.)

40	Cash-on-the-Bag Secure Transactions on Trial	Transaction Security Services (TSS) with 'Cash-on-the-Bag' payments to smallholders addresses one of the most persistent and prevalent reasons for failure of agricultural supply chains in Africa: the absence of a secure and trustworthy transaction environment. Relations between smallholders and large buyers in Africa are generally characterised by significant distrust between the two parties. Smallholders are reluctant to hand over their produce without full cash payment up front, and large buyers are reluctant to make purchases without first inspecting the merchandise to ensure that quantity and quality correspond to specifications. Transaction risk is defrayed through many layers of middlemen, resulting in higher transaction costs, waste and consequent disadvantageous prices for both producers and eventual large buyers. TSS provides a more effective and efficient way for middlemen to operate. Transparent, commission based middlemen can offer a win-win situation for both parties to the transaction. This is the beauty of secure transaction environments.
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In the case of good practice guidelines ten guidelines have been documented as required by the output target. A short summary of each guideline is presented in Table 5: Good Practice Guidelines below. The full guidelines can be found in Annex G. Good Practice Guidelines

Table 5. Good Practice Guidelines

No.	Title	Summary
1	Guideline on Cashless Payments	These guidelines help COB deal coordinators to achieve a cashless payment system, whereby cash can be moved virtually and only the intended end-recipient can cash that money at the cash-points if s/he so wishes.
2	Guidelines on Collection Point Management	This guideline provides network managers and their agents with what is required by COB rules for managing collection points. It is the network agents in the rural areas that are in charge of collecting, checking, ensuring correct packing and shipping of produce for any particular deal that they are involved in. This means they manage collection points according to COB deal standards.
3	Guidelines on Rules for COB deals	These guidelines outline the rules that network managers must follow in order to be allowed to operate as COB. These rules are discussed on LLL-NMC. If a network manager fails to keep these rules, his membership on the network is on hold. No further new deals can be fully registered by this network manager until the issue is cleared.
4	Guidelines on Securing Emergency Stores	These guidelines provide network managers with solutions to the problem of buyers renegeing on agreements when the produce is delivered. COB deals promise to the buyer that s/he will get the agreed produce on time at the correct quality. On the other hand, the buyer agrees to sign delivery notes and accept invoices and pay on delivery or according to agreement.

Table 5. Good Practice Guidelines (cont.)

5	Guidelines on COB Finance Flows	These guidelines provide Network managers and their agents with instructions on how COB finance flows will operate for all registered deals in the COB project. We have had plenty of experience with delayed payments from buyers and networks. These instructions will help us achieve full transparency and good control of all payments involved in COB deals. The Project will operate a payment clearing and reconciliation system that is controlled and able to immediately see when something is going wrong with payments to take corrective action. The payment system databases are updated through the various stages on the respective shelves in the LLL online library at www.linkinglearnes.net/mac .
6	Guidelines for Registering of COB Deals	This guideline lays out the process for network managers to register COB deals. COB deals are different from other deals because they are transparent. It is clear from the beginning who will be paid how much for doing what. And then also COB deals are tracked. That means that if there was a mistake it can be found out what was the problem and the corrections can be made fairly. There is no scope for any stories by any of the involved people. Everything can be checked and corrected and in case of mistakes the right people must bear the consequences. This is why COB deals are trusted by both buyers and sellers.
7	Guidelines on Analyzing Risk in COB Deals	These guidelines provide a checklist of areas of potential risk for each step of the COB deal operations for the network to assess for COB financing to be released at minimal risk. The guideline also provides a set of control procedures for the networks to follow to minimise risk on COB financed deals.
8	Guidelines for Secure Auctions	These guidelines provide Network managers and their agents with instructions on the operational steps necessary for them to organise and run a secure auction. Network managers are responsible for finding the buyers but their agents are responsible for running the bidding and keeping them informed at every step of the auction including the final decision of the farmers on who has won the auction.
9	Guidelines on Transport Agreements	These guidelines outline ideas for network managers to improve the arrangements they have for transporting produce. Transport is the most important middle cost in COB deals. Reliable transport is also a critical requirement for networks to be able to keep the promise of delivery on a specified time to the buyers. Transport is also where a lot can be lost in case something goes wrong.
10	Guidelines on Value 'Trees' for Farmers	Agriculture marketing is generally thought of in terms of "value chains" whereby a commodity starts on the farmer field and then moves along a series of actors to the final consumer. However, in most cases what actually happens is that along the way a commodity often triggers new and separate value chains that branch off from the original chain. This then looks more like a branching tree.

In the case of impact stories twenty experiences have been documented as required in the outputs target. Authors, titles and a short summary of the story are presented in Table 6: Impact stories below. The full stories can be found in Annex H. Impact Stories.

Table 6. Impact Stories

No	Author	Title	Summary
164	James Kanye	Hard Lessons Learned from Ruralnet Rice Deal in Mwea	James Kanye, Network Manager of Ruralnet, explains the lessons learned from a registered deal to sell rice from the Mwea farmers to Giliani Supermarket in Nakuru.
163	Wilson Ilanet	Confusion on Pricing leads to COB loss on Cattle Deal BR11-2124	Wilson Ilanet describes the problems that resulted in the loss of 222,080/ KES on a deal supplying 20 beef cattle to Meat Choice in Nairobi. Beatrice Obara was the coordinator of this deal and a member of her network, Irene Akinyi, worked together with Wilson Ilanet and Harrison Supeyo.
162	Moses Gichuru	A Groundnut Disaster for Bonde Soko	Moses Gichuru explains the challenges that he experienced due to a truck strike, which affected a deal for groundnuts sourced from Uganda for a buyer in Nakuru.
161	Beatrice Obara	Nyanza Network; TSS Agents with Stores in Homa Bay, Rachuonto North, Kendo Bay and East Uyoima	Beatrice Obara describes the network of Transaction Security Service (TSS) agents that she is building in Nyanza to market the produce from their farmer clients. She explains how essential it is that all her agents are linked to stores and therefore have a fixed presence in an area where they can then develop farmer groups as loyal clients.
160	Beatrice Obara	Increasing the Opportunities for Cotton Farmers in Nyanza	Beatrice Obara, CEO of La Roschel D'deby Enterprises Ltd describes her involvement in trade in cotton through her network of agents in Nyanza.
159	Beatrice Obara	A Bad Fish Deal	Beatrice Obara, CEO of La Roschel D'deby Enterprises Ltd, explains the many challenges that occurred with a deal for a consignment of fish from Lake Victoria (Uganda) to Mombasa Millers, Kenya.
158	Paul Nyende	AgriNet Provides Transparent Marketing System for Ecomax	Paul Nyende explains a new initiative for AgriNet in 2012: to provide a marketing service to Ecomax, a company dealing with micro-irrigation, seeds, agro-chemicals and nutrients for crop production.
157	James Kanye, Moses Gichuru	Helping with Marketing for SHOMAP Farmers' Groups	The Kenyan Ministry of Agriculture supports the Small Holders' Marketing Program (SHOMAP). Pride Africa (PA) has been asked to help with the marketing for some of their groups. James Kanye, Moses Gichuru and James Weru will be working for PA with the SHOMAP groups to help them with some of their marketing issues.
156	Beatrice Obara	Nyanza TSS Network works with The Lake Basin Development Company on Marketing Challenges	Beatrice Obara, CEO of La Roschel D'deby Enterprises Ltd explains her plans to link the rice farmers in Nyanza to the market through her Transaction Security Service (TSS) Network using cash-on-the-bag (COB) financing from PA.

Table 6. Impact Stories (cont)

No	Author	Title	Summary
155	Bahat Tweve	Business Unusual; a Deal from Rural Tanzania to Dar es Salaam	Bahat Tweve takes us through the stages of a potato deal from the farmers in Magunguli to buyers in Dar es Salaam and suggests some solutions to the challenges he faces.
154	Wilson Ilanet	Two Tricky Cattle Deals	Wilson Ilanet, network manager of The Indigenous Maasai Marketing Centre, explains how late payment by buyers on two cattle deals has left him in debt to Pride Africa.
153	Wilson Ilanet	Growing a Marketing Network for Pastoralists	Wilson Ilanet shares his story concerning growing his network of Transaction Security Service agents in Kajiado County, Transmara, Narok and Northern Tanzania
152	Paul Nyende	Tough Lessons Learned from a Maize Deal from Dokolo	Paul Nyende, Managing Director of AgriNet, describes the challenges faced in attempting to keep Transaction Security Service (TSS) promises to buyers and sellers in a cross-border deal that has led to more learning on deal making and procedures.
151	Moses Gichuru	New TSS Links Between Nakuru and Nyanza	Moses Gichuru, Network Manager of Bonde Soko, explains how through the TSS network he has made new links in Nyanza to source cassava, cottonseed cake and rice germ for his buyers in Nakuru.
150	Moses Gichuru	Cash Flow Challenges Affect Bonde Soko Network	Moses Gichuru explains the cash flow difficulties of one of the processors he supplies, and the knock-on effect of this to Bonde Soko and the TSS Network.
149	Bahat Tweve	A Growing Network and Plans for Better Business	Bahat Tweve, Network Manager for the Southern Highlands Tanzania, describes the development of his Transaction Security Service (TSS) network and the potential of his network for regular deals throughout the year.
148	Paul Nyende	Dealing with Price Fluctuations and Buyer-Seller Contracts	Paul Nyende, Managing Director of AgriNet, shares his experience and advice on fluctuating market prices and buyers defaulting on Local Purchase Order agreements.
147	Jacinta Namubiru	Buyer Defaults on Agreement	Jacinta Namubiru, Network Manager for AgriNet explains what she has learned from a failed deal with SEBA Foods, Tororo.
146	Beatrice Obara	Why TSS can help my Business	Beatrice Obara, the new network manager for Nairobi, Kenya, describes her experience in rural finance and trade and explains why joining the TSS network can help her business.
145	Mark Farahani	KIRSEC's Coconut Centre, Tanzania	Mark Farahani discusses KIRSEC'S experience with using a transit store as a necessary component to ensure a good service for both sellers and buyers for the network's TSS deals for coconuts.

Table 6. Impact Stories (cont)

No	Author	Title	Summary
144	Mark Farahani	Helping Farmers Add Value Brings Greater Profits	Mark Farahani explains how KIRSEC in Kilosa, Tanzania, helped farmers to decide whether to sell their produce as paddy or to organise the milling themselves and sell it more profitably as rice; so adding value to their produce.

3.4. Scaling Up with IFAD Programmes

Achievement in the establishment of new local market linkage networks of value chain players and service providers in three on-going IFAD-supported projects in Kenya, Uganda and Tanzania was very limited. After a year of trying only limited success has been achieved with the SHOMAP programme in Kenya.

Progress was made in establishing collaboration with the SHOMAP in Kenya. This was made possible with additional resources from the NEMAS project, which funded the field assessment visit of experienced traders to SHOMAP producer groups in Bungoma, Nyeri, Nyandarua, Meru, Embu, and Nakuru between the 1st and 28th August. The field assessment visit collected baseline information to assist in the development of a joint venture between the Ministry of Agriculture SHOMAP, Pride Africa, and NEMAS. The joint venture will improve the marketing of horticulture produce grown by SHOMAP supported smallholders. Visits to Bungoma, Nyandarua, Meru and Embu regions included meetings with District Agricultural Officers and SHOMAP desk officers as well as focus group discussions with the horticulture groups coupled with farm, market and site visits. The visit revealed that smallholder production and product quality has increased through SHOMAP support. However, for this to result in significant increases in smallholder income there is need for better linkages to markets. It was agreed that the joint venture should focus on banana, garden peas and round potato value chains in Nyandarua, Bungoma, Meru, Imenti, and Embu Districts with thirteen horticulture producer groups⁷. Three local network companies: Western Region, RuralNet and Bonde Soko Services will provide the COB services to the producer groups. The process of developing collaboration agreements and contracts with trader network started with a meeting on November 10th 2011 between all parties: Pride Africa, NEMAS, SHOMAP, and IFAD ESA in Nairobi. This was followed by a field visit in December 2011 to Mount Kenya region for discussions with local government and producer on market access opportunities. Following this visit a draft MOU was prepared to capture the envisaged collaboration. (See Annex I. PA SHOMAP Collaboration MOU).

⁷ *Mwenge Self-Help Group; Kitogo Horticultural Marketing Group, PEKA Community Based Organisation, Good Time Self-Help Group, Wendo Family Self-Help Group, Ndivisi Farmers' Federation; Bungoma Women Organic Agricultural Initiative, Kongoli Self-Help Group, Mugamboni Horticultural Self-Help Group, Kawira Self-Help group, Wendo Entrepreneurs Self-Help Group, Joy Mothers Self-Help Group, and Ngoire Focal Area Development.*

With the MOU drafted the three network managers involved proceeded to find markets and buyers as well as discuss the crop production schedule, collection points and delivery schedules. In the absence of contracts from SHOMAP the network managers could not proceed with the identification and training of local entrepreneurs in the operations of COB deals. A further field assessment visit to Nakuru and Mount Kenya region discovered that the networks had prepared all the groundwork for training and trade to commence. Action was stalled by the lack of contracts and funding from SHOMAP for the collaboration to continue. Commitment to continue the collaboration from SHOMAP project managers, government officers and producer groups emerged from a Multi-Stakeholder workshop held in Naivasha on March 9th 2012. The participants further developed the roles and responsibilities of those involved in the COB trial and urged for contracts to be signed for the network managers to start training and trading with the selected producer groups. April, May and June passed with no contracts until it was learned that the external reviewers of the SHOMAP requested the IFAD Country Office turn down the project's request to engage the network managers by sole sourcing because of insufficient justification to support the proposed procurement procedures. SHOMAP management is now re-submitting the request. Since these three managers are the only providers of the COB service because it is still being developed by an IFAD supported grant sole sourcing is the only option available to SHOMAP to continue the collaboration.

Progress with other IFAD programmes Marketing Infrastructure, Value Addition and Rural Finance Support Programme (MIVARF) in Tanzania, the Vegetable Oil Development Project (VODP) in Uganda was limited to introductory meetings with their respective programme coordinators during the NEMAS meeting for IFAD programme coordinators held in Nairobi from 30-31st August. Planned follow-up in Tanzania did not materialise because the programme was still in the early stages of implementation and was not yet ready for collaboration along the lines of the SHOMAP trial. Similar circumstances prevailed in the VODP programme in Uganda though good progress towards collaboration was made in two meetings between VODP and AgriNet in Kampala on December 8th 2011 and again on March 15th 2012. The basic case for conducting a COB trial with VODP in northern Uganda on sunflower, soya, and other oil seeds is now being pursued.

Clearly, all parties are disappointed at the lack of achievement in establishment of new local market linkage networks offering COB services to smallholders. Greater progress would be achieved if the following lessons were addressed:

- How to create opportunities to get local buy in for a trial of the COB business model from farmers, traders and programme service providers and government officers implementing the programme. SHOMAP's multi-stakeholder workshop provides a good example as to how this might be done.
- How to determine what support and resources can realistically be allocated from the programme to support a COB trial.

- How to obtain waivers or otherwise overcome the constraints of contracting where sole sourcing is the only option because the COB business model can only be provided by traders involved in IFAD grant projects.
- How to speed up the internal decision-making and procedures of IFAD programmes to better meet the expectations of the private sector value chain players involved in COB trials.
- How to avoid the damage to private sector reputations and business relationships caused by long and slow decision-making.

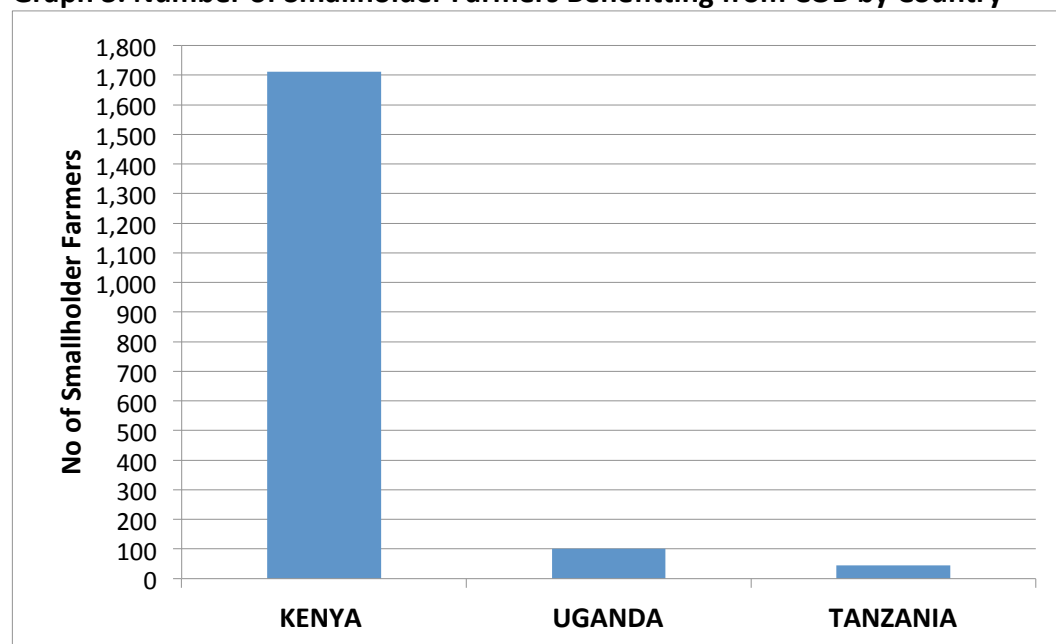
4.0. Project Impact

This section describes the impact of the COB deals concluded during the project period of April 2011 to May 2012 by the ten trader networks operating in Kenya, Uganda and Tanzania. Twenty-six COB deals were concluded benefitting just under two thousand smallholders. The section presents the impact of these deals on the prices they received, the income they made and the additional income they received as a result of the higher prices they got over what was offered by other middlemen at the time. The impact of the COB deals concluded on the value chain operations is also presented.

4.1. Impact on Smallholders

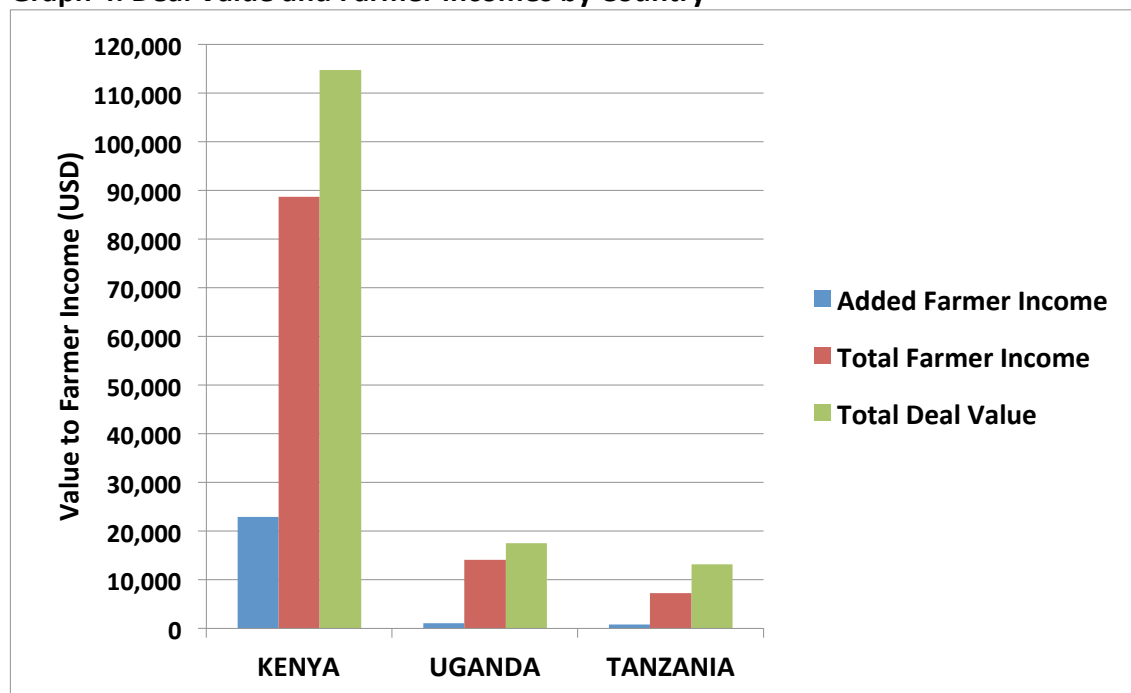
Just under two thousand smallholders have benefited from the COB services of the trader networks (See Graph 3. Number of Smallholder Farmers Benefitting from COB by Country). The vast majority of beneficiaries are in Kenya not only because many more deals were conducted but also large numbers of farmers were involved in supplying cotton and cassava flour.

Graph 3. Number of Smallholder Farmers Benefitting from COB by Country

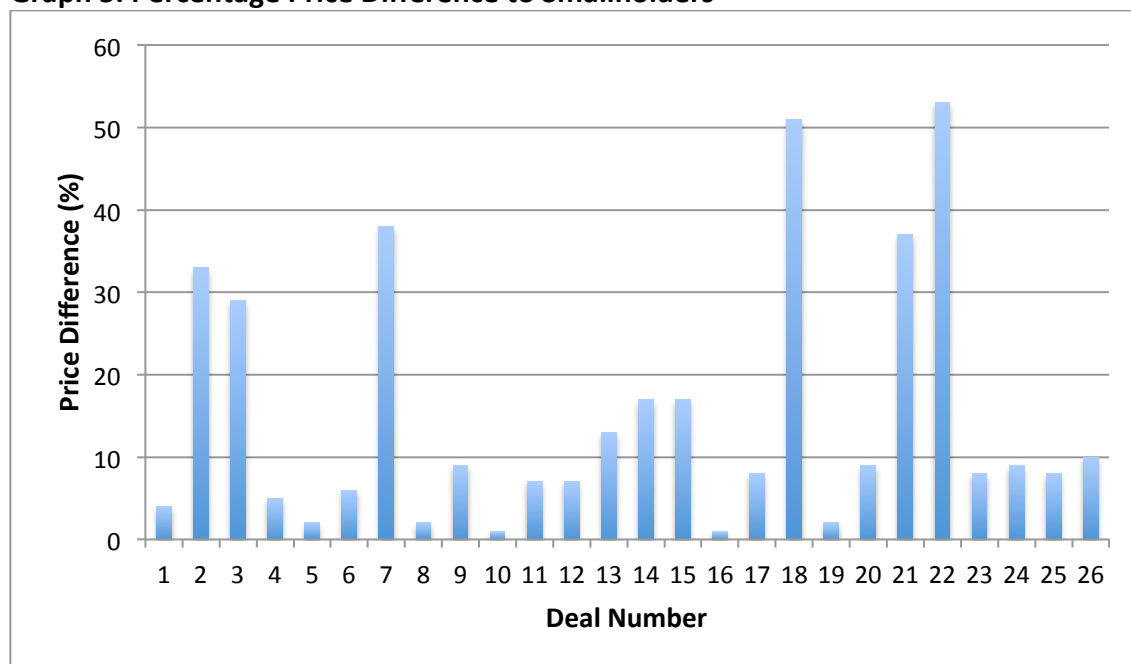


The total value of trade so far has exceeded one hundred and forty five thousand dollars (see Graph 4. Deal Value and Farmer Incomes by Country). The US dollar income to farmers from this trade has been just over eighty-eight thousand in Kenya, fourteen thousand in Uganda and just over seven thousand in Tanzania. The value of the price increases trader networks have been able to give farmers exceeds twenty four thousand dollars. While the percentage price increase farmers got over other middlemen vary greatly (1-53%) the average of 15 % is promising (See Graph 5. Percentage Price Difference to Smallholders).

Graph 4. Deal Value and Farmer Incomes by Country



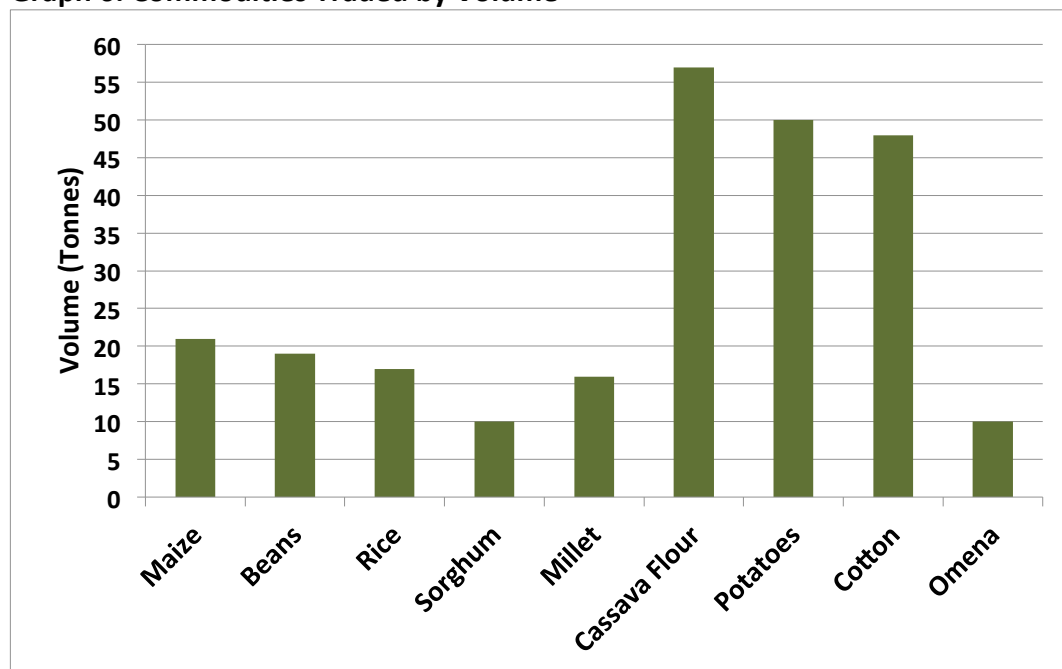
Graph 5. Percentage Price Difference to Smallholders



4.2. Impact on Market Value Chains

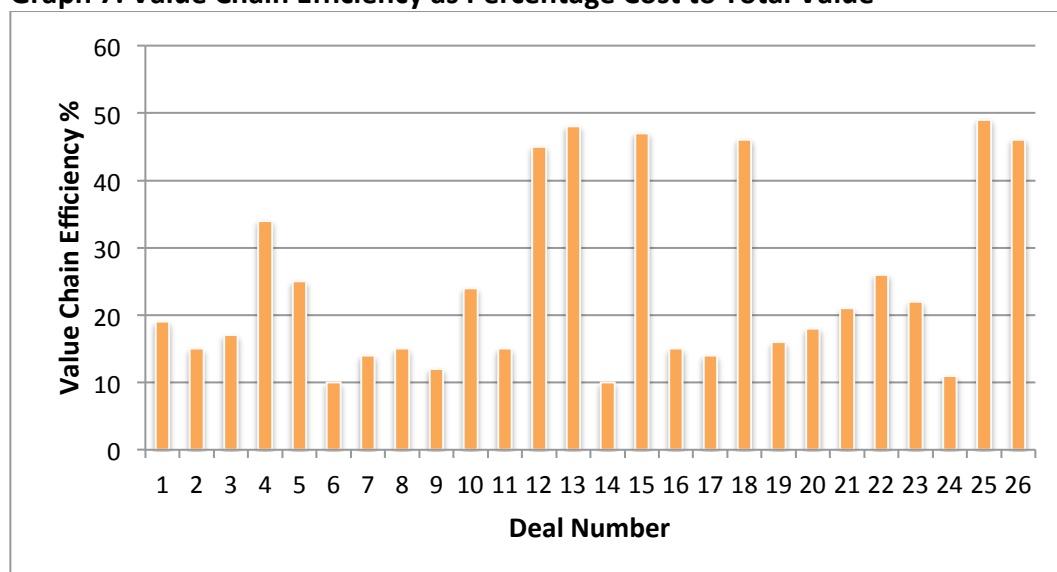
The data below shows that the nine agent networks have worked in a wide range of smallholder farmer commodities (See Graph 6. Commodities Traded by Volume). This graph, however, omits deals in coconuts, cattle and chicken as volumes are not recorded in tons.

Graph 6. Commodities Traded by Volume



The total value of trade so far has exceeded one hundred and forty five thousand dollars. The distribution of trade values by country can be seen in Graph 4. Deal Values and Farmer Incomes by Country. Trader networks gave smallholders on average 15% higher price than other middlemen. These price increases have been achieved through increasing the efficiency of value chain operations. Results show the total cost of marketing as a percentage of the total value of the trade ranged between 10% and 50%. (See Graph 7. Value Chain Efficiency). Though the variation was great on average the costs of value chain operations were only 24% of the deal value.

Graph 7. Value Chain Efficiency as Percentage Cost to Total Value



5.0. Further Challenges for Commercial Scale

This section describes what local entrepreneurs have learned through the COB project experience and what they must do to lift their business operations to commercial scale. The COB project experience has consolidated the proof of the commercial viability of the COB business model:

- We get better prices to farmers. Median was 15% better than others.
- We can do this due to improved efficiency along the chain, at around 15-20% costs to total deal value.
- We can finance deals at an average of USD 3,200 COB per deal paid back within 4 weeks.

Commercial viability is further supported by the behaviour of the participating trader networks. They stay with the COB business model even through episodes of personal loss and frustration while learning how to do it because they believe this is a worthwhile new way to do their business. Some have gone out of their way to ensure quality criteria are met, including putting in their own funds to cover losses, because of reputational loss with other traders in the network. These traders say COB is commercially viable because it enables them to: a) increase their volumes of trade; b) operate more efficiently; c) gain smallholder and buyer loyalty; and d) access finance with less risk.

While the COB business model has been found to be commercially viable reaching commercial scale is met with challenges. We are struggling with the frequency of deals and COB disbursements. The target of one deal per agent per week has turned out to be hard to achieve. The reasons for the operational challenges for scaling up still need to be understood in more detail and measures for achieving scale still to be developed and tested. Future work should concentrate on learning how to deal with the challenges discovered over the last twelve months. These are as follows.

5.1. Defaulting Buyers

We have learned the hard way just how ill disciplined some buyers can be. We have even experienced straight criminality where the buyer is simply a fraudster operating an elaborate scam. While fraud is rare more common are buyers that renege on agreements. This can take the form of changing the price when the produce is delivered, or more commonly, delaying payments. The usual reason being that they have not been paid so have no cash to pay us. We have had buyers who give bad cheques and others not honouring their Local Purchase Orders.

To achieve commercial scale new ways need to be found on how to:

- Dispose quickly of produce that can no longer be delivered to the intended buyer.
- Chase up payment delays including disciplinary measures against defaulting buyers.

- Reduce amount of COB funds held in delayed payments using automated alert system that triggers action when disbursed COB is not being returned as planned.
- Make sure the paper work is such that legal action can be taken against buyers who do not honour their payment commitments.

5.2. Behaviour of Traders

We have learned that when a deal goes wrong and the trader is left with the produce unsold their default behaviour is to keep the produce in the hope of finding an even better price and thereby avoid a potential loss. Holding out for a better prices turns out to be counterproductive because: a) traders lack the warehousing capacities to prevent storage losses, and b) often prices drop further while they wait. It is also inefficient as: a) COB funds are tied up that would otherwise be used in deals, and b) they waste time struggling to sell off the deteriorating produce which they could more profitably use to negotiate other deals. The reasons given of this behaviour are that traders fear a deal that runs a loss. It requires discipline to sell off quickly at a loss and invest recouped money into new deals to recover the loss.

To achieve commercial scale new ways need to be found on how to:

- Overcome default behaviour and make clear that reputation is higher for owning up to a mistake and taking the loss and moving forward with other deals earning more commissions, than for tying up COB financing and slowing the frequency of deals.
- Introduce standard procedures for what to do when a deal doesn't work out as planned and agreed with buyers and sellers.
- Experience first hand that selling off, though making a loss, and investing recouped money into new deals can result in recovery of a loss.

5.3. Farmer Discipline

We have learned that a simple promise by farmers that they have the produce is not to be taken as proof that it is actually there and of the right quality. Farmers may bring more or less produce. Farmers still try to augment volume with low quality produce and debris. Also, we have repeatedly experienced that once farmers see the truck, they try to hold the trader hostage to a price hike. This then leads to last-minute problems with bulking operations at the collection points. Instilling discipline is further hindered by the lack of proper scales and security at collection points.

To achieve commercial scale new ways need to be found on how to:

- Give farmers the experience of reliability of the deal operations that convinces them to adhere to their commitments.
- Introduce standard procedures for COB deal operations to new farmers.
- Make sure the quality and weight control checks, bulking and packing are completed in a timely manner.

5.4. Experience with COB Deals

We have learned that buyers and sellers need repeated experience with successful COB deals to honour commitments. One-off deal success is always considered to be just "lucky". Introducing a new business model requires that buyers and sellers have repeated experience with successful deals to believe that everything is under control and can be trusted enough for them to honour their commitments. We have learned that repeat deals are also the most efficient deals. Repeating a transaction many times, each time earning a commission, brings little additional effort in terms of negotiations and organization. Regular deliveries of potatoes to chips-sellers; or chickens to local restaurants are good examples of the practice. Still, traders are attracted to large complicated deals with large buyers and the promise of large commissions. Such deals take a lot of time to organize, and invariably something always happens that had not been foreseen. These risky deals result in stress to save the situation, and of course, risks of going wrong. The reason seems to be that traders are aiming for a big commission while small deals are not considered as something worth spending much time to organize. The regularity of a small commission seems less attractive than the big and risky one-off hit. This seems to be in line with the usual market behaviour of traders.

To achieve commercial scale new ways need to be found on how to:

- Give priority in COB allocation to deals with a repeat potential.
- Give incentives to regular repeat deals, no matter how small, rather than large one-off deals
- Speed up COB deal implementation setting limits by which a deal must be finalized and requiring traders to settle outstanding payments themselves.
- Develop mechanisms for distance auctions (ie. via mobiles) for regular deals by the truckloads.

5.5. Produce Collection Point Management

We have learned that promises by farmers to have the produce ready for pick up often turn out not to be true. Even if they do have the produce that is not to say that they will indeed honour an agreement to be ready with it on a given day. Delays and chasing up individual farmers to bring their produce takes too long to reliably organize pick up times. We have also discovered the lack of critical logistics for reliable collection point management, ie. scales and security while bulking for transport. Collection point structures are not warehouses in the traditional sense, because it is only for bulking, checking, and forwarding produce. So its operation is for throughput of ten to thirty ton truckloads instead of stocking several hundred tons for six months. Collection point revenue is generated through user fees on the number of deals transacted and not on the long term stocking of produce. We have learned that farmers need to experience well working collection points to make the switch to honour agreements to deliver their produce on time with the right quality and quantity.

To achieve commercial scale new ways need to be found on how to:

- Ensure collection point managers are entirely knowledgeable about the COB procedures and rules.
- Equip collection points with government 'certified' scales, moisture meters, and possibilities of drying the produce.
- Meet buyer requirements for grading and controlling the quality of produce as well as any specific equipment for correct packing.
- Ensure collection points are reachable for the size of vehicles intended to transport the produce.
- Guarantee farmers their produce is in a safe holding area that is lockable and guarded over night and the produce is protected from the weather.

5.6. Unreliable Transport

We have learned the hard way that transport turns out to be very unreliable, especially when attempting regular deliveries. We have learned that the transport sector is poorly organized, with a high level of informal opportunistic short-term arrangements being made for the trade we are engaged in. Drivers will often load on return trips without the owners knowing. Such trips are cheaper but prone to irregularities and risky. Particularly in cross-border deals where overnight stops introduce further risks of theft. On such trips agents have to accompany produce to reduce transit risks. A further source of unreliability comes from poorly maintained vehicles. Mechanical failure has led to many deals suffering from delays in delivery.

To achieve commercial scale new ways need to be found on how to:

- Make long-term arrangements with transport companies, as opposed to the opportunistic informal arrangements that are predominant today.
- Register transporters who are tracked for their reliability in a centralised management system, and coached to provide improved services.

5.7. Money Movements

We have learned that many deals run into delays because of the problems with moving money fast. We have discovered that the financial sector in rural areas struggles to service fast time-sensitive deals. Some traders have queued for several hours to make a single deposit. Banks have been found to take up to three weeks to rectify a single banking mistake. Cash points in villages are overwhelmed when many farmers want to cash their mobile money on the same day. We have learned the value of cash is very high due to lack of suitable non-cash payment mechanisms in rural areas. Payments-by-mobile has helped, but frequently they too suffer from liquidity bottlenecks at their cash points. There is such a high premium on liquid cash that not only is theft a risk but also diversion of cash to other uses by the traders themselves. We have experienced COB money released to deals that were subsequently cancelled prior to farmer payment, not being returned immediately. Given the 'temptations' of cash and that you can wait half a day in a bank queue to deposit cash our risk levels here are too high.

To achieve commercial scale new ways need to be found on how to:

- Vigorously push mobile payments. This may imply negotiating with banks how to surpass the volume limits per day.
- Search for banks that are willing to allow remote access to accounts (through internet or SMS) and collaborate with them to provide the services we need.
- Reduce the financial and operational risks of COB deal operations by introducing a cash-less money transfer system throughout the COB deal cycle so that cash will not reach any hands for handing on to other actors as all payments will be direct to the end-recipient.

5.8. Cash-on-the-Bag Opportunity

The Cash-on-the-Bag business model addresses one of the most persistent and prevalent reasons for failure of agricultural supply chains in Africa and persistent low prices to smallholders: the absence of a secure and trustworthy transaction environment; and the buy-low sell high business model of traders.

The Cash-on-the-Bag business model targets traders and middlemen to gain income and employment from taking up this new business model. When commercial scale is reached by ten trader networks of some two hundred and fifty agents they will operate one hundred and forty deals per quarter turning over nearly half a million US dollars each quarter. This will provide the networks with quarterly revenues of US\$36,750. That is roughly US\$3,675 per trader network per quarter. The beneficiaries of the COB business model are economically active smallholders in rural areas of Kenya, Tanzania and Uganda. Frequently these smallholders are unable to engage with markets on beneficial terms because the marketing chains for the products they produce are disconnected and inefficient. They offer poor returns and minimal incentives for expanding production. For the two thousand eight hundred smallholders involved in the one hundred and forty COB deals per quarter their prices and incomes will increase. It is estimated that per quarter smallholder income will total US\$330,750 giving the twenty or so smallholders involved in each deal a quarterly income of US\$118. Given that their prices are some 20% higher than other middlemen this means smallholders will take home US\$73,500 more than other farmers. The COB business model can make a significant contribution to the establishment of a secure and trustworthy environment for agricultural marketing in East Africa. This outcome will not be realised unless the challenges outline above are addressed. To reach the commercial scale targets set here will require considerable capacity building among traders, local agents as well as buyers and smallholder farmers.

ANNEXES

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Annex B. COB Deal Registration Database (<i>see attached file COB_Registration.xls</i>)	
Annex C. COB Deal Impact Database (<i>see attached file COB_Impact.xls</i>)	
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COB Payment Management System Functional Specification Document

(December 2011)

1 Executive Summary

PA is developing the COB scheme to increase efficiency in the agricultural supply chain in east Africa to be operated once fully developed by a commercial provider of transaction security services (TSS). The COB scheme will increase efficiency by reducing the number of actors involved in the supply chain, increasing the efficiency of the transactions that make up a deal and aligning incentives within long term relationships. The COB scheme is currently managed using excel spreadsheets to track deals and payments are initiated manually using commercial banks. The Payment Management System will utilise web and mobile interfaces to an online IT System to manage deals in the COB scheme and will initiate payments over a mobile payment interface.

2 Document Purpose

The purpose of this document is to define the functional specification for the Cash-on-the-Bag Payment Management System (PMS) that will be used to operate the COB scheme through a commercial provider of TSS.

3 Definition of Key Terms

The following glossary of terms applies to the project.

Term	Definition
TSS	Transaction Security Services (commercial provider)
PMS	Payment Management System
COB	Cash on the Bag

4 Scope

The scope of the document includes an overview of and the functional requirements for the Payment Management Systems. Operations which are within the scope of this document include

- Submission and approval of deals
- Registration of system actors including trade agents, farmers and buyers.
- Reconciliation of deals
- Payments to all actors

The following functions are not within the scope of this document

- Logistics management and movement of goods are not within scope of the document
- High Value international payments (such as reconciliation between countries) will not be handled by the payment submission aspects of this system

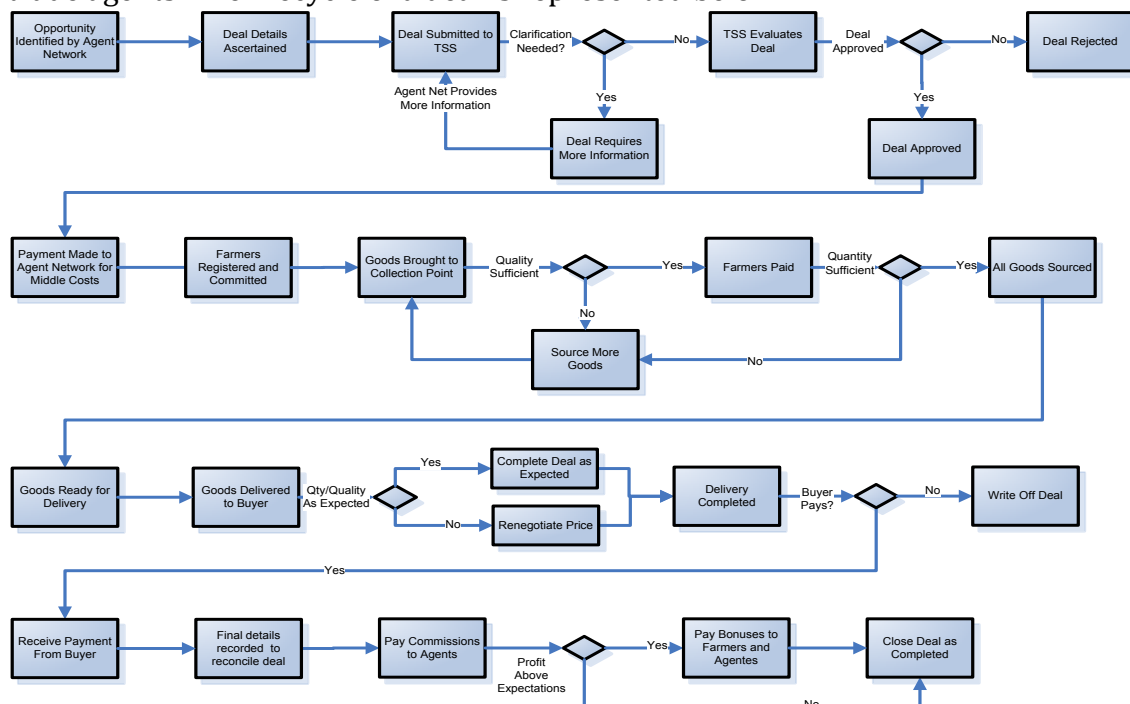
5 System Overview

The Payment Management System will manage the COB scheme. The COB scheme is focused on improving the efficiency of agricultural deals between large buyers and small producers. This system seeks to maximise payouts to

small producers. One way to accomplish this is to reduce the effort required to complete a deal and to reduce costs associated with completing the deal. The PMS will specifically seek to improve the efficiency with which deals are managed and to minimise costs and delays connected with payments. The system will improve working capital management by using mobile payments to reduce the need to provide cash to agent networks. This will also improve traceability and reporting. This system will initially be deployed in Kenya and will focus on Kenya. However, it must be possible to use the application to manage deals and actors from multiple counties.

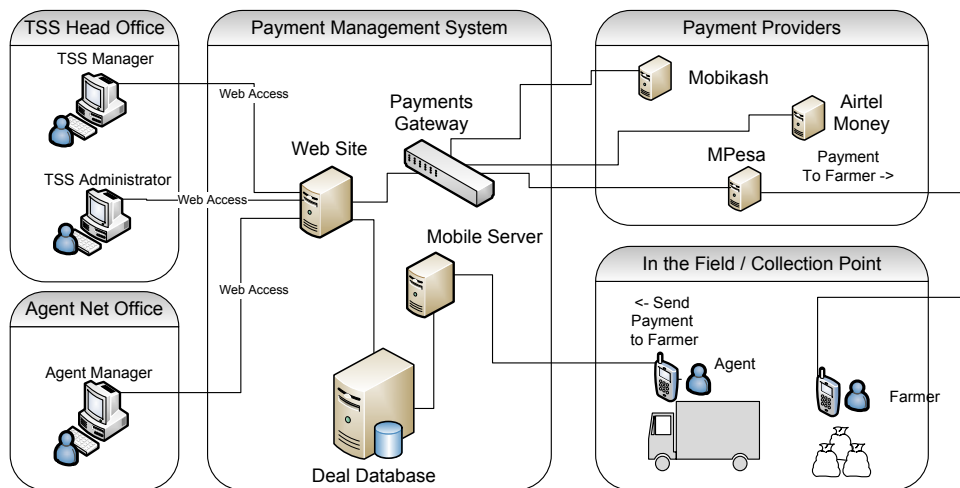
5.1 Deal Lifecycle

Within the COB scheme a deal is an opportunity to supply large agricultural buyers with produce supplied by small producers. Once the deal is approved by TSS the commercial provider, the actual execution of the deal is completed by a network of trade agents. The lifecycle of a deal is represented below:



5.2 Architecture

The PMS system will have a client-server based architecture with a backend database. Clients will communicate with the server over web and mobile interfaces to accomplish system processes. A payment provider interface will be used to allow the system to submit payments to the payment provider such as a mobile payment network. The web interface (website) will be used primarily by office based actors such as TSS administrators and network managers. Using the web interface, network managers will submit deals to TSS for approval or clarification. Network managers will be able to see approved deals and, once the deal is concluded, reconcile completed deals. The mobile interface will primarily be used by trade agents in the field. Trade agents will be able to register farmers, mark goods as collected and initiate payments to farmers using the mobile interface. The following diagram illustrates this architecture.



5.2.1 Database

The system will include a backend database which stores information related to deals, farmers, buyers and trade agents. The database will reside on the server and will be accessed by the other applications the system.

5.2.2 Mobile Application

The mobile application will be used by trade agents to perform operations in the field and at collection points. The application will be a J2ME or Android application and will be designed to run on low end phones with minimal features such as a Nokia C1 (retail \$50). The specification of the model phone may need to be revisited if high resolution photos of documents are required. The mobile application will be available in English with the ability to translate the interface to Swahili or other languages which use the English alphabet. The mobile application will interface with a Bluetooth printer which will allow trade agents to print receipts in the field. The requirements for the Bluetooth printer are that it must cost under \$150 and must be able to quickly print the English alphabet. Printing in other alphabets is not foreseen at this time.

5.2.3 Website

The web interface will be used by the office based actors (TSS, network manager) to update deals and access reports. The website will be available in English.

5.2.4 Payment Provider Interface

The system will include an interface to at least one payment provider which will allow payments to be easily sent to registered parties. It is very likely that this will be an interface to one or more mobile payment providers. Bank transfers will be available as a payment option but these will be completed manually through online banking.

5.3 Actors

The actors who will interact with the system are described in the following table.

Actor	Goals	Description
TSS administrator or user	Administer the system. Use working capital efficiently. Reduce system costs.	Transaction Security Services operations the COB system.
Network manager	Run a network of trade agents. Maximize deal throughput. Complete deals efficiently.	A network of trade agents proposes a deal to TSS and then completes the deal.
Trade agent	Finds opportunities and suggests them to the Network manager. Sources goods from farmers to fulfill the requirements of deals. Pay farmers quickly and efficiently.	A member of the trade agent network who performs actions within the system.

Farmer	Reliable price for goods. Receive payments quickly.	A small holder who supplies goods to a TSS deal.
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6 Detailed Process Specifications

This section contains detailed specifications for the Payment Management System. The initial sections contain general requirements with subsequent sections containing requirements for specific processes.

6.1 General Attributes of the PMS

The system will manage and process payments with web and mobile interfaces to system actors and an API to a payment provider. This section provides requirements which apply to the whole system.

6.1.1 General Requirements

6.1.1.1 Error Handling

Error occurrence must be reduced by always using fields which restrict input if possible. This is especially important on the mobile application. When errors occur a message must be displayed to the user that allows them to do one of the following options.

1. Take corrective action
2. Contact a system user who can take corrective action
3. Informs them whether this is a temporary problem and that administrative personnel are attempting to fix their issue

For all data input errors on the mobile application, the user must be displayed a descriptive error message and returned to the screen which allows them to correct the error. Any data which was entered by the user and which was not the source of the error must be auto filled on the screen that the user is returned to in order to prevent the user having to re-enter data. In the processes below errors are listed at the end of the process. In most cases the user should be displayed a descriptive error message and returned to the previous step. If future actions need to be taken, these actions are described below the error message at the end of the process description.

6.1.1.2 Client Server Communication Logging

The server must have the ability to log all communication with mobile application. This logging must be configurable so that its administrator can choose between the following levels of logging.

- Fine - The server must log all data received or sent, the trade agent/application from whom the data was received or sent and the date/time (including milliseconds) that the communication happened.
- Course – The server must log all incidents of communication the trade agent/application from whom the communication was received or sent and the date/time (not milliseconds).

It must be possible to turn this logging off for a specific trade agent or for the system as a whole.

6.1.2 Countries and Currencies

The system will initially be deployed in Kenya and the default currency will be Kenyan Shillings (KES). However, it must be possible to operate the system in multiple countries at once. For this reason all amounts must include currency and this must be configurable. Multicurrency deals are within the scope of the system. For this reason every deal will have specific countries designated for the Sellers and buyer. Middle costs can be in either currency. Deals where the sellers are in a multiple countries are not within the scope of the system. The designated countries

for the buyer and seller side of the deal will determine the currency, default country code for phone numbers, and default country for addresses. Exchange rates will be entered at the point the deal is approved as this will determine the calculations for commissions based on the difference between fixed buyer price in one currency and the fixed seller price in the second currency. TSS will take the currency risk and will pay out bonuses and commissions based on the exchange rate at the point in time when the deal was approved.

6.1.3 Accounting Approach

Accounting for the system will be on a cash basis. Accounts will generally be debited and credited when payments are made. In each process a section at the end of the process description will detail any payments and accounting transactions associated with the process. The exact treatment of the multicurrency aspects of this system within the accounting system need to be defined.

6.2 System Processes

This section defines the functional requirements for the core processes which will be initiated via the web and mobile interfaces.

6.2.1 Overview

The following processes are initiated within the system. Each of these processes is described in a subsequent section.

Processes	Interface	Description
Update Deal Plan	Web	This process allows an Network manager to update their deal plan
Review Deal Plan	Web	This process allows the TSS Administrator to view deal plans for one or all trade agents.
Submit Deal	Web	The network manager creates a new deal using the website and submits it to TSS.
Review Deal	Web	TSS views the deal on the website and requests clarifications from the network manager if necessary. If clarifications are not required the deal is approved or rejected
Provide Deal Clarifications	Web	The network manager edits the deal information and provides clarifications required by TSS. The deal is then resubmitted.
Alter Deal	Web	This process allows a TSS administrator to update deals to cater for exceptional circumstances. Examples of this include change payment methods or altering the details of an approved deal.
Farmer Negotiation and Commitment	Mobile	This process allows a trade agent to record an agreement with a farmer to provide a specific quantity of goods at a specific price.
Farmer Registration via Mobile	Mobile	This process allows a trade agent to register a farmer in the system from the field with a mobile handset.
Mobile Collection and Payment	Mobile	This process allows a trade agent to record collection of goods and payments to farmers.
Paper Collection and Payment	Web	This process allows a trade agent to record collection and payment details on a paper form and then enter them into the website after the deal is complete.
Mobile Transport Documentation	Mobile	This process allows a trade agent to record the details of a transporter who will be used for the deal.
Mobile Buyer Delivery	Mobile	This process allows a trade agent to record buyer deliver details using a mobile handset.
Offline Buyer Delivery	Web	This process allows a trade agent to complete buyer delivery using paper forms and then enter details into the system using the website.

Reconcile Deal	Web	This process allows the Agent NM to enter final deal details and TSS administrator to complete payments to farmers and network members.
Write Off Deal	Web	This process allows a TSS administrator to write off a deal where the buyer is not going to pay.
Top up Mobile Payment Account	Web	This process allows a TSS administrator to record the movement of funds from a bank account to a mobile payment account.
Administrative Configuration	Web	This process allows the TSS administrator to update configuration settings in the system.
Accounting Export or Reconciliation	Web	This process allows the TSS administrator to export accounting entries for import into the accounting system.

6.2.2 Update Deal Plan

This process is used by a network manager (NM) using the website. The goal of this process is to update a deal plan to allow TSS to forecast cash flow usage.

Process Steps

- 1) The NM logs into the web application and selects the Update Deal Plan menu option and is presented with their current deal plan.
- 2) The NM adds new planned deals which they predict over the course of the coming months.
- 3) For each deal, the NM inputs the following data items.
 - a. Expected trading date
 - b. Commodity
 - c. Seller Location including country
 - d. Buyer Location including country
 - e. Buyer
 - f. Seller
 - g. volume (tons, other units)
 - h. Estimate buyer pays for full consignment
 - i. Estimate total middle costs
 - j. Estimate COB required
 - k. Estimate % of commission seller side
 - l. Estimate % of commission buyer side
 - m. Estimate % of commission coordinator
 - n. Estimate % of fee for TSS
 - o. Estimate % of total commission
 - i. calculated from above as commission seller side + buyer side + coordinator + TSS fees
 - p. Estimate commission seller side
 - i. calculated from above as (Buyer Price - middle costs) * Seller Side Commission
 - q. Estimate commission buyer side
 - i. calculated from above as (Buyer Price - middle costs) * Buyer Side Commission
 - r. Estimate commission coordinator
 - i. calculated from above as (Buyer Price - middle costs) * Coordinator Commission
 - s. Estimate fee for TSS

- i. calculated from above as (Buyer Price - middle costs) * fee for TSS

- 4) The NM saves the updated deal plan.

Error Paths- None Identified

6.2.3 Review Deal Plan

This process is used by the TSS administrator using the website. The goal of this process is to view NM deal plans to allow TSS to forecast cash flow usage.

Process Steps

- 1) The TSS administrator logs into the web application and selects the View Deal Plans menu.
- 2) The TSS administrator is presented with a list planned deals which NMs predict to happen over the course of the coming months. This list will be in chronological order.
- 3) The TSS admin must be able to filter for a single agent network, all agent networks in a country, it must also be possible to select multiple agents and filter for only those agents.
- 4) It must be possible to view the consolidated deal plan for all countries in a single currency. The user will need to enter forex rates for each currency to do this.

Error Paths- None Identified

6.2.4 Submit Deal

This process is initiated by network manager (NM) using the website. The goal of this process is to submit a potential deal to TSS for approval or clarification. This process will be completed when an agent network has identified an opportunity, farmers and negotiation a price with a buyer. In general the NM will be responsible for finding and negotiating with the buyer and the trade agents will be responsible for negotiating with the farmers.

Process Steps

- 1) The NM logs into the web application and selects the Submit New Deal menu option and is presented with their deal plan and a button to enter a new deal which is not in the deal plan.
- 2) When NM selects a deal from the list in their deal plan or click the button to enter a new deal they are presented with a form to enter deal detail. This form will have multiple tabs as described below.
- 3) The NM enters the following information in the Overview Tab.
 - a. Buyer Details
 - i. Buyer Number, option to register new buyer or to specific that this deal will be completed at auction (so there is not specific buyer). If the buyer is already registered this should autofill the following four values.
 - ii. Buyer Name
 - iii. Buyer Location or Address including country
 - iv. Identifying information. ID Number if individual or corporate registration number.
 - v. Buyer Mobile Number
 - vi. Buyer Payment details.
 - b. Seller Details

- i. Seller Number if registered or option to register new seller. If the seller is already registered this should autofill the following four values.
 - ii. Seller Name
 - iii. Seller Location or Address including country
 - iv. Seller Mobile Number
 - v. Photo Upload for signature of seller representative or for signed contract.
 - c. Product Details
 - i. Commodity. This should be a dropdown box with a button to add new commodity. This button will bring up a popup window where the user can add a new commodity and specify a default unit for this commodity.
 - ii. Quality Specifications. Free text field.
 - iii. Volume of consignment in buyer units. The units associated with this field can be tons, head of animals, or any other unit.
 - iv. Units. This will be a dropdown with a button to add new unit. The commodity selected above should have a default unit. For instance "90 Kg Bags".
 - v. Number units for consignment.
 - vi. Tagging Details.
 - 1. This will include a radio button indicating whether tagging is required on this deal.
 - 2. There will be checkboxes for the tagging options that are allowed on the deal. These options will be
 - a. Marker. The trade agent will use a permanent marker to write a system generated id number on the bag
 - b. Input. The system will allow input of an identification number decided by the trade agent. Possibly corresponding to a value on a sticker or an ear tag on livestock.
 - c. QR. The system will allow input from a scan of a 2D barcode using the mobile application.
 - d. Logistics Details
 - i. Collection Place
 - ii. GPS Coordinates of Collection Place.
 - iii. Collection Date range. This will include a "from" and a "to" date.
 - iv. Delivery Place
 - v. GPS Coordinates of Delivery Place.
 - vi. Delivery Date
 - e. Deal Financials
 - i. Exchange Rates for Estimation (these will be updated at deal approval)
 - 1. Buyer currency to seller currency
 - 2. Seller currency to buyer currency
 - ii. Total to be paid by buyer (in currency specified for buyer country)

- iii. Total Middle Costs (from Middle Costs sheet, in one or two currencies)
 - iv. TSS fees & commission %. Calculated from subsequent information. This should be in the currency of the country that the agent network is based in.
 - v. TSS fees & commission Amount. Calculated from subsequent information. This should be in the currency of the country that the agent network is based in.
 - vi. Expected total payments to sellers in seller country currency. Calculated from subsequent information.
 - vii. Total payment per unit in seller country currency. Calculated. Calculated from subsequent information.
 - viii. Real price paid to sellers COB per unit in seller country currency. Blank at this point.
 - ix. Expected bonus to sellers per unit if deal works as foreseen. Calculated from subsequent information.
 - f. Supporting Documents. This section allows the user to upload files and add some text with a summary for the file. This should be used to upload images or scans of LPOs or contracts with the buyer.
 - g. Save/edit Buttons
 - h. Clear All Button.
- 4) The NM Completes the Responsibilities Tab.
- a. Network Members responsible for the seller transactions
 - i. Commission to be shared among network members in %.
 - ii. Network Members. These people are responsible for collection point, quality control and loading.
 - iii. This will have 2 options: Select Network Member and Register New Network Member
 - iv. Each network Member will have the following information
 - 1. TSS Agent Registration Number
 - 2. Name
 - 3. Location (city)
 - 4. Country (determines currency for commission payments)
 - 5. ID Number
 - 6. Mobile Number
 - 7. Payment Details
 - a. Payment System (Mobile Payment Provider, Commercial Bank)
 - b. Account Number – acct or mobile number
 - b. Network Members Responsible for the buyer transaction
 - i. Commission to be shared among network members in %.
 - ii. Network Members. These people are responsible for delivery to the buyer, off loading.
 - iii. This will have 2 options: Select Network Member and Register New Network Member
 - iv. Each network Member will have the following information
 - 1. TSS Agent Registration Number
 - 2. Name

3. Location (city)
 4. Country (determines currency for commission payments)
 5. ID Number
 6. Mobile Number
 7. Payment Details
 - a. Payment System (MPesa, Equity Bank)
 - b. Account Number – acct or mobile number
 - c. Network Member Responsible for Overall Coordination and Final Assessment. Note: This will usually be the network manager and should default to their details.
 - i. Commission to be given to the network manager in %.
 - ii. Member/NM Details
 1. TSS Agent Registration Number
 2. Name
 3. Location (city)
 4. Country (determines currency for commission payments)
 5. ID Number
 6. Mobile Number
 7. Payment Details
 - a. Payment System (MPesa, Equity Bank)
 - b. Account Number – acct or mobile number
 - d. Management Costs. This should be in the currency of the country that the agent network is based in. Management fee is calculated as follows:
 - i. 1% of the total commission of the network if the total commissions earned is less than 10%.
 - ii. 10% of the total commission of the network if the total commissions earned is 10% or more.
 - e. Save/edit Button
 - f. Clear All Button.
- 5) The NM Completes the Middle Costs tab by filling in the following details
- a. Packaging Materials
 - i. Packaging unit. Dropdown with the following values: bag, crate, bale, box. There will be a button to add new Packaging Unit.
 - ii. Number of Units required for full consignment
 - iii. Price of one empty package unit until it is available at collection including currency.
 - iv. Total Package costs of total consignment. Calculated from previous values.
 - b. Tag Costs
 - i. Number of tags required
 - ii. Cost per tag including currency
 - iii. Total tag cost for full consignment
 - c. Loading Costs
 - i. Number of units to load. Should be from above.

- ii. Loading costs per unit including currency. This will be 0 if farmers load.
 - iii. Total costs for loading full consignment.
 - d. Rent Costs
 - i. Storage while waiting for transport including currency. This will be 0 if the warehouse is operated by IBM.
 - e. Transport Costs
 - i. Transporter number if registered or option to register a new transporter. If the transporter is already registered this should autofill the following six values.
 - ii. Company Name
 - iii. Company Number
 - iv. Country (determines currency)
 - v. Owner or Director Name
 - vi. Owner or Director ID Number
 - vii. Location
 - viii. Insurance Policy Company and Number
 - ix. Price for moving one truck to the delivery location (not autofilled)
 - x. Number of trucks needed for a full consignment (not autofilled)
 - xi. Total transport costs for full consignment. (Product of previous 2 values)
 - f. Insurance Costs
 - i. Insurance Company. Free text field.
 - ii. Policy Number
 - iii. Total insurance costs for full consignment including currency
 - g. Taxes and Fees for consignment
 - i. Description of taxes and fees including currency. Different taxes and fees may be in different currencies.
 - ii. Total Taxes and Fees for consignment
 - h. Financing Fees
 - i. Fee of 1% per week for top up from COB fund.
 - i. Other Costs
 - i. It must be possible to add other costs as line items. There must be an "Add Cost" button which allows the user to add a free text description and amount (including currency) for the cost.
 - ii. Description of other costs. Like "TRANSPORT/communication ON collection from several beaches and repeat travel and accommodation after first delivery -trip"
 - iii. Cost Amount (including currency)
 - iv. Total Other Costs
 - j. Total Middle Costs (sum of the above in one or two currencies)
 - k. Save/edit Button.
 - l. Clear All Button.
- 6) The NM Completes the Pre Deal Price Calculation tab by filling out the following information.

- a. Total Amount Offered by Buyer for full consignment delivered to destination.
 - b. Total estimated middle costs. From middle costs sheet.
 - c. Gross value for TSS commission calculation. Subtract the above 2 values. This should be in the currency of the country that the agent network is based in.
 - d. Total % of TSS commission. Sum of the 4 commissions on the Responsibilities screen. This should be in the currency of the country that the agent network is based in.
 - e. Total Commission for TSS. Previous two values multiplied.
 - f. Remaining amount for sellers. Gross Value – Commission. This should be displayed in the currency of the country that the agent network is based in and in the seller currency if different.
 - g. Number of units (bags, crates, whatever)
 - h. Maximum COB price to sellers per unit for breakeven on deal in seller currency
- 7) Summary Tab. This tab includes the following
- a. Basic Information about the deal from the above information
 - b. Buttons to submit, edit, delete, or save the deal.
 - c. History of the deal. There will be only one entry in this section at this point for the creation of the deal. Each entry will include the following details
 - i. User who altered the deal
 - ii. Event (Created, Deleted, Approved, Rejected, Clarifications Requested)
 - iii. The date which this event happened
- 8) The NM uses the submit button to submit the information. E1 – Mandatory information missing.

Error Paths

E1 – Mandatory Information Missing. This needs some thought on what should be mandatory. But the system must highlight in red the tabs which have missing values and the labels of the missing values. It might be possible to save the deal with missing mandatory information but it should not be possible to submit it.

6.2.5 Review Deal

This process is initiated by the TSS administrator using the website. The goal of this process is to review the deal and to either request further clarifications, approve or reject the deal.

Process Steps

- 1) The TSS user logs into the application and clicks on the review deals menu item.
- 2) The TSS user is presented with a list of deals which have been submitted. Next to each deal is a button which allows the user to review the deal. The TSS user clicks this button.
- 3) The TSS User is presented with a web page with the following attributes
 - a. The following multiple tabs.
 - i. Overview Tab
 - ii. Responsibilities Tab
 - iii. Middle Costs
 - iv. Pre Deal Price Calculation tab

- v. Summary Tab
- b. The last tab is the summary tab with an overview of the deal. This page will now have three buttons which were not available to the NM. Approve deal, reject deal, and seek clarifications.
 - c. There will also be buttons to export the deal in PDF and Excel formats. The excel version must match the TSS deal summary sheet. The file must be named in accordance with their existing convention.
 - d. On each of the tabs there is a section at the bottom for the user to add comments about the whole tab. There is a check box next to each of the data items. When checked, this checkbox will mean that TSS has questions or comments about the value. Also, when a check box is checked it will display a text box next to the data item where the TSS user can enter a specific comment or request for clarification of the item.
 - e. The TSS user is not able to alter the data in the deal. If they think there is an error in an item of data they should check the box next to the item of data (to flag it for review) and include a comment stating what they think the value should be.
- 4) The TSS user reviews the deal. They add comments to sheets which they have concerns about. They add checks next to the data items which they have concerns about.
 - 5) If the TSS user is going to approve the deal they update the exchange rate information to the most current rate. This will be used for forex calculations for the rest of the deal.
 - 6) The TSS user clicks the Approve, Reject or Clarify buttons.
 - 7) In all cases the NM will be notified of the change in status of the deal by email.
 - 8) If the deal is approved the TSS user will be presented with a list of the expenses associated with the deal. These will be divided by payment method so that the TSS user can see the expenses that will be made cash, bank transfer and mobile payment. Total amount of all cash expenses will be immediately transferred to the NM to meet their funding needs. All expenses which are to be paid to 3rd parties (farmers, truck drivers) by mobile payments will be paid when required.
 - 9) The login of the user who approved, rejected or asked for clarifications on a deal must be recorded with the deal.

Error Paths- None identified.

6.2.5.1 Payments and Accounting

When a deal is approved a number of payments are made. The tables below describe each of these payments. The triggering event for all payments in this section is deal approval.

Payment of Funds for Payment to Sellers for Goods

In this instance the Seller Agent will pay farmers in cash. A mobile payment is used to provide the agent with these funds. If the farmers will be paid directly via mobile payment or bank transfer the payment will happen at collection time.

Payment Method	From	To	Debit Account	Credit Account
Cash	TSS	Seller Agent Mobile Account	Mobile Money Account	Stock

Payment for Packaging

Payment Method	From	To	Debit Account	Credit Account
Mobile	TSS	Seller Agent Mobile Account	Mobile Money Account	Packaging Costs Expense
Bank	TSS	AN	Cash	Packaging Costs Expense

Payment for Tags

Payment Method	From	To	Debit Account	Credit Account
Mobile	TSS	Seller Agent Mobile Account	Mobile Money Account	Tag Cost Expense
Bank	TSS	AN	Cash	Tag Cost Expense

Payment for Loading Costs

Payment Method	From	To	Debit Account	Credit Account
Mobile	TSS	Seller Agent Mobile Account	Mobile Money Account	Loading Costs Expense
Bank	TSS	AN	Cash	Loading Costs Expense

Storage Rental Costs

Payment Method	From	To	Debit Account	Credit Account
Mobile	TSS	Seller Agent Mobile Account	Mobile Money Account	Storage Costs Expense
Bank	TSS	AN	Cash	Storage Costs Expense

Other Costs

This will generally be for fees incurred at the selling agent side.

Payment Method	From	To	Debit Account	Credit Account
Mobile	TSS	Seller Agent Mobile Account	Mobile Money Account	Various
Bank	TSS	AN	Cash	Various

6.2.6 Provide Deal Clarifications

This process is initiated by the NM using the website. They will have submitted a deal for which clarifications were requested.

Process Steps

- 1) The NM logs into the system and selects the Clarify deal menu item.
- 2) The NM is presented with a list of deals for which clarifications have been requested.
- 3) The NM selects a deal to clarify
- 4) The NM is presented with the details of the deal.
 - a. This will be a page with multiple tabs as in the previous two processes.
 - b. Comments which TSS has been entered are displayed
 - c. Tabs for which clarifications are required are highlighted in yellow.

- d. On the tabs, data items for which clarifications are required are highlighted in yellow.
 - e. It must be possible to export a deal report in both Excel and PDF format. The excel format must match the existing workbook, including the filename.
- 5) The NM updates the deal details and saves, (re)submits or voids the deal.
 - 6) The deal then goes back to the TSS administrator again. E1 – Mandatory Information Missing.

Error Paths

E1 – Mandatory Information Missing. This needs some thought on what should be mandatory. But the system must highlight in red the tabs which have missing values and the labels of the missing values. It might be possible to save the deal with missing mandatory information but it should not be possible to submit it.

6.2.7 Alter Deal

This section is incomplete. Various operational conditions will occur where an approved deal will need to be altered by the TSS administrator in order to cater for exceptional circumstances. This section is meant to give the system flexibility by creating a placeholder for these operations. This process is initiated by the TSS administrator and the goal of this process is one of the following

- Revive a rejected deal
- Reopen collection on the deal
- Alter an approved deal

The NM should call TSS and explain their reasons for requiring any of these actions.

Process Steps

- 1) The TSS user logs into the application and clicks on the Alter Deals menu item.
- 2) The TSS user is presented with a list of deals on the system and the state of each. Next to each deal is a button which allows the user to alter the deal. The TSS user clicks this button.
- 3) The TSS administrator is presented with a page which contains a summary of the deal and buttons to perform the following actions.
 - a. Revive a rejected deal
 - b. Reopen collection on the deal
 - c. Alter an approved deal
- 4) The TSS administrator performs one of these actions and adds a comment to the deal to explain the circumstances of this action.

Error Paths - None identified.

6.2.7.1 Payments and Accounting

This section is incomplete. Various operational conditions will occur where an approved deal will need to be altered by the TSS administrator. In certain circumstances this will involve accounting entries being generated. This section serves as a placeholder for these entries.

6.2.8 Farmer Negotiation and Commitment

This process is initiated by the Trade agent in the field. This process allows a trade agent to register farmers and include them in a TSS deal before the goods are collected.

Process Steps

- 1) The trade agent logs in the mobile application and accesses the Collection -> Farmer Commitment menu item.
- 2) The trade agent is presented with a list of deals. The trade agent selects a deal.
- 3) The trade agent is presented with
 - a. A list of farmers who are already committed to the deal.
 - b. An option to add registered farmer to the deal. This choice leads to a screen which allows the trade agent to search for the farmer based on mobile number, ID Number or Name. When the farmer record has been found the trade agent can add them to the deal.
 - c. An option to enter a New Farmer. This will lead to the farmer registration process. See Section 6.2.9 Farmer Registration via Mobile for that process.
- 4) The trade agent selects the farmer.
- 5) The trade agent is presented with a screen to enter the amount that the farmer is committing to provide, the price that the farmer will accept, the payment method and the date on which the goods need to be provided. On this screen the units and currency will be fixed but the trade agent can enter the amount.
- 6) The trade agent saves the information to add the farmer to the deal.
- 7) The trade agent prints a receipt for the farmer which includes the following information
 - a. Text in the local language stating “This is an agreement between [Trade agent] and [Farmer Name], it is not a Receipt or Promissory Note”
 - b. Farmer Name
 - c. Farmer ID Number
 - d. Farmer Mobile Number
 - e. Commodity
 - f. Quality Requirements
 - g. Date of Delivery
 - h. Units and amount
 - i. Unit Price
 - j. Total Payment to Farmer including amount and currency.
- 8) The system may send an SMS to the farmer to record their commitment.

6.2.9 Farmer Registration via Mobile

This process is initiated by the trade agent at the collection point using the mobile application.

Process Steps

- 1) The trade agent logs in the mobile application and accesses the Register Farmer menu item.
- 2) The trade agent will be presented with a list of deals against which to register the farmer. At the bottom of the list will be an option to register the farmer without a specific deal.
- 3) The trade agent enters the following information
 - a. First Name
 - b. Last Name
 - c. ID Number
 - d. Location

- e. Country. This should default to a specific value for each trade agent.
 - f. Mobile Number. The trade agent must explain to the farmer very clearly that this is the mobile number that the payment will be sent to and that TSS, the Agent Network and the trade agent will have absolutely no liability for compensating the farmer if this number is incorrect.
 - g. Preferred Payment Method. This will be a dropdown with Mobile Payment, Cash, and Bank Account. In general farmers should be forced to use mobile payment as this provides substantial benefits to TSS. However most farmers will probably prefer cash. Bank account should almost always be avoided because of the large administrative cost to TSS.
 - h. Payment details.
 - i. If Mobile Payment is selected the details will be a mobile number.
 - ii. If Cash Is selected, no payment details are entered
 - iii. If Bank Account is selected a bank name and account number are entered
 - i. Next of Kin Name
 - j. Next of Kin Mobile Number
- 4) The trade agent saves the data. E1 – Mandatory information missing.

Error Paths

E1 – Mandatory information missing. A message is displayed to the user stating which data items are missing. The user is taken back to the screen to enter farmer details. All data that the user previous entered is present.

6.2.10 Mobile Collection and Payment

This process is initiated by the Trade agent at the collection point with the mobile application. This process allows a trade agent to collect goods from the farmer and submit a payment. Even when this process is used, the farmer must still sign a form agreeing to the sale of their goods to the trade agent.

Process Steps

- 1) The trade agent logs in the mobile application and accesses the Collection -> Collect Goods menu item.
- 2) The trade agent is presented with a list of deals which the trade agent is involved with. The trade agent selects a deal.
- 3) The trade agent is presented with
 - a. A list of farmers
 - b. An option to enter a New Farmer. This will lead to the farmer registration process. See Section 6.2.9 Farmer Registration via Mobile for that process.
 - c. A button to complete collection for this deal. E1 – Inadequate collection amount for this deal.
- 4) The trade agent selects the farmer.
- 5) The trade agent is presented with a screen to enter the amount collected from the farmer. On this screen the units will be fixed but the trade agent can enter the amount. If the farmer has been registered to the deal in advance this screen displays the amount and price that the farmer has previously committed to.

- 6) The trade agent can then enter the quantity and the payment method (mobile, cash, bank account). The amount that the trade agent pays is decided at deal approval but the quantity will be decided by the trade agent. Once the total for the deal is reached the system will stop authorizing payments. A larger deal amount can be authorized by TSS using the Alter Deal process. E2 – Deal Amount Exceeded.
- 7) The trade agent may tag the bags of product. Whether this is required will have been specified at the time the deal was approved. If tagging is required on the deal, there are three options (marker, input and QR) for tagging bags and one or more of these options will be chosen at the time the deal is approved. It must be possible for one, two or all three of these options to be used by the trade agent to tag bags.
 - a. If the bags will be tagged with a marker the trade agent will write an identification number on the bags with a permanent marker. If this option is used the mobile application will display a list of identification numbers for the bags. One identification number will be displayed for each bag that the trade agent has indicated the farmer is selling.
 - b. If the bags will be tagged with the input method, the trade agent will attach a sticker to the bags and then input the number on the sticker into the mobile application. In this case the mobile application will display a list of input boxes for the trade agent to type in the identification number on the sticker.
 - c. If the trade agent will tag the bags with the QR process the application will activate the mobile phone's camera and prompt the trade agent to scan the first QR Tag (2D Barcode). When the first QR tag has been scanned the application will display a message that the QR tag has been successfully scanned and provide the trade agent with the option to scan the next bag.
- 8) Once the trade agent is finished tagging bags (if required) the trade agent clicks a finished tagging button and the application.
- 9) The trade agent has an option to print a list of the tags for a specific farmer. This could be for the farmer records or for the trade agent's records.
- 10) The trade agent submits the collection data for the farmer.
 - a. This will automatically trigger payment if the payment is by mobile payments.
 - b. If the method of payment is cash the amount will have been sent to the agent via mobile payment at the point the deal was approved.
 - c. If the payment method was bank transfer the head office will be emailed and instructed to make the payment.
- 11) The trade agent prints a receipt for the farmer with the following information
 - a. In large letters, in the local language "This is a Receipt. It is not an IOU or Promissory Note"
 - b. Datetime and Deal number
 - c. Farmer Name
 - d. Farmer ID Number
 - e. Farmer Mobile Number
 - f. Commodity

- g. Units and amount
 - h. Total Payment to Farmer including amount and currency.
 - i. Payment Method
 - j. Payment Details (if this is bank account only the last 4 digits of the account number should be printed, the rest should be "x")
- 12) When collection has been completed for the last farmer the Trade agent enters the Next Competitive Market price for the unit involved in the deal.
 - 13) The trade agent clicks the button to complete the collection for the deal. This will update the deal status on the system and trigger an email or SMS message to the NM.
 - 14) If the payment method for any farmers is cash, the system will complete a mobile payment to the trade agent so that they can give the farmers cash.

Error Paths

E1 – Inadequate collection amount for this deal. The trade agent will be unable to complete collection on the deal if they have not collected the total amount of good for the deal.

E2 – Deal Amount Exceeded. When the trade agent has paid out the total amount that was authorized for this deal, subsequent payments will be blocked.

6.2.10.1 Payments and Accounting

In this section farmers are paid for the goods supplied. Note that there are different triggering events depending on the payment method.

Payment to Sellers for Goods Payment Method	Triggering Event	From	To	Debit Account	Credit Account
Mobile	Seller Agent Collects Goods	TSS	Farmer Mobile Account	Mobile Money Account	Stock
Bank	Office Notified by email for Payment	TSS	Farmer Bank Account	Cash	Stock

6.2.11 Paper Collection and Payment

This process is initiated by the trade agent or NM with the website. This process is used in situations where collection with the mobile application is not appropriate or possible.

Process Steps

- 1) The trade agent completes the collection process and uses a paper form to record the details of collection from Farmers. The farmers will generally be paid in cash at the point goods are collected. The agent will have received this cash in the form of a mobile payment at the time the deal was approved. In certain circumstances farmers may be paid by mobile payment or bank transfer after collection has been completed but this should be rare.
- 2) The trade agent logs into the web site and accesses the Collection -> Complete Collection menu item.
- 3) The trade agent is presented with a list of approved deals for which collection can be completed.
- 4) The trade agent selects the deal that they have collected for
- 5) A screen is presented which allows the trade agent to enter the details of the collection.

- 6) For each farmer the trade agent either selects the farmer if already registered or enters the following details to register the farmer.
 - a. First Name
 - b. Last Name
 - c. ID Number
 - d. Location
 - e. Mobile number
 - f. Quantity. Units will be fixed but amount will be entered.
 - g. Total amount (or unit price)
 - h. Payment method (cash, mobile payment, bank payment)
 - i. Payment details (different for each method)
 - j. Next of Kin Name
 - k. Next of Kin Mobile Number
 - l. Notes
- 7) Once all details have been entered the trade agent submits the collection information (note that this does not complete collection). E1 – Mandatory data missing. E2 – Total amount for deal exceeded.
- 8) Mobile payments are processed for all payments with this as the payment method. If the payment method was cash, the payment is assumed to have already been made. If the payment method is bank payment a report will be generated for the payments required.
- 15) The trade agent clicks the Complete Collection button on the deal. This will update the deal status on the system and trigger emails to the NM. E3 – Insufficient goods collected.

Error Paths

E1 – Mandatory data missing. Mandatory data items which are missing will be highlighted in red.

E2 – Total amount for deal exceeded. The user will be informed that the total amount of payments exceeds the authorized amount for the deal. If the authorized amount needs to be increased the trade agent must ask TSS to use the Alter Deal process to increase this amount.

E3 – Insufficient goods collected. The trade agent will not be able to complete collection until the quantity of collected goods matches the amount of the deal.

6.2.11.1 Payments and Accounting

In the scenario of paper collection and payment, the payment for funds to purchase goods from sellers will have been sent to the agent at the time the deal is approved. See the Review Deal process for this payment.

6.2.12 Mobile Transport Documentation

This process is initiated by the Trade agent at the collection point with the mobile application. This process allows a trade agent to record details of the transportation used to move the produce associated with a deal.

Process Steps

- 1) The trade agent logs in the mobile application and accesses the Collection -> Record Transport menu item.
- 2) The trade agent is presented with a list of deals which the trade agent is involved with and for which collection has been completed. The trade agent selects a deal.

- 3) The trade agent is presented with a list of transportation companies which are registered in the system. The trade agent has an option to register a new transportation company.
- 4) If the trade agent registers a new transportation company the following details are recorded and the trade agent saves the details of the transportation company
 - a. Company Name
 - b. Company Number
 - c. Owner or Director Name
 - d. Owner or Director ID Number
 - e. Location
 - f. Insurance Policy Company and Number & vehicle registration no. as each vehicle will have different policy no.
- 5) Once the transportation company has been selected that trade agent enters details of the driver and vehicle. These include
 - a. Driver Name
 - b. Driver ID number
 - c. Make and model of vehicle
 - d. Vehicle registration number & Insurance No.
 - e. Total being paid to the driver
- 6) The trade agent saves these details. The trade agent then uses the mobile application to capture photos of the following
 - a. Driver's face
 - b. Driver's ID Card
 - c. Front of Vehicle including Vehicle Registration Number
 - d. Cargo
- 7) The trade agent saves the transportation information for the deal and submits these details to the server.
- 8) The trade agent has the option to print a receipt of the information captured for the driver.

Error Paths - None identified.

6.2.12.1 Payments and Accounting

This section assumes that the transport will be paid for when the truck is loaded and all details recorded.

Payment for Transport.

This includes Insurance Cost Payment, Taxes and fees For Consignment.

Payment Method	Triggering Event	From	To	Debit Account	Credit Account
Mobile	Agent Request with mobile app	TSS	Seller Agent Mobile Account	Mobile Money Account	Transport Expense
Bank	Automatically generated email to Head office requesting payment.	TSS	AN	Cash	Transport Expense

6.2.13 Mobile Buyer Delivery

This process is initiated by the trade agent with the mobile application when the goods are delivered to the buyer. There is a question whether this process should

be made with the mobile or if it should simply be done on paper and then entered with the Offline Buyer Delivery process in the next section. This should probably be decided based on whether this needs to be processed in real time. If the next step is to wait 2 weeks for the buyer to pay it probably doesn't matter if this takes 2 days to be entered at the office, and this process should be done with paper/website and not implemented on the mobile application.

Process Steps

- 1) The trade agent logs in the mobile application and accesses the Deals -> Deliver to Buyer
- 2) The trade agent is presented with a list of deals for which collection is complete and can be delivered to the buyer. The trade agent selects the deal which is delivered.
- 3) The trade agent is presented with the transportation information for the deal. The trade agent can download all images that have been captured as a part of the Mobile Transport Documentation process for the deal.
- 4) The trade agent enters
 - a. The amount that the buyer has agreed to pay.
 - b. The amount of goods that the buyer has taken possession of.
 - c. Middle costs
 - d. The estimated date of buyer payment
 - e. The payment method
- 5) The trade agent submits the information to complete delivery of the deal

Error Paths

E1 – Mandatory information missing. A message is displayed to the user stating which data items are missing. The user is taken back to the screen to enter delivery details. All data that the user previous entered is present.

6.2.13.1 Payments and Accounting

No actual funds are transferred at the point that buyer delivery is completed but an accounting entry records the reduction in the stock asset and corresponding increase in accounts payable.

Account Postings for Buyer Delivery

Payment Method	Triggering Event	From	To	Debit Account	Credit Account
Account Postings	Buyer Delivery	Internal	Internal	Stock	Accts Receivable

6.2.14 Offline Buyer Delivery

This process is initiated by the NM or trade agent with the website. In this case the trade agent has made the delivery to the buyer and has recorded the delivery information on a paper form. The trade agent then takes the paper form back to the office and completes this process. Auctions are handled as a special case of this process.

Process Steps

- 1) The Trade agent logs in to the web application and accesses the Deals -> Complete Delivery menu item.
- 2) The trade agent is presented with a list of deals in this trade agent network for which collection has been completed and delivery is the next action. The trade agent selects the deal.

- 3) The trade agent is presented with a screen which allows them to enter the following details
 - a. The amount that the buyer has agreed to pay.
 - b. The amount of goods that the buyer has taken possession of.
 - c. Middle costs
 - d. The estimated date of buyer payment
 - e. The payment method
- 4) The trade agent uploads an image or scan of the delivery note and adds a comment to describe this document.
- 5) The Trade agent submits the delivery information to complete delivery on this deal. E1 – Mandatory data missing.

Error Paths

E1 – Mandatory data missing. Mandatory data items which are missing will be highlighted in red.

6.2.14.1 Payments and Accounting

As above, no actual funds are transferred at the point that buyer delivery is recognized but an accounting entry records the reduction in the stock asset and corresponding increase in accounts payable.

Account Postings for Buyer Delivery

Payment Method	Triggering Event	From	To	Debit Account	Credit Account
Account Postings	Buyer Delivery form processed	Internal	Internal	Stock	Accts Receivable

6.2.15 Reconcile Deal

This process should be completed when the Buyer's payment reaches TSS. This process is completed by the TSS user using the website. The NM can login and see a list of the deals and their status but cannot reconcile the deal.

Process Steps

- 1) The TSS user logs into the web application and select the Deals -> Reconcile Deal menu item.
- 2) The TSS user is presented with a list of deals for which goods have been delivered to the buyer but for whom payment has not been received. A column in this list shows how many days late the buyer currently is past the date of expected payment. From 0 – 15 the field will be green. From 15 – 30 the field will be yellow. And more than 30 will be red.
- 3) For deals where payment is being chased it must be possible to add a comment to a deal on this screen describing actions that are being taken to chase payment.
- 4) The TSS user selects the deal that they are trying to reconcile and clicks the reconcile button.
- 5) The TSS user enters the final details of the received payment. This includes
 - a. Total amount received from the buyer.
 - b. Bank charges if applicable
 - c. Forex losses or gains if applicable regarding the buyer's bank transfer.
 - d. Exchange rates for the buying and selling currencies on the day the deal is reconciled. This information will not be used to recalculate

- commissions and bonuses but is only used to track forex gains and losses.
- 6) The system displays a deal summary. This includes the following information
 - a. Real Price Paid to Sellers per unit in seller currency
 - b. Balance (bonus) per Unit in seller currency
 - c. Total Bonus being Balance for full consignment (unit bonus * units)
 - i. If bonus is negative, the previous figure must be covered by the commission
 - d. Remaining total commission in the currency of the agent network
 - e. Minus Financing Costs Paid to TSS, and management fee paid to TSS
 - f. Remaining commission for distributing among network members
 - g. Remaining commission for network members looking after seller side
 - h. Remaining commission for network members looking after buyer side
 - i. Remaining commission for network member who coordinates the deal
 - 7) A payment tab includes a list of payment. These payments are calculated as follows
 - a. Commissions for Trade agents working on the seller side
 - b. Commissions for Trade agents working on the buyer's side
 - c. Commissions for the NM
 - d. Bonuses for farmers
 - i. Payments to each farmer based on their volume
 - e. Total for all payments in separate currencies and a total in the currency of the agent network.
 - f. Payment Method. This will be mobile ideally. All payments which need to be made by cash or bank payment will be included in a report which will be used to make the payments. This report will be separated per country/currency
 - 8) The deal summary tab will have a button to reconcile the deal. E1 – Mandatory information missing.
 - 9) The deal summary tab will have a button to complete payments. This will be grey until the deal has been reconciled.
 - 10) Once this complete payments button is pressed the payments will be completed.
 - a. Cash will be sent via mobile payment to the trade agent responsible.
 - b. Mobile payments will go directly to the recipient
 - c. Bank Payments will be included in a report for the TSS administrator to complete.
 - 11) The TSS user accesses an Actor Performance tab to enter a final assessment of all the actors (Buyer, Trade agents, Sellers, Transporters) associated with the deal. The TSS user specifies one of the following for each actor.
 - a. Deal Successful. No Comment. (default)
 - b. Caution. Less serious. This requires a comment.
 - c. Warning – Follow up. This requires a comment.

Error Paths

E1 – Mandatory data missing. Mandatory data items which are missing will be highlighted in red.

6.2.15.1 Payments and Accounting

The following payments and accounting entries represent the closure of the deal. It is assumed that all of these payments happen when the payment is received from the buyer.

Payment from Buyer

Payment Method	Triggering Event	From	To	Debit Account	Credit Account
Bank	Buyer Delivery	Buyer	TSS	Accts Receivable	Cash

Payments from Farmer Bonuses

Payment Method	Triggering Event	From	To	Debit Account	Credit Account
Mobile	Deal Reconciled	TSS	Farmer Mobile Account	Mobile Money Account	Bonus Expense
Bank	Deal Reconciled	TSS	Farmer Bank Account	Cash	Bonus Expense
Cash	Deal Reconciled	TSS	Seller Agent Mobile Account	Mobile Money Account	Bonus Expense

Payments for Agent Commission

Payment Method	Triggering Event	From	To	Debit Account	Credit Account
Mobile	Deal Reconciled	TSS	Seller Agent Mobile Account	Mobile Money Account	Commission Expense
Bank	Deal Reconciled	TSS	AN	Cash	Commission Expense

Movement for Management Costs

Payment Method	Triggering Event	From	To	Debit Account	Credit Account
Account Postings	Deal Reconciled	Internal	Internal	Cash	Fee Income

Payment of Financing Fees

Payment Method	Triggering Event	From	To	Debit Account	Credit Account
Account Postings	Deal Reconciled	internal	Internal	Cash	Financing Income

6.2.16 Write Off Deal

This process should be completed when TSS has decided that a buyer is not going to pay. This process is completed by the TSS administrator using the website. The NM can login and see a list of the deals and their status but cannot write off the deal.

Process Steps

- 1) The TSS user logs into the web application and select the Deals -> Write Off Deal menu item.
- 2) The TSS user is presented with a list of deals for which goods have been delivered to the buyer but for whom payment has not been received. A column in this list shows how many days late the buyer currently is past the date of expected payment. From 0 – 15 the field will be green. From 15 – 30 the field will be yellow. And more than 30 will be red.
- 3) For deals where payment is being chased it must be possible to add a comment to a deal on this screen describing actions that are being taken to chase payment.
- 4) The TSS user selects the deal that they are trying to reconcile and clicks the Write Off button.
- 5) The user is presented with a summary of the deal. The user entered comments against the deal indicating why the deal is being written off.
- 6) The TSS user accesses an Actor Performance tab to enter a final assessment of all the actors (Buyer, Trade agents, Sellers, Transporters) associated with the deal. The TSS user specifies one of the following for each actor.
 - a. Deal Successful. No Comment. (default)
 - b. Caution. Less serious. This requires a comment.
 - c. Warning – Follow up. This requires a comment.
- 7) The user clicks a button to write off the deal. The deal will no longer will be included in the list of deals to reconcile.

Error Paths - None identified

6.2.16.1 Payments and Accounting

Once a decision has been made to write off the deal the account receivable asset becomes an expense. No funds are transferred by the event is recorded in the accounting system.

Account Postings for writing off a deal

Payment Method	Triggering Event	From	To	Debit Account	Credit Account
Account Postings	Deal Written Off	Internal	Internal	Bad Debt Expense	Accts Receivable

6.2.17 Top up Mobile Payment Account

This process should be completed by a TSS admin user when funds need to be transferred to the mobile payment account.

Process Steps

- 1) The TSS admin sends a bank payment from their commercial bank account to the top up account for the Mobile Payment network. The exact mechanism for topping up the Mobile Payment Account will vary from mobile payment network to network.
- 2) The TSS admin logs into the mobile payment network website and confirms that the top up has been successful.
- 3) The TSS admin logs into the Payment Management system and selects the record mobile payment account top up menu item.
- 4) The TSS admin enters the amount and reference number of the top up.
- 5) The TSS admin clicks the confirm button to record the top up in the system.

6.2.17.1 Payments and Accounting

Mobile Payment accounts are generally stored value accounts that need to be topped up from a bank account. This event is recorded with the following accounting entries.

Account Postings for topping up a Mobile Payment account

Payment Method	Triggering Event	From	To	Debit Account	Credit Account
Bank	Account Low	TSS	Mobile Payment Company	Cash	Mobile Money Account

6.2.18 Administrative Configuration

This process is initiated by the TSS administrator to configure the application. This process allows the administrative user to complete the following tasks

- Add/Edit/Delete users (TSS Admin, NM, trade agents) on the web and mobile applications
- Add/Edit/Delete countries and currencies
- Add/Edit/Delete units
- Add/Edit/Delete all system actors (buyers, farmers, transporters) Add/Edit/Delete Payment Options (mobile payment system, commercial bank accounts). It must be possible to designate payment options per country. For instance, the payment option "MPesa" is not valid for payments to Uganda.
- Add/Edit Accounts. It must be possible to add and edit the account names and numbers for each of the accounting entries defined in the payments associated with each process in this system.

6.2.19 Accounting Export or Reconciliation

This process is initiated by the TSS administrator. This process generates an export of transactions for import into the TSS accounting package. The accounting software package that will be used by TSS needs to be chosen before this process can be finalized.

Process Steps

- 1) The TSS admin logs into the system and selects the accounting export menu item.
- 2) The TSS admin selects the time period for which accounting transactions should be exported.
- 3) The TSS admin clicks the generate button.
- 4) An export file of all the accounting entries for the time period selected is generated.
- 5) A box is displayed which allows the TSS admin to save the export file.
- 6) The TSS admin imports the file into the TSS accounting package.

6.3 Reporting Requirements

The following reports are required. It must be possible to export all reports to excel or PDF. It must also be possible to sort any report by any column. Where reports show summaries graphical representations (pie charts) of the data must be used where possible. The details of each report (columns and filtering) will be agreed in a future requirements exercise.

Report	Description
Network Reports	Reports will be generated from deal data and made available to the network managers on the website. Network managers must be able to log

	in and view reports for their agent network. These should include a P&L for all deals in a configurable time period.
Bank Payments Report	This report must include all outgoing bank payments to be made by the TSS administrator since the last time the report was generated. It must be possible to regenerate a previous bank payment report. This report must show all detailed required to make bank payments. Payments must be grouped by deal.
TSS Reports	Reports will be generated from deal data and made available to TSS on the website.
Performance Tracking Report	This report is generated for each deal. It is based on the Performance Tracking sheet of the deal workbook.
Deal Register	This lists all deals and their level of completion. This list is organized as a chronological list. This is Deals sheet in the TSS Register workbook.
Deals by Network	This is a list of deals organized by Network Manager. It is the Local Network Managers sheet in the TSS register.
Trade agents List	This is a list of all trade agents organized by agent number. This is the TSS Agents sheet in the TSS Register. There is a grid of all deals. Each deal is marked as Cancelled. Successful effort by these trade agents, no problems WARNING: Check out what happened
Sellers List	Sellers sheet from TSS register. This is a list of all registered farmers.
Transporters	Transporters sheet from TSS register. This is a list of transporters.
Buyers	Buyers sheet from TSS register. This is a list of all buyers with a grid of the deals. All deals are designated Cancelled deal, but no fault of this buyer Successful sales to these buyers, no problems WARNING: Check out what happened Less serious, check on the comments to this cell
TSS Impact – Price Difference to Farmers	This graph comes from the TSS Deal Impact Sheet. It graphs the price impact for each deal.
TSS Impact – Number of Farmers	This graph comes from the TSS Deal Impact Sheet. It graphs the number of farmers that have been involved in TSS deals.
TSS Impact – Commodity Volumes	This graph comes from the TSS Deal Impact Sheet. It graphs the total volume of each commodity that TSS has done deals with.
TSS Impact – Cumulative Volume	This graph comes from the TSS Deal Impact Sheet. It graphs the total tonnage of goods that TSS has moved.
TSS Impact – Deal Efficiency	This graph comes from the TSS Deal Impact Sheet. It graphs each deal as Deal Efficiency (% Cost to Total Deal Value).
TSS Impact – Cumulative Deal Value	This graph comes from the TSS Deal Impact Sheet. It graphs total value of deals that TSS has done.
TSS Impact – Farmers	This graph comes from the TSS Deal Impact Sheet. It graphs two lines. One line total COB Financing used and the second is the Network Commission for the deal.
Float Tracking	This is from the COB tracking workbook. We will need float reports for each country. Float reports are required for all mobile and commercial bank accounts.
Forex Risk	This report must describe the forex exposure of the current approved deals
Forex Gain and Losses	This report must show all deals for a specified period of time. For each deal the report must calculate the difference between the deal financials for the exchange rates that were entered when the deal was approved and reconciled and calculate whether there was any forex gain or loss.
Settlement Report	This report must show the settlements due on cross border transactions. It must list all the country offices and how much each country office owes to the other country offices. It must be possible to run this report for different periods of time.

6.4 Payment Providers

The TSS Payment Management System will be required to make payments to a diverse group of recipients in multiple countries. The most challenging group of recipients is sellers since there are a large number of individuals, in rural locations, with limited access to financial services who need to be paid. The following payment providers have been evaluated.

Country	System	Integration	Pros	Cons
Kenya	MPesa	Procurement of business terminal. Purchase and integration of off the shelf system.	Excellent agent network. Reliable and near real time. ATM integration.	Requires mobile coverage. Agents can have liquidity problems in rural areas.
Kenya	Airtel Money	Custom software but API makes integration less complex.	Better connection mechanism than MPesa	Very limited agent network. Limited market share.
Kenya	Mobikash	Custom software but API makes integration less complex	Good software. Payments can be received at Postbank.	New company. Limited agent network.
Kenya, Tanzania, Uganda	Commercial Banks	Signup for account and online banking	Stable. No software required for integration. Charges can be high. Recipient must have a bank account.	Can be very difficult to get online banking set up. Payments must be manually initiated. Security issues giving junior online banking access.
Uganda	MTN Mobile Money	Potentially involving Yo Payments. More information coming on this.	Good agent network. Best mobile payment network in Uganda in terms of Agents and Coverage.	Complex integration?
Uganda	Airtel Money	Custom Software but API makes integration less complex.	Pretty good agent network and coverage.	Network and coverage not quite as good as MTN.
Tanzania	MPesa	Same as Kenya, which reduces risk and complexity	Best mobile payment network in Tanzania	Agent network is not as developed as Kenya.

6.5 System Risks

This section details the operational risks associated with the system. More input (especially from TSS) is required to complete this section. This section is a topic for discussion at the next meeting.

Risk	Likelihood	Severity	Mitigation Strategy
Theft by Network Managers of Deal Funds	Very Low	Medium	Agent Network Managers will always be in a position to steal the funding for one deal. Due diligence on Network Managers and establishment of long term relationships.
Theft by Agents of Seller Payment Funds	Med	Low	Agents will always be in a position to steal the funds to pay sellers for a single deal.
Transporters stealing goods in transit	Med	Low	Usage of the mobile application to capture driver identity and tracking of the amount of produce in the vehicle
Farmers could ignore quality standards	High	Low	Tracking of individual bags back to farmers will reduce the likelihood of this.
Buyers can demand lowers prices at delivery	Med	Med	Agreement of LPO with owner of the company.
Ghost deal. Someone	Low	Med	ANMs receive an email when a deal is submitted

could obtain an Agent Network Manager login and create a fake deal. Enter them self as the agent and pay ghost customers.			and approved. Close control of destination account/mobile numbers. Need very close control of the creation of new payees, time delay maybe?
System Compromise. Someone could hack in, add a new agent member and pay out money to that person.	Low	Med	Strong control over adding a payee.
MPesa account hacked	Low	High	MPesa website has adequate security and this isn't really considered a problem.
Agent Handset Stolen. On the agent's deals the thief could pay out money to ghost customers if they knew the agent's login	Low	Med	Strong agent login credentials checked against the server. Mechanism for an agent to report a handset stolen. No payments made between 10pm and 6am without authorization.
System compromise by IT staff. A technically competent member of the IT team could alter the system to allow them to create, approve and pay out money for deals.	Med	High	Requires further investigation. Ultimately you need to trust someone.

KAMPALA CROSS NETWORK WORKSHOP ON COB DEALS REPORT



Venue:
Africana Hotel, Kampala - Uganda

Dates: 13th & 14th March, 2012

1.0. WORKSHOP AGENDA

- 1) COB Deal Rules
- 2) How to recover all the outstanding COBs
- 3) Deals to concentrate on – preferably repeat deals
- 4) Keeping network discipline
 - a) Identifying right network members
 - b) Training
 - c) Supervising the members
- 5) Buyer discipline
 - a) Payment modalities
 - b) Documentation to use
- 6) Discuss further on details for Franchise Agreement – MOA up to December 2012.

2.0. UNDERTAKING OF RISK FREE DEALS

Definition of risk free deals - Risks associated to different levels of a COB deal

2.1 Seller's side

- i) Bulking – ability of farmers to fulfill huge volume requirement by buyer. It takes a long time (no of days) to get required tonnage.
- ii) Farmers changing their price after an agreement has been made with the Agent.
- iii) Farmers giving produce of poor quality.
- iv) Management and ownership of collection points. Security issues at the collection point.
- v) How to do due diligence on farmers. Who are good sellers? Who are bad sellers?
- vi) Level of literacy of farmers – their source of information, their understanding of cash flow / middle costs.

2.2 Agent's side

- i) There is the risk / temptation of diverting COB money for use on other deals or for personal uses.
- ii) Quantity and quality checks at the collection point. The Agents / collection points lack good equipment such as proper weighing scales for the checks.
- iii) Slow reaction by Agent to capture demand in a given market.

2.3 Middle Costs

- i) There is a tendency to miscalculation of middle costs or occurring of unforeseen emergencies that had not been planned for when the deal is actually taking place.
- ii) Risk of Exchange rate fluctuations e.g. cross border deals.

2.4 Buyers' side

- i) No payment, partial payment or untimely payment by buyer thus tying up the COB to be used on other deals for other network members.
- ii) Price changes by the buyer after deal agreement has been completed.
- iii) The buyer bidding lower than what the deal can offer e.g. auction deals.
- iv) How to do due diligence on buyers – who is a good buyer? Who is a bad buyer?
- v) The buyer creating new rules/restrictions after deal agreement e.g. horticulture.

2.5 Business/other costs

- i) Finding a new buyer for every deal / supervising a first deal involves a lot of costs at first e.g. airtime transport.
- ii) There is the risk associated with type of deal – sourcing, auction, double loop.
- iii) Unexpected changes in weather especially at the collection point or when produce is in transit – cannot be controlled by network.

- iv) Poor transport mechanisms or finding a reliable transport is a big challenge to the networks. Sometimes it is getting a good truck sometimes it is the roads which are bad mostly on seller's side when going to collection the produce.
- v) Risk of moving from Agent to farmers. Moving around with a lot of cash in the pocket puts the Agent/Manager at risk of theft and thus losing the COB.

3.0 . PROPOSED NEW BUSINESS PRACTICES

3.1 Warehouse/ Trading Centre/Collection Centre Model

- Bahat's upcoming Warehouse/ Trading Centre.
- The Manager pays the rent through sub-renting to side rooms, charging on storage fees.
- The warehouse/trading centre should be equipped with weighing scales.
- Each Agent must have access to a store.
- Requires permanent business throughout the year.

Solves what risk?

- ✓ Poor collection point management
- ✓ Bad weather
- ✓ Partially solves poor quality and quantity control at collection points.

3.2 Real-time Payment Platform Model

The platform will allow franchisor to automate payments for:

- a) Paying farmers directly either through bank / mobile or payment of cash to farmers but through the Agent.
- b) Audit checks – confirm who has been paid and how much.
- c) Covering middle costs.
- d) Pay bonus to farmers.
- e) Pay network commissions.
- f) Provide documentation needed for accounting purposes.

Solves what risk?

- ✓ Minimizes the temptation of diverting COB money.
- ✓ Making cash payments to farmers.
- ✓ Costs of chasing buyer for payments.

What to do presently before the payment system is set up.

- a) Approach SAMCHI who makes money transfers through M-pesa – Beatrice.
- b) Mobicash
- c) Need for farmers change of mind set/ creating awareness.
- d) Establishing good working relationships with local M-pesa agents.
- e) Using village banking agents.

3.3 Sustainable Transport Model

- 1) Repeat transport agreements with transport companies.
- 2) Regular schedules agreement.
Action point: Development of a draft contract
- 3) Negotiate with companies for filling their empty return trips.

Routes mostly covered:

- Gulu-Lira-Soroti-Nakuru-Nairobi-Mombasa
- Gulu-Lira-Soroti-Malaba/Busia
- Mbarara-Port Royal-Kampala

Action point: Develop an instrument (draft contract)

- 4) Insurance of goods in transit.
Action points: Check with companies if have insurance Take out group insurance policy.

Solves what risk?

- a) Transport issues.
- b) Bad weather – in terms of goods being destroyed.
- c) Miscalculations of middle cost.

4.0. FINDING SUSTAINABLE BUYERS & SELLERS

4.1 Identification of Sustainable buyers

We want buyers who

- Are interested in repeat deals.
- Value quality produces and is ready to pay a premium for it.
- Value regular volume delivery.
- Will not give the network payment headache – chasing them up.
- Agree with and value farmer loyalty.
- Are ‘Cash flow’ sensitive.
- Have payment schedules of less than 30 days/cash on delivery.
- Care for small holder brand value i.e. buyers who are actually consuming the produce compared to those who are buying in order to sell e.g. hotels.
- Offers competitive prices.
- Give buying discounts.

4.2 Proposed buyers for the different networks

COUNTRY	BUYER	LOCATION	PRODUCE	TRADED	RESPONSIBLE
Kenya	Farm choice	Nairobi	Beef cattle	Yes, unhappy	Ilanet
	Hotel chains	Nairobi	Vegetables, eggs	No	Weru
	Msa millers	Mombasa	Omena, Maize	Yes, unhappy	Obara
	Kabansora millers	Nairobi	Maize, cassava	No	Moses
	Dola ltd	Kisumu/Nairobi	Maize millers	No	Moses
	Farm nut	Thika/Murang'a	Macadamia nuts	No	Kanyi
	LBDA	Kisumu	Rice	Yes, happy	Beatrice
	EAG	Nairobi	Sno/snap	Yes, happy	Kanyi
	Azzuri millers	Nairobi	Sweet potatoes	No	Moses
Ripening shades	Nakuru	Bananas,	No	Solomon/Kanyi	
Uganda	E.A Breweries	Kampala	Sorghum	No	Sosim/Oio
	Seba foods	Tororo	Maize, Soya	Yes, unhappy	Jacinta
	Agroways	Jinja	Maize	Yes, unhappy	Paul
	Mt. Meru oil	Lira	Sunflower, Soya	No	Tonnie
	Rafiki millers	Mbale	Cotton seed	No	Paul
	Mukano oil	Lira	Sunflower, Maize	No	Tonnie
	Nyakisi	Tororo	Cotton		Beatrice
Maganjo grain millers	Kampala	Maize, Soya	No	Ronald	
Tanzania	Chips vendors	Dar	Irish potatoes		Bahat
	Tim sales	Nairobi	Timber	No	Bahat/Obara

Solves what risk?

- Enables Manager/Agent carry out a good due diligence on buyers.
- No auctions – for the next two months.
- A good buyer matching the above criteria will not be making delayed or untimely payments.

4.2 Identification of Sustainable sellers

We need sellers who:

- Value COB.
- Value quality as value addition.
- Value 'steady' income and constant cash flow.
- Keep agreements on quality, quantity, price and time.
- Keen to have farming as a business – mobile, prices, m-pesa, maintain cash ledgers/enrolled in sacco's.
- NGO support – need to judge very well how helpful it can be.
- Farmers organized in groups – check on collection of commodity, communication to members, individual payment, quality control.
- Loyalty between networks and farmers in terms of multi-commodity.

Solves what risk?

- Price changes by farmers once deal has been agreed upon.
- Providing poor quality to buyer.
- Basis on what criteria to use when undertaking due diligence on sellers

5.0. DEAL PLANNING FOR THE NEXT SIX MONTHS

N/MANAGER	BUYER	PRODUCE	LOCATION	QTY/COB
James Kanyi/Weru	EAG	Sno/snaps	Ndaragwa	4T/ Ksh 460,000 (2xweek)
Kanyi/Moses/Solomon	Ripening shades	Bananas	Meru/Embu/Kisii/Bungoma	20T/ Ksh 300,000 (2x month)
Moses/Weru	Bridge Hotels	Irish potatotes	Nyandarua	45T / Kshs 500,000 (weekly)
Moses/Jacinta	Kabansora	Cassava	Nairobi, Soroti, Gulu, Migori	Ksh 600,000 (2xweeks)
Ronald	Maganjo grain millers	Maize		15T / (2xweeks)
Bahat/Pasco/Edina	Retailers	Beans	Songea, Southern highlands	30T /Tsh 25,000,000
Bahat/Beatrice	Tim sales	Timber	Southern Highlands	1 trailer /
Bahat/Edina/Brytone	Chips sellers	Potatoes	Dar, Southern highlands	10T/Tsh 45,000,000 (2xweeks)
Francis/Tonnie/Paul	Mukwano	Maize	Gulu, Kitukum, Pader	10T/Ugx 7,000,000 (weekly)
Francis/Tonnie/Paul	Mt. Meru	Sunflower	Dokolo, Apac, Noyon	10T / Ugx 11,000,000/week
Beatrice	Makueni ginnery	Cotton seed	Kisumu, Western, R/Valley, Mpeketoni, T/Taveta, Hola	20T/Ksh 1,250,000 (2xweeks)
Beatrice	Nyakisi	Seed cotton	Makueni ginneries	20T/Ksh. 825,000 (weekly)
Beatrice	LBDA	Rice	Ahero, Bunyala	20T/Ksh 800,000 (weekly)
Sosimu /Paul /Tonnie/Francis	E.A Breweries	Sorghum	Apac, Lira, Sororti, Kamuli	20T/Ugx 18,000,000 (weekly)
Jacinta		Soyabean	Bugiri, Lira, Gulu,	
Jacintah/Tonnie/Francis	Seba foods, Msa Millers, Dola ltd.	Maize	Busia,	
Weru	Serena Hotel	Eggs(fair trade)	Kiambu	500trays/week Ksh 260,000

NOTE: What we want to see on LLL-MAC from each participant Description of deals – crop/tonnage/from where to where/how often/amount of COB required/required assistance.

6.0. HOW TO RECOVER OUTSTANDING COB PAYMENTS

MANAGER	DEAL NO	COB OUT	COB IN	BAL
Bahat Tweve	BT			
Solomon Mulindi	SL11-257b	Ksh 90,000	Ksh 50,000	Ksh 40,000
	Cow was knocked by vehicle, TAs phone is off, Solomon Is positive by end of this week will recover the balance. Exonerate the Institution.			
	SL11-2107	Ksh. 720,000	Ksh 70,000	Ksh 650,000
	Transport delayed the delivery by 2 weeks. Too much fiber on the seed for processing into feed. Quality criteria/specs were not clear. De-linting machine broke down after 1T. 9T still in store. Crush it and sell or buy seed for planting.			
	SL12-22	332,000	Ksh. 90,000	Ksh. 242,000
Has no problem recovering COB. Expects all back in 2 weeks.				
James Kanyi	JK11-277	500,000	Ksh. 420,400	Ksh. (79,600)
Moses Gichuru	MG11-2114	1,167,000	500,000	667,000
	New produce for Soroti network. Took him a week to get back to Nairobi because of strike by truck drivers. Buyer had already sourced from alternative. No one wanted 20T except Juhudi on promise for a deal which didn't go through. Had to sell bag by bag and recovered. Has 70,000 to deposit. Sold out all groundnuts.			
Beatrice Obara	BR11-2124	Ksh.772,000	Ksh. 549,913.35	Ksh. (222,087)
	Cattle were wrong quality thus fetching lower price on buyer side. Needed independent accessor of quality. Unit research.			
	BR11-2136	Ksh. 800,000	Ksh. 352,000	Ksh. 447,200
	Rains caused paddy to germinate because it could not dry quite well. Factory rejected but was able to sell to local brewers worth sh200,000. Left with 5T and expects sh160,000.			
Paul Nyende	PN11-271	Ugx 15,000,000	Ugx 11,968,400	Ugx 3,031,600
	Collected goods, but prices were dropping. Transport to Agroways could not ship in time. Elias ha contract with WFP and Sosimu gave it to him but WFP rejected it. Elias cannot pay and has a court order jointly with others. Individual people. Poor guarantee.			
	PN11-2101	Ugx 13,000,000	Ugx 4,300,000	Ugx 8,700,000
	Bought rice that was kept as seed by farmers which was too dry for milling. 1T sold. Tried to sell the rest as seed to companies on credit. Expecting ugx6mio.			
	PN11-2137	Ugx 17,500,00	Ugx 5,800,00	Ugx 11,700,000
	Bought paddy from farmers and intended to auction then it started raining and paddy could not be dried. TA sold some of the paddy and deposited some of the money but TA disappeared. Police have been notified.			
Jacinta Nambiru	JN11-226	Ugx 12,000,000	Ugx 2,930,000	Ugx 6,930,000
	SEBA did not honour their order. Had to re-dry the maize at the emergency store handling resulted in a loss. Because of rains she had to sort good from rotting maize. Started retailing maize on credit. Expecting ugx2.5mio from one trader. The remaining is rotten and will mill it to be sold as chicken feed expecting ugx 2mio.			

7.0. NETWORK AGENT DISCIPLINE

7.1 Vetting of COB Agents

- i) Handling money
- ii) Quality control
- iii) Weight control
- iv) Timeliness
- v) Accessibility / contacts
- vi) Farmer registration
- vii) Traceability
- viii) Price fixing

ix) Reference- chief

- Guarantor
- Peer pressure – farmer group
- Identification – ID, Voter cards, passport
- Certificate of good conduct – police, LC1
- Credit reference
- Contract – code of conduct, cash penalty clause
- Ensuring the TA is part of the farmer group or is a farmer or local community.

7.2 Incentives for positive Agent behaviour

- Many repeat deals will keep the TA in business through the year.
- Providing equipment/air time, training.
- Training / LLL
- Lawyer check.

8.0. NEW COB DEAL RULES

8.1 LPO specification

Each deal will only be fully registered if there is a signed and stamped local purchase order sent to PA. The LPO can be scanned and sent to PA as an attachment to Email for fast processing. The original is kept by the coordinator until the deal is finalized.

On the LPO the following information must be there:

1. Type of produce, specification of quality
2. Amount of produce
3. Delivery date(s)
4. Agreed amount that the buyer will pay for the full consignment
5. The clearing account number to which the buyer must pay the agreed amount, along with the address of the organisation who owns that account, ie: PA in Uganda, PA in Kenya, PA in Tanzania.
6. The time when the payment is due to arrive in the clearing account.
7. Penalties in case of delays in payment

There are exceptions to this rule:

1. For auctions the LPO is not required. However, in such a case the coordinator must explain on LLL how is the bidding procedure, and who are the buyers who are asked to bid.
2. For first times of double-loop deals an LPO is also not required. However, in such a case the coordinator must explain on LLL what is the delivery route and present a list of the buyers with names and locations and mobile numbers.

Agreed at Meeting

- ✓ Memorandum of understanding for new relationship according to COB rules.
- ✓ LPO as the first cycle.

8.2 COB lending – Three days rule

If COB money was sent to you, you are not allowed to keep it as cash or in your account for more than 3 days. If you hold any COB money that was not used, on the fourth day you must send it back to the clearing account of PA.

In case you think that you need to keep the money for some unforeseen reason, you must immediately inform on LLL without delay. If PA then agrees, you can keep it. Otherwise it must be returned.

Agreed at Meeting

- ✓ After so much discussion finally agreed on the rule.

8.3 Explain status of a deal on LLL-MAC at least once a week

The network manager who coordinates a deal must explain on LLL what is going on with the deal at least once a week. If there is in trouble and s/he fails to explain on LLL what is going on with the deal and fails to take action according to how we discuss it on LLL, that network manager will be held accountable for any losses with the used COB.

Agreed at Meeting

- ✓ Totally agreeable
- ✓ NMs should be able to access internet anytime anywhere.

8.4 Delivery of produce only against signed delivery note and acceptance of invoice

Any TSS agent taking care of buyers may only leave the produce if the buyer (or his legal representative) signs a delivery note and accepts the invoice. If buyer does not sign delivery note, the produce must stay in control of the coordinator and be put into emergency storage. This means the TSS agent either has the produce or s/he has the signed delivery note along with the LPO.

The delivery note contains:

1. Address of PA in Uganda, PA in Kenya, PA in Tanzania
2. Type of produce and quality specifications, plus amount of produce that was actually handed over.
3. Referral to the LPO: The buyer acknowledges that this is a delivery according to a certain LPO, with number of LPO and/or date of that LPO.
4. Any complaints with quality or volume clearly spelled out and accepted by the TSS agent dealing with the buyer. The TSS agent signs on the delivery note to accept these complaints, but only if s/he agrees with the complaints. Otherwise the produce is not delivered to the buyer and remains in custody of the TSS agent who puts it into emergency storage for separate disposal.

The invoice is filled out and given to the buyer as soon as the buyer signs the delivery note.

The invoice contains:

1. Address of PA in Uganda, PA in Kenya, PA in Tanzania
2. Amount to be paid (note: This amount is dependent on what exactly was delivered and accepted by the buyer, so this must remain open until the last moment to be filled out).
3. Number of the clearing account and banking details.
4. Time by which it must be paid
5. Penalties in case of late payments (referring to what was agreed in the LPO).

If a Agent is no longer in control of the produce and also does not have a fully correct delivery note, then this is a very serious situation that needs to be immediately addressed. PA must be immediately informed via Email and mobile. The coordinator then awaits instructions from PA how to proceed.

Agreed at Meeting

- ✓ Delivery note and Invoice should be separate documents.
- ✓ Letter head should have logo of regional companies and brand of PA.
- ✓ Stating on the invoice who is to pick the cheque/cash if any.

8.5 Immediately forward to PA any payments by buyers to you.

Buyers should always pay directly to the clearing account, never to you or your account. In case you hold money that buyers paid to you, you must immediately forward it to the PA clearing account on the very next banking day. Even if buyers only pay part of the money, you must forward that part immediately.

If you require an exception to this rule, you must explain it immediately without delay on LLL. Only if PA agrees can you keep it. Otherwise the money must be forwarded on the next banking day after explaining on LLL.

Agreed at Meeting

- ✓ Agreeable
- ✓ Have control on time-line.

8.6 What is Finalization of a deal?

What does "Finalization" mean? Finalization can only happen after the full amount for the deal has been paid by the buyers into the clearing account managed by PA. As soon as the full amount has reached the clearing account, PA informs the coordinator of the deal. The network manager who coordinates the deal then takes the COB/TSS form and puts in the real figures and information as it really happened. We call that "finalization".

This finalization is the basis to calculate and then distribute the bonuses and commissions. Once that is done we call a deal "closed".

So keep in mind

1. First all the money from buyers for a deal must be in the clearing account
2. Second the coordinator of the deal has to finalize the COB/TSS form and send it to LLL for final analysis. A coordinator is not allowed to delay a finalization.

Agreed at Meeting

✓ Agreeable

8.7 Finalize a deal within 1 week of full payment by buyers

PA first informs the coordinator of a deal that all the money from the buyers has reached the PA clearing account. Then the coordinator has maximum one week to finalize the deal.

Agreed at Meeting

✓ Agreeable

8.8 Finalize within one month after full registration

The finalization must be done at the latest one month after full registration of a deal. If there is any problem with buyers or sellers the coordinator must explain immediately without delay on LLL and make proposals how to deal with the problem. It can then be discussed.

If after a month something is still not working out with the deal, PA will finalize it based on the available figures. Any remaining financial issues are then taken as special cases for follow up with the coordinator and/or buyers. PA will also initiate legal action if required against network managers or buyers, depending on where the mistake is.

Agreed at Meeting

✓ Agreeable

COB Rules - Version 8. March 2012

These are rules that network managers must follow in order to be allowed to operate with COB. These rules are discussed on LLL-NMC. If a TSS network manager fails to keep these rules, his membership on the network is on hold. No further new deals can be fully registered by this network manager until the issue is cleared.

The rules are continuously developed further. The version of these rules that officially applies is the one that is uploaded on the library of LLL-NMC. Check with the date of the version below the title.

APPENDIX

Meeting Participants

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BRIEF 40.

Cash-on-the-Bag Secure Transactions on Trial

Transaction Security Services (TSS) with 'Cash-on-the-Bag' payments to smallholders addresses one of the most persistent and prevalent reasons for failure of agricultural supply chains in Africa: the absence of a secure and trustworthy transaction environment. Relations between smallholders and large buyers in Africa are generally characterised by significant distrust between the two parties. Smallholders are reluctant to hand over their produce without full cash payment up front, and large buyers are reluctant to make purchases without first inspecting the merchandise to ensure that quantity and quality correspond to specifications. Transaction risk is defrayed through many layers of middlemen, resulting in higher transaction costs, waste and consequent disadvantageous prices for both producers and eventual large buyers. TSS provides a more effective and efficient way for middlemen to operate. Transparent, commission based middlemen can offer a win-win situation for both parties to the transaction. This is the beauty of secure transaction environments.

TSS an alternative business model for smallholder marketing

TSS with 'Cash-on-the-Bag' changes the business model of smallholder marketing from 'buy-sell' speculation to pre-determined service commission. The problem with the speculation model is that it rewards those who buy at the lowest prices and sell at the highest prices. The business incentive for traders is to get the lowest price possible from farmers. Smallholders are particularly vulnerable to such exploitation when cash is needed urgently or debts must be repaid. In contrast, a business model of commission based on service cost and farmer price rewards those who get the highest price for the producer. Treating transaction services as a 'middle cost' of the market chain, like transport, allows producers and buyers to negotiate prices in a transparent win-win fashion. Cash-on-the-Bag financing gives middlemen using TSS a chance to grow their business through commission as opposed to

high-risk buying and selling. Rather than replacing 'middlemen', TSS gives them an operational environment in which they can do their job much more efficiently.

Private and public investment to test commercial viability

RAVI, on the private side, and IFAD on the public side, are investing in a test of the commercial viability of TSS with Cash-on-the-Bag services to smallholders in Kenya, Uganda and Tanzania.¹

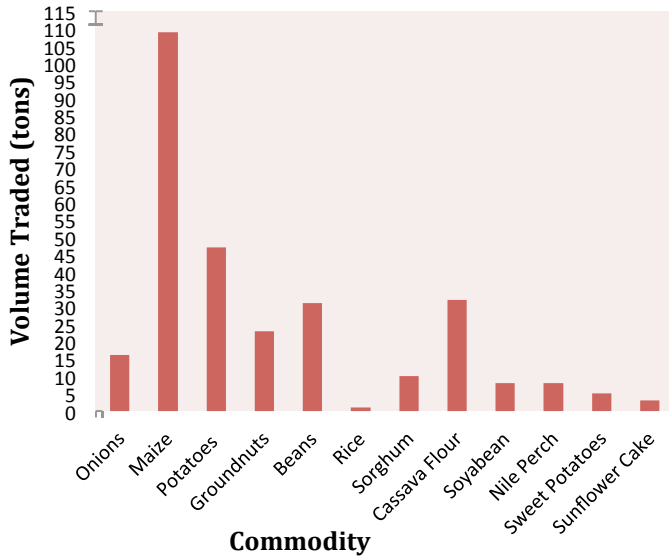
- RAVI finances the TSS operations of twelve licensed local network companies across Kenya, Uganda and Tanzania, engaging some hundred and fifty independent rural entrepreneurs as agents. These networks and their agents ensure due diligence on behalf of the seller by making immediate cash payments for product purchased, and on behalf of the buyer by verifying that the quantity and quality of the merchandise purchased corresponded to specifications.
- Public financing from IFAD goes to Pride Africa for capacity building of the local entrepreneurs involved using their business-to-business learning platform www.linkinglearners.net. Local traders learn how to run the business operations of TSS and handle the Cash-on-the-Bag payments through a revolving fund operated by Pride Africa.

IFAD SAYS: "The project offers IFAD a clear and tangible exit strategy, being long-term financing by social investors once financial viability at a required scale is demonstrated. The proposed marketing service is innovative; improving the security of supply chain transactions is essential for smallholders to shift from predominantly self-sufficient agriculture to generating increased revenues through farming as a business."

For more information contact:

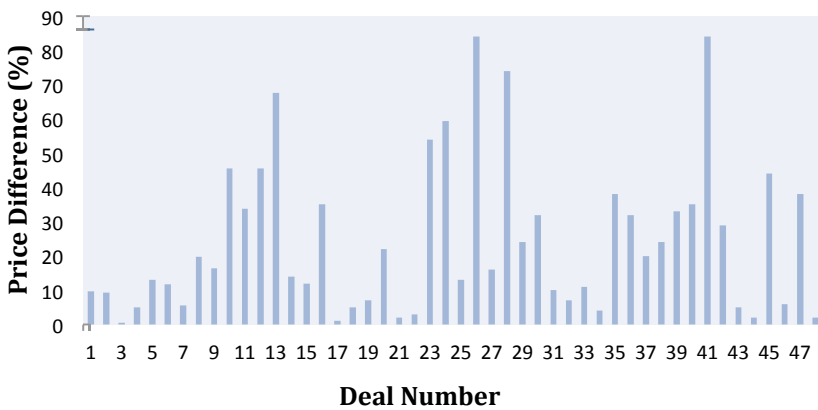
clive.lightfoot@linkinglearners.net
uscheuermeier@yahoo.com

¹ RAVI has been financing TSS Cash-on-the-Bag transactions since June 2010. In July 2011 Pride Africa made its US\$100,000 revolving fund from IFAD available to the networks.



Trials on commercial viability

Early results show that Cash-on-the-Bag financing provided within secure transaction operations by licensed local networks eliminated most of the problems between seller and buyer. Since June last year forty-eight deals have been transacted worth over US\$ 160,000 in total value. To date, these deals have used a total of US\$ 61,400 to finance the Cash-on-the-Bag payments to smallholders. The range and volumes of commodities traded in tons is shown in the graph. The current, cumulative volume of trade stands at 400 tons. This does not include trade in animals and timber. Experiences, although still very limited, suggest that the TSS business model can:

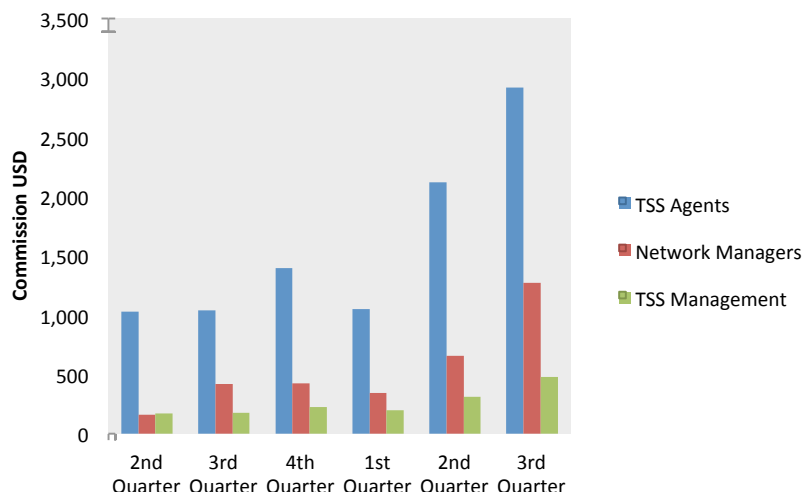


1) Deliver higher prices to smallholders. On average, across all the deals shown in the graph farmers have got 20% higher prices. In the worst cases farmers got 1% while in the best case they got over 80%. In US dollar terms that is an extra US\$ 21,678 on a total farmer income of US\$ 141,139. So far 1,227 farmers have benefitted from the service.

2) Reduce inefficiencies in the supply chain operations. TSS deals reduce the cost of marketing down to 19% of the total value of the deal on average. In most cases the costs of marketing through TSS ranges from 10% to 30% of the total deal value as shown in the graph below.



3) Provide income streams to networks, agents and for the TSS management operation. Since the second quarter of 2010 when the trial started TSS agent commissions remained flat until the second and third quarters of 2011 when they rose to levels that meet agent income expectations. Of the twelve network managers involved commissions while rising are below breakeven points. This is also the case for those who manage the TSS operation.



Lessons learned so far

We have learned of many risks and identified threats to commercial viability of TSS. Risks that can be avoided still occur.

The risk of late or reduced payment remains unacceptably high. Local Purchase Orders or LPO's issued by buyers are of little value when a buyer decides not to pay on time or change the price at delivery. Taking a buyer to court is unrealistic and damages relationships.

The risk of farmers not bringing promised produce qualities and quantities to collection point remains unacceptably high. Poor discipline among farmers as individuals and groups leads to longer collection periods and missed transport all of which undermine buyer confidence and drive up transaction costs.

The risks of side selling, theft and spoilage because of poorly built collection centres and lack of well-managed local village level warehouses. Secure collection points where farmers feel confident to deposit their produce in safe-keeping are the start of secure transaction environments.

The risks of trucks being seized by cartels in main markets preventing direct trade with local market vendors. The cartel 'surcharge' of 20% to 30% drives up middle costs and eats into both farmer and vendor prices. Cartels intimidate vendors to buy only from them. In places market authorities benefit from and thus sustain this activity.

Threats to the demonstration of financial viability are the higher costs associated with introducing a new and very different service to both farmers and buyers.

- Smallholders and buyers are very suspicious of new market agents and operations. Such suspicion can only be overcome by repeated successful trading experiences. New business operations must bear the costs of building a reputation through subsidised services.
- The operational costs of introducing agents, farmers and buyers to TSS deals can exceed commissions because too much costly travel by the manager is needed to build confidence in agents, buyers and farmers.

A further threat to commercial viability comes from poor banking services. For example transfers between branches, even within the same bank, can take up to a week within the same country. The promise of same day transfer rarely actually happens. If a transfer mistake has to be cleared up this can take several weeks, with no refund by the bank in the meantime. Such uncertainty is unsuitable for agricultural trade and explains why so few payments are presently made through normal banking mechanisms. The arrival of financial services through mobile phones has started to break this up. We are sure that money transfers over handheld devices will be the future for trade in rural areas. We intend to experiment with this as speed and reliability of payments to farmers is at the core of Transaction Security.



Brief 41: Traders Talk About the 'Cash-on-the-Bag' Business Model

Over last six months some 160 traders and their agents across Kenya, Uganda and Tanzania have been testing a new business model for traders and middlemen. Traders' use a 'buy-low-sell-high' business model that, like all speculation, rewards lowest prices to smallholders. Smallholders respond to low prices by cheating, ignoring quality standards, and bagging wet produce with stones and debris. Buyers respond by discounting prices to cover costs of quality rejects and cleaning. Such 'coping' behaviour introduces huge risks and lowers product value for the middleman. The Cash-on-the-Bag (CoB) model addresses this problem by providing up-front payments to smallholders within transparent and secure transactions, which reward higher prices to smallholders for high volume, quality produce delivered on time to the buyer. This new business model promotes 'win-win' agriculture value chains for smallholders, traders and buyers by: a) improving the efficiency of the value chain; b) improving the quality of the product; c) reducing the risks of transactions; and d) introducing fair prices for all. The new business revenue is a service commission to traders that is linked to farmer price. Therefore, it is in the interest of the trader to ensure that smallholders get the highest possible prices. Cash-on-the-Bag financing provided by Pride Africa gives traders using COB a chance to grow their business through commission as opposed to high-risk buying and selling. Rather than replacing 'middlemen', COB gives them an operational environment in which they can do their job much more efficiently. Or as one trader Beatrice Obara put it *"The COB is trying to release the pressure on the buyers and traders so that they are able to turn over more deals and thus give more business to the farmers. The difference between COB and my business is that COB uses a transaction security operation where all those*

involved in the transaction (even the smallest farmer) benefit from it."

In this brief traders say they are switching business models because COB: increases business turn over, geographical reach, and improves trade efficiency and value. It builds client trust, farmer loyalty and solves buyer constraints. Switching, however, does have its challenges too!

1. Increases business turn over

"I lack finance to scale-up my business. My funds are used up if I have three loads of cotton at the same time. I need access to finance to increase the trade, and I can do more deals if I can use the cash-on-the-bag financing."

"We need more deals to get more commission – more repeat deals. As our agents learn how a particular deal goes, the deal can become more efficient: less of our time, more responsibility to agents, and easier when the buyers are regularly paying checks."

"I have agents who are also growers in the cotton areas in Nyanza and collect raw cotton from their farms and their neighbours. Each agent has a small cotton store, which is licensed by the government. On collection the agents pay the farmers a price per kg, which is fixed by the government. My agent network is using Cash-on-the-Bag finance to increase my capacity to do more trade."



Beatrice Obara and her network agents in Nyanza, Kenya.

2. Increases geographical reach

"To supply Juhudi, Kemwa, and other porridge flour producers in Nakuru, I need to source 50 tons of cassava flour per week. Some of this comes from Uganda from the Soroti Network but I have been looking at some additional areas within Kenya to meet this demand. We have decided to open up new marketing links within our Kenyan networks. Beatrice Obara is a new Trader network and has extensive agents in Nyanza. One of the crops that her network can supply is cassava"

"I find strength in our network of agents in the region. In addition to useful Kenyan network contacts, Tanzania and Uganda produce many products that come to Nairobi. So those country networks will help me to have more products that we can trade in."

3. Improves trade efficiency and value

"A good reason for using the COB is that you can check the viability of a deal before you enter into it and track back to analyse it afterwards. If there is anything that went wrong you can understand where and how it happened. If there is someone who did something wrong, you can make a follow up to know how it happened, so that you can address the problem in the next deal. Also you can see where there is a lot of wastage. For instance you might have overlooked the extent of the transportation costs, but with the COB you can track back and see where it went wrong and then you can make adjustments for the next deal. So the ability to analyse all the costs and prices is a very important thing for doing efficient business."

"A good reason to use COB has to do with quality and the traceability of the product. Using our agents our quality checks start from the collection point and go on to the end. If something went wrong along the process you don't wait until the end. If there is a problem you'll know before the end of the deal and you'll address the problem immediately, so that you move forward."

"We need good quality control to achieve higher farmer prices. This means that our agents must work with the farmers on grading, and carry out quality control, re-bagging and tagging of the produce. Agents can only do this by earning proper commission for this service. They can then afford the time and equipment to carry out

the accurate weighing of produce and quality control."



Bahat Tweve and his network agents in Southern Tanzania

4. Builds client trust

"The good thing about COB is transparency; I mean transparency for everybody who is involved in the business, starting with the buyer, the sellers, the transporter and all those in the middle. Everybody knows what is going on; there is nothing hidden under the table. We make all the disclosures: we buy at this price, we sell at that price, we have spent this much and the commission that we have got is this much because we facilitate the deal. Everybody along the value chain is satisfied."

5. Builds farmer loyalty

"Cotton is grown in poor parts of Kenya like Nyanza. We want to provide the farmers with a market for their cotton and other produce. We would like fair and transparent trade – not tricks by brokers to raise prices and then to lower them again. Using the COB business model we are building up a network of agents working with farmers in Nyanza whose produce we market fairly and transparently. We can develop a loyal farmer client base through regular fair and transparent market dealings with farmer groups."

"The difference in working with COB is in terms of farmer satisfaction and loyalty on the ground. The COB achieves fairer prices for farmers and also bonuses. This gives me confidence to enter into a contract with a buyer because if you have loyalty with the farmers you can be sure of produce. If you have contracts with farmers and buyers then you can have a regular business at larger scale."

6. Solves important constraints of buyer clients

Lake Basin Development Authority (LBDA) wants to work with Traders using Cash-on-the-Bag payment to farmers says manager Onyango Sylverius: *“One reason for the difficulty in obtaining paddy for our mill is because Ugandan brokers have been paying cash for wet paddy directly from the farms and taking it across the border to be used for local beer making. The farmers sell for cash at what they think are good prices. However the scales that the brokers are using are rigged and the farmers are being exploited. LBDA wants the farmers to learn to do good post-harvest handling on tarpaulins to dry their paddy and to do good quality control with bags, which are tagged accordingly. But LBDA cannot pay the farmers cash for their paddy, the organisation is bureaucratic and has certain formalities for payment.”*

Challenges, switching is not so easy

Even though the CoB business model can increase a trader’s business switching is not so easy. Traders must invest much time and effort in building up their agents into a reliable communications network. Traders often say *“We need more agents closer to farmers and have more meetings to create stronger agent networks”*. Agents have to be skilled in operating secure transactions, trusted to provide CoB payments, and more: *“To do this we need a strong network of well-trained agents, who are linked to stores in the farming areas. Here they can bulk and market all the farmers’ produce using Cash-on-the-Bag financing.”*

Traders need regular deals year round as commissions per deal are often smaller than when they speculate. Giving a higher price to farmers’ means margins per deal for the trader are slim. *“At present I am not getting enough commission because I am not doing enough deals. I want to be able to earn commission up to one million Tsh per month (US\$ 600). So to do this I need to do one deal every day and to do this I am finding and training more agents. I am concentrating on potatoes, maize, beans and timber. We have to think about products that we can supply all year. It is possible for timber and potatoes to be supplied all year if I source from different areas.”*



Moses Gichuru of Bonde Soko in Nakuru with Flour miller Lucy.

Traders using COB like the fact that the money is paid on time and nobody has any difficulties with getting their money. But where late payments happen the trader is left with paying additional finance fees that eat into profits. *“Our buyer Lucy’s cash flow problem starts with the supermarkets; when she sells her flour to them she has to wait for around four weeks for payment. It is therefore difficult for her to pay Bonde Soko promptly when we deliver the raw materials. But we have to pay the farmers cash-on-the-bag and the transporters also want money immediately. At the moment Lucy gives us a cheque that is post-dated by two weeks, but she would prefer to pay after three weeks. We need to pay back our CoB finance within two weeks, so this makes for a very tight turn around that Lucy struggles to service. When a buyer delays we pay fees on the CoB finance and the longer we take to repay the more we have to pay.”*

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BRIEF 42: Learning Where Deals Can Go Wrong

Over the last year twelve trader networks across Kenya, Uganda and Tanzania have conducted some eighty deals providing cash-on-the-bag (COB) payment advances to small farmers using secure transparent transactions. While less than ten percent of the deals failed completely many experienced problems. In this brief we share the hard lessons learned in the words of the network managers. Farmers broke agreements by side selling, they renege on volumes, and changed prices at pick up. Buyers cheated on deals by not honouring purchase orders, lowering prices at delivery, delaying or not paying. We had cases of fraud and cartels in markets. We had experiences of our own agents swindling the network by cheating on quality, diverting produce, side-using money and even stealing money. For most of these hard lessons ideas for solutions to try out emerged. The brief ends with solutions in: Improved due diligence; Proper documentation; Prompt payments; Alternative sale; Local and Legal redress; Secure payment systems; Contingency for unavoidable risks. All the lessons learned were captured in stories that are referred to here and available online.

Lessons on how farmers break agreements

Farmers side sell: The challenges started when the farmer group started changing the goal posts by coming up with excuses i.e. the group had not met to agree on a common harvest day. Then I found out that they had sold to another buyer who gave them KES 3,300/ on a 140 kg bag, which in actual fact was a lower price per kg than we were offering for 90 kg bag. (See Story 170²)

² All stories can be read or downloaded as PDF files from the website: www.linkinglearners.net following the numbering given here.

Farmers renege on volumes: When we worked on the harvesting and collection date with the horticulture producers group around ten members promised to harvest on the agreed day only for three members to back off claiming their husbands (who are not the group members) had refused to allow them to sell the potatoes. Eventually we were able to collect five tons) from the seven farmers. Only collecting half the quantity expected increased the costs for transport per bag and meant that the price per bag went down to KES 2,970/ per bag. However the farmers were happy with the system (even at a lower price) and participated in the second delivery of 60 bags to the same buyer. (See Story 170)

Farmers change price at last minute:

Farmers changed the price at pick up, saying that they had got information that prices had increased elsewhere. They refused to give up the produce, so we were forced to renegotiate because we could not go back empty handed. We ended up paying UGX 30 more per kg. Could we have refused to add on the price the farmers wanted? We could have got the same quality of maize from the middlemen. But the business model to source from farmers ties us, and we wanted to pull off a successful deal with this group and our agent who we had trained. Pulling out and disagreeing would have sent the wrong signal and damaged the relationship established with the farmers. (See Story 152)

Lessons on how buyers cheat on deals

Buyer refused to keep to LPO: On reaching the buyer there were many trucks packed at the warehouse waiting to be offloaded. The buyer was reluctant to take our crop. The buyer told us that the market price was now lower by UGX 150/ per kg and offered a new price of UGX 450/ instead of the UGX 600/ that we had agreed upon in the Local Purchase Order he had given us. He gave us a condition to either take that lower price or to sell our maize elsewhere. (See Story 148)

Buyer changes price at delivery: I was supposed to deliver twenty tonnes of maize to miller as we had agreed. But on reaching with my truck, the manager refused to pay the UGX 750/ per kg cash, as we had agreed by word of mouth, but instead he insisted to pay the prevailing market price of the day, UGX 570/. I disagreed because this new price meant a total loss to my business. I refused to offload the maize and have put it in a local store until the prices increase. (See Story 147)

Buyers delay payment: These cattle deals have been a big stress to me. Our main challenge is the late payment from the buyers. Buyers have twice failed to pay in the time I expected. One gave me a post-dated cheque that failed. Another buyer still refuses to pay for the ten cattle he took to KMC until he is paid by them. When I use COB finance and buyers don't pay in time, I have to pay interest on this financing and then I don't make any money or worse still I am in debt. (See Story 154)

Buyers go bankrupt: In September 2011 I was able to sell ten bullocks to a trader who supplied them to a local abattoir as per the local purchase order he had. It is now March 2012 and the trader has not paid me. The reason that the buyer has not paid is that he is in debt. We have heard that a deal he was doing, which involved sourcing cattle on trust from the pastoralists, went wrong when three cattle were stolen. He couldn't then pay the pastoralists, and this became a police matter. He then had to pay a bond to get out of prison. So now he says that he is bankrupt and cannot pay me. (See Story 165)

Buyer fraud: I have lived in disbelief for the last five days with regard to a deal of value 11 million UGX. Seven tons of beans were bought, cash-on-the-bag from the farmers in Mityana for 7.6 million UGX. The beans were transported at a cost of 0.8 million UGX and delivered in Kampala. We got a loan of 10 million UGX to finance the deal. With packaging cost and interest to pay on the loan our middle costs were approximately one million UGX. The buyer was a large Ugandan inputs and general supplier. After the delivery of the beans, the buyer tricked us and disappeared. This buyer claimed they did not know the individual we

were dealing with even though he was using their compound! (See Story 129)



Checking Maize quality at collection point in Kamuli, Uganda

Buyer Cartels at markets: The Busia market is always open for any buyer or seller; however, it has broker tactics of cartels. We brought in a truck that carried twenty tonnes of maize to the market because we could sell the maize at a good market price. However, we were told that we had to sell the maize there through a broker in the Busia Produce Market. The role of the broker is to find the buyer and sell off the commodity and take his or her own commission. The broker sold the maize for KSH 28/ per kg, and then exchanged the money into UGX at a rate of 1 KSH to 26 UGX. This exchange rate was not very good. This meant that we had to lose some money through currency exchange as well as through paying the cartel a commission. (See Story 152)

Lessons on how agents swindle the network

Agents pressured by relatives to cheat: We delivered nearly twelve tonnes of paddy to a large rice milling company. This consignment came from a farmers' cooperative where our agent was also a member of the coop. The group members carrying out the quality control pressured the agent to accept wet paddy. The millers returned this paddy to us because it had already germinated and so could not be milled. The millers accepted to buy the germinating rice but at around half the price of good quality paddy. We had already paid the farmers COB for more than that price and could not ask farmers for some of that money back. If we had had an independent quality check in the field we would not have had this happen. (See Story 167)

Agents substitute fish with sand: Mombasa Millers reported that after they had finished with the sieving process of the omena delivered, that out of the weighbridge weight received of 16.4 tonnes they had only got 9.2 tonnes of fish! Of the produce transported only nine tonnes were fish, the rest was sand. The money disbursed to my agents was paid directly to the suppliers on delivery of good quality fish, but in the days of delay before loading the bags could have been exchanged; good quality fish for sand. Clearly, our agent diverted some of the good fish to another buyer and substituted those bags for sand. Our agent in Busia, has the facts on the funds transferred to the fisher-folk and the quality purchased. So diversion must have occurred while the bags was waiting to be transported (See Story 159)

Agent side uses money: We paid 17.7 million UGX cash-on-the-bag to the Kyangwali farmers' group for ten tonnes of upland rice. We milled it and sold it as intended to traders in the Hoima market. However, when our agent received the money, he was tempted to side-use the money for another deal. So he went ahead sourcing for more paddy from the same farmer group. Unfortunately, it started raining and the paddy could not be dried fast enough before milling it. In this situation, our agent sold some of the paddy and deposited 5.8 million UGX into the COB account. From then on he became elusive, he stopped communicating, stopping taking my calls, and deliberately avoided meeting me and discussing what was happening with the remaining money. (See Story 172)

Agent runs with money: My agent sourced thirty sheep. On the delivery day I went with him to the buyer where the sheep were slaughtered and we took their weights. The buyer wrote a cheque three days later and gave it to my agent. I gave the agent the bank account details to deposit the cheque. However, he deposited the cheque into his own account and called me to say that he had lost the details of the account I had given him. I immediately told him to contact another network manager near his place, but he did not. I tried to call him but he did not pick my calls up. We tried to trace him but we were not able to find him. We called his father and he

said his son had not come home. (See Story 166)

Most of the time deals work out well. I have really gained experience through the transaction security system. I registered these deals, sourced the cattle and paid the pastoralists cash-on-the-horn. I negotiated with buyers and built trust with pastoralists. In fact, when there was not enough COB financing to pay for all the bulls I was given one on trust, which I paid for after the deal. Through using my new and growing network of agents, the training we've had and our links to farmer groups, I think that it will be possible to do better business.



Fish are substituted with Sand!

Some solutions to try out

- **Improved due diligence:** There are many buyers out there who are prepared to try all sorts of tricks so that they can foil our deals. Our due diligence must go beyond just asking around to include checks with the district commercial officer and where possible the chamber of commerce. Impulsive decisions to deliver goods to a buyer on whom you have not done proper due diligence, may lead to either delayed payment or total loss.
- **Proper documentation:** Never do business unless the buyer issues his or her own LPO. Otherwise you have no chance to get legal help. You need proper paperwork to use to chase-up buyers. This should include a Local Purchase Order from the buyer, delivery notes, and invoices. LPOs need to show banking details for payments to avoid agents diverting payments into their own accounts.

- **Prompt payments:** One idea to deal with late or slow payments is to have a memorandum of understanding with the buyers which stipulates that they pay 1% per week surcharge to cover the cost of the COB finance until the payment is made. Providing buyers with an incentive to pay promptly is probably a better way to achieve this. Buyers who pay promptly would get a discount on their buying price.
- **Alternative sale option:** Always have a plan B to sell the produce if a buyer plays games at delivery. A quick alternative sale through an auction is a better option than staying with the commodity, unsure if the price will ever increase significantly. Never cling on to the commodity in hope of price rises – rather auction immediately and make your loss there and then and move on to another deal to recoup the loss. You will make greater losses on storage, re-drying, treating for weevils and re-bagging, by keeping the produce.
- **Local and legal redress:** Use local authorities, especially district agricultural and commercial officers, to pressure rogue buyers to pay. Better still is to go to the local community leadership for help. In our case Maasai elders are trying to sort out payment problems and are even trying to raise funds to get the buyer out of debt. If local redress fails and you have all your proper documentation you should seek legal redress. Be prepared to have standby legal advice in case of default on LPOs even though this will increase your cost of doing business.
- **Secure payment systems:** You must never lose sight and control of the money either for paying farmers or being paid by buyers. Agents are easily pressurised by family or circumstance to side-use or steal cash. We are in urgent need of payment systems that are more secure than cash. Mobile-phone payment systems are developing rapidly and we need to explore how we can use them to improve payment security.
- **Contingency for unavoidable risks:** Some risk, such as rain that prevents trucks from reaching collection points, cannot be avoided. We need to recognise these risks and make arrangements to deal with them. One solution would be to establish a contingency fund that could be drawn upon to cover unexpected changes in middle costs (i.e. increased transport costs) or prices resulting from delayed deliveries. Such risks cannot be shared with buyers or sellers so networks need some kind of shared protection from them.



Masaai cattle trekking to collection points.

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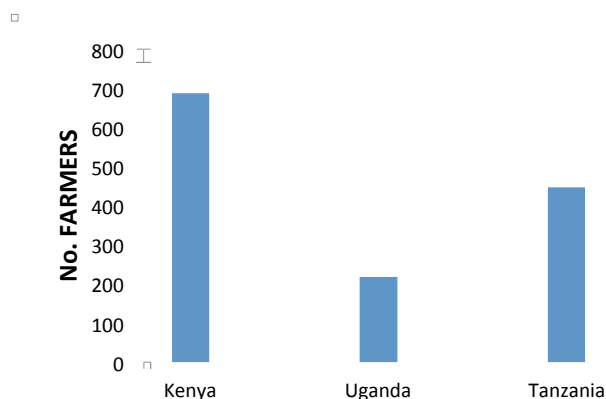
BRIEF 43: Impact of COB Deals on Smallholders.

This brief presents a short summary of the impact of COB deals on smallholders and why they like COB deals. Over one thousand smallholders have benefited from COB deals. The value of trade so far has exceeded \$170,000 US dollars. The dollar income to smallholders from this trade has been \$155,000. COB deals increased smallholder prices by some 15% adding \$15,000 more dollars to their income. Price increases were made possible by adding value and increasing the efficiency of value chain operations to around 20% of total deal value. With this kind of impact it is hardly surprising that smallholders like COB deals. However, their interest in COB it is not just about fair and better prices. They also like COB deals because: There are no price or payment games. They can get mobile money not cash. They get opportunities to add value. They get access to larger scale buyers. They get continued service across seasons. They can deal with a local entrepreneurs. They have their produce traced to cut out cheating. COB deals provide win-win solutions not just to smallholders and scaled processors but also to marketing itself.

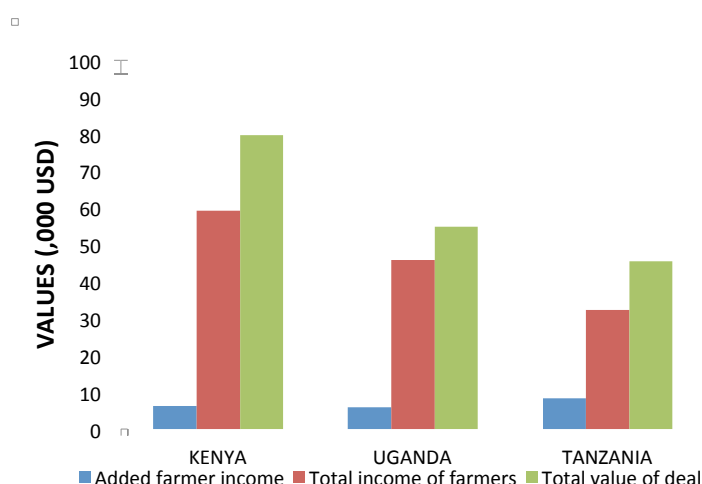
Key Performance Indicators of Impact

Trader networks in Kenya, Uganda and Tanzania have conducted fifty-one deals using the COB business model covering most staple cereals, grains and root crops, oil seed crops, cotton, livestock and fish, and a wide variety of vegetables. Over one thousand smallholders have benefited from the COB deals of these trader networks. (See Graph 1). The total value of trade so far has exceeded one hundred and seventy thousand US dollars. The US dollar income to smallholders from this trade has been nearly \$80,000 in Kenya, \$45,000 in Uganda and over \$30,000 in Tanzania. The value of the price increases trader networks have been able to give smallholders exceeds \$5,000 in each country. (See Graph 2).

Graph 1. Number of smallholders benefitting from COB

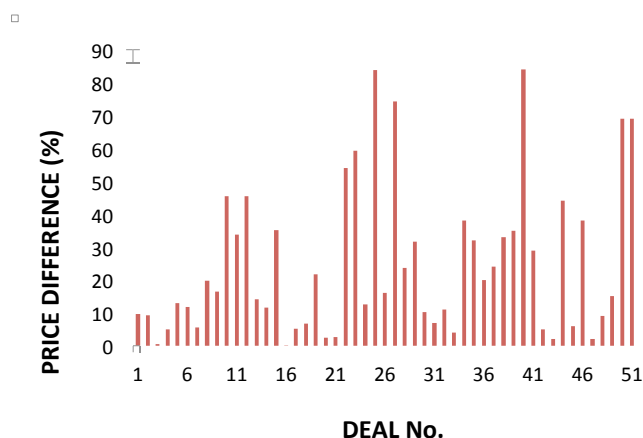


Graph 2. Deal values and smallholder income

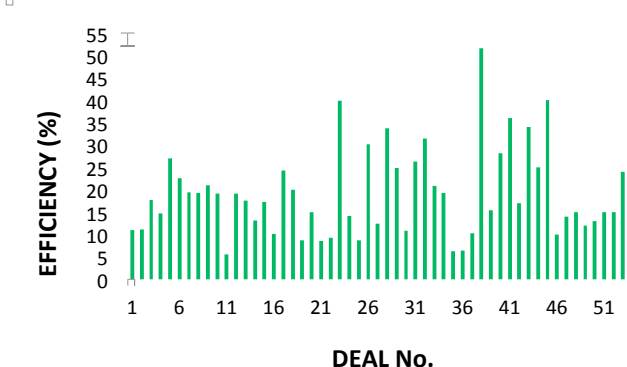


While the percentage price increase smallholders got over other middlemen vary greatly (2%-84%) the median value of 15% is promising. (See Graph 3). These price increases have been achieved through increasing the efficiency of value chain operations. Results show cost of marketing usually lies between 10% and 20% of the total deal value though the variation is great. (See Graph 4). Efficiency savings not only allow for a price rise to smallholders but also a commission to the trader networks making the COB business model commercially viable.

Graph 3. Percentage price difference to smallholders



Graph 4. Value chain efficiency as total cost: total value



Why smallholders like COB deals

Over the year of COB deals we have been listening to smallholders' feedback on each deal. Giving smallholders a better price than the middleman that comes to their farm or trader in the market is obviously going to please them. But, as we shall see below, smallholders' value COB deals for reasons beyond price.

- *Fair price:* Middlemen operating a buy low sell high business model make their profits by giving smallholders the lowest prices possible. When smallholders need cash fast they will part with their crop at prices well below their costs of production. Because smallholders do not know how much the middleman gets when he sells the crop they assume middlemen, rightly or wrongly, are profiteering. So, to smallholders, just as important as a better

price is a transparent price. Knowing how much the buyer is paying and all the middle costs involved allows them to decide whether the price is fair or not. Knowing they are getting the best possible price in the current market conditions appeals. That, should there be any savings during the transaction, these are passed on to them as a bonus demonstrates an even greater sense of fairness with COB deals.

- *Price and payment games:* Smallholders encounter plenty of games being played around payments by middlemen and contracts. They hand produce over against promissory notes or contracts that may or may not be honoured. Some buyers might just pay late or reduce the payment. Contractors are notorious for reducing farmer payments against 'so-called' rejected produce. Whether justified or not smallholders left in the dark assume they are being tricked. Smallholders, especially those who are vulnerable, value COB deals that pay the agreed price and at the time the produce is collected from them.
- *Mobile Money:* Smallholders are used to being paid for their produce in cash. However, cash exposes them to risks of theft and 'diversion' when intermediaries are used. Those handling payments for groups have been known to hold back part of the money. Dispute over payments among group members can break-up groups. Payments to individual smallholders' mobile phones are reducing these risks. Smallholders paid on mobile phones in COB deals say it is safer than taking cash.
- *Value-add:* Smallholders cope with the low prices of middlemen not only by adulterating their crop with stones and debris but also by mixing good and bad quality produce together. The incentive is to drive up the weight by whatever means possible. Middlemen do not offer smallholders a premium for good quality produce. It is those traders or wholesalers that clean, sort and grade produce who cash in on the premiums. Processors who are forced to clean up simply discount their prices accordingly. Smallholders feel discouraged from putting more effort and

money into getting high quality because the extra costs will not be reflected in a higher price. Smallholders appreciate COB deals because they know the trader is motivated to assist them do as much value-add as possible because the trader's commission is linked to farmer price.

- *Better buyers:* Smallholders who cannot get their produce to the roadside or local market sell to the middleman who comes to their farm. Even at the roadside or local market they still only meet with small traders. Scaled processors in the towns are too far away to reach. They see better buyers and higher prices on their mobile phones but are unable to get their produce to them. Smallholders like COB deals because network managers can connect them to processors and wholesalers who give higher prices for quality produce. Network managers working directly with buyers and vendors avoid cartels, brokers and other middle costs that negatively affect the price smallholders can get.
- *Continued service:* Middlemen come when crops are in short supply but when have plenty of produce they do not come. Many middlemen come only when they need crop not when we need to sell. Middlemen are here one season and do not come back the next season. These are the experiences of many smallholders. Smallholders are confident in COB deals because they are repeated. Trader networks must invest in setting up COB deals. So repeating the deal throughout the season and between seasons provides the profits.
- *Local face:* The middlemen visiting most smallholders are not from their community. Many travel around from one place to another so smallholders rarely know them. It is the same with small traders who come to local markets or roadside. Smallholders cannot be sure they will come back even to pay. If there is a problem they switch off phones and cannot be found. This means smallholders cannot follow up on payments or problems. Smallholders have more confidence in COB deals because the agent managing the collection point is from their 'place'. The COB agent lives in their community and has

a physical address where they can be contacted.

- *Trace produce:* Smallholders only have a few bags each to contribute to a five or ten-ton truck pick up. So, at collection points one person's bags are mixed in with others from their group and sometimes other groups so the truck can be fully loaded. To often some members of the group cheat on quality. This means everyone suffers when bags are rejected and payments reduced. Placing a label on each bag enables the buyer to know which farmers are cheating and deduct their payment accordingly. Smallholder groups like this feature of COB deals because those members who have not cheated are not penalised. They have also noticed that because cheats will be caught they soon stop cheating.

Win-Win market access solutions

COB deals provide win-win solutions not just to smallholders and scaled processors but also to marketing itself. Linking trader revenue to smallholder price incentivises trader and farmer to add as much value as possible to smallholder produce. Cutting out product adulteration and waste, delivering agreed volumes at agreed times incentivises the scaled processor to reduce hedging and increase purchase prices. With COB deals smallholders can win and scaled processors can win. This also has beneficial effects on marketing itself. It increases the efficiency of value chains so savings can be passed on to smallholders thus increasing their prices further. COB deals trigger the market to drive up prices as competition for produce accelerates. COB deals trigger smallholders to invest in more production. COB contrasts starkly with the alternative 'buy-low-sell-high' trading model that leaves smallholders with the lowest price possible. Smallholders cope with stones and poor quality that simply sets in a race to the bottom. Once smallholders and scaled processors experience COB the choice is obvious.

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**BRIEF 44:
Facilitating Value
Chains the
Missing Middle**

A business opportunity exists for those who can provide services that solve the problems of the missing middle in agriculture value chains. Facilitating secure transparent transactions between small farmers and scaled processors with Cash-on-the-Bag payments to farmers (COB) is one such service. Key tasks for this service include: transparency in negotiations, quality checks, cash on the bag payments, checks on delivery, and controlled payment systems. Over the last year twelve trader networks across Kenya, Uganda and Tanzania have conducted some eighty deals benefitting over one thousand small farmers. Farmers get an average of around 15-20% more money into their pockets than if they sell through other existing channels. Value chains efficiency has been brought up to 80% with costs per deal being only 20% of total deal value. Of course there remain huge challenges to take this business opportunity to commercial scale. Lastly, others venturing into this opportunity might learn from the lessons we have had in: organising farmers, independence of service providers, trust and control, farmer cheating, starting out commercial, NGO constraints, public investment clarity, and advisory services roles.

The commercial challenge for agricultural value chains

Nearly five years ago Archer Daniels and Midland, one of the worlds leading agricultural processors, identified the ‘missing middle’ to improving value chains in Africa. ADM challenged the business community to turn what it saw as a vicious cycle of low margin, low value add, weak market orientation, low risk taking, low investment and low productivity into a virtuous cycle that improves margins, creates value add, creates market pull, shares risks, shares investment, and improves productivity. A tall order, but the commercial opportunity is vast. ADM estimates that sub-Saharan Africa could increase GDP by 25% (worth an additional US\$75 billion) if it increased arable land use by 25% and raised yields by 300%. The opportunity for social impact is even greater given that most recent estimates say that 239 million people were undernourished in Sub-Saharan Africa (FAO 2010). A business opportunity exists for those who can deliver a virtuous cycle to value chains in Sub-Saharan Africa.

An inclusive business model for the missing middle

The commercial challenge is not only to provide services that deliver a virtuous cycle but do so in an inclusive manner. That is a commercial service in which small farmers and traders can engage in either as service providers or clients. Facilitating secure transparent transactions between small farmers and scaled processors with Cash-on-the-Bag payments to farmers (COB) is one such

A Value Chain Approach To Create For Profit Opportunities In African Agriculture. ADM. April 2008

service. COB services are provided by trader



networks with agents who organize deals between sellers (small farmers) and buyers. Small farmers who double as "middlemen" often make the best network agents as they have the contacts, relationships and inclinations to make deals, going the extra mile and taking the extra risks to make them work out. Buyers are ideally not larger traders but end-users like scaled processors who value quality and timely delivery. Reducing the number of players in the value chain, reducing waste along with farmers seizing value add opportunities are the keys to higher value share for farmers.

Farmers and traders have pointed out that COB services is providing them a business model that is diametrically different to what they have been doing so far. So far they are stuck with the model of investing their own money into "buy low and sell high", pushing farm gate prices down as far as they can in order to cover their often stunning transaction risks. But with the COB services their income is the commission, and that is tied to the price farmers get. Their business incentives therefore go towards fighting for high farmer prices and low middle costs. On top of that they get exclusive access to "cash-on-the-bag" financing that allows them to make many more deals than they could do with their own money. The best agents have understood that they earn more money from commissions (linked to farmer incomes) than from margins on deals where they need to risk their own money. The COB business model creates win-win incentives for all value chain players

Key tasks for transparent transactions

Providing a service that facilitates secure and transparent transactions between buyers and sellers requires the following tasks:

- 1) Assist buyers and sellers to negotiate deals by making all the middle costs transparent to both sides, until a deal is agreed by both sides
- 2) Carry out quality checking and packing to the agreed criteria at the designated collection points and organizes shipment to the buyer.
- 3) After farmers produce is accepted at the collection point a "cash-on-the-bag" financing facility provides cash advance payment to farmers if they so wish. It comes with a fee, and some farmers have started to not ask for that advance in order to save on that fee.
- 4) Carry out independent checks when the produce arrives at the buyer and track back any complaints on quality and delays, etc. Agents also ensure correct paper work so that the buyer can then make the payment to controlled payment systems.
- 5) Controlled of payment for all the middle costs (transport, packing materials, taxes, insurances, etc). From the balances the pre-agreed commission (usually around 10%) is then distributed to the agents involved in the deal.
- 6) Controlled payment of remaining money to the sellers. If they already got a cash advance, it is now recovered. If there is a balance, this is a bonus that is then handed out to the sellers, explaining to them exactly all the figures as described above, thereby achieving full transparency. If the balance is negative, the trader network covers that loss.

The COB business experience and achievements

Over the last year twelve trader networks across Kenya, Uganda and Tanzania have conducted some eighty deals providing cash-on-the-bag payment advances to small farmers using secure transparent transactions. Over one thousand small farmers have benefited. The US dollar income to farmers from this trade has been around \$80,000 in Kenya, \$45,000 in Uganda and over \$30,000 in Tanzania. We can show that:

- Farmers get an average of around 15-20% more money into their pockets than if they sell through other existing channels (the range varies from 2% to 80%). That translates into a bonus of \$5,000 going to farmers in each country.

- Value chains efficiency has been brought up to 80% with costs per deal being only 20% of total deal value.

Of course there remain huge challenges to take this business opportunity to commercial scale. So far technical, operational and commercial proofs of concept have been achieved. Growing to commercial scale is the next big challenge. No doubt this will require continuous development of solutions to the serious bottlenecks in the overall marketing environment (logistics, finance, information, money transfers, regulations, rule of law, etc).

Lessons learned on facilitating value chains

So far the effort of building an inclusive business model has been a local process of learning-by-doing. Entrepreneurs have 'invented' the COB business model through sharing experiences in a business-to-business or peer-to-peer learning environment. Some of the lessons that might help others venturing into the commercial challenge of value chain facilitation follow.

- Just organizing farmers for better marketing doesn't work. Nothing works to scale without middlemen. The challenge is not to organize farmers but to give middlemen another business model. While remembering that most middlemen are themselves farmers too, often the most entrepreneurial.
- Marketing services must be independent of both sellers and buyers to be trustworthy to all value chain players and especially those who compete with each other.
- You only trust somebody when you know control measures are in place that will immediately expose cheats. Trust is a result of control, not a replacement of control.
- Poor farmers are often by far the best cheaters and the most difficult to educate not to cheat. It is their mechanism to cope with the current buy-low-sell-high business model.

- A value chain facilitation service that actually organizes deals and financing that puts money into farmers pockets must be commercial from the outset if it is to be sustainable and make long term commercial sense
- Employed NGO staff are ill-equipped to build commercial services in the market place. Their inclinations and behaviour and rules of engagement are often counter to the profit motive. Market players will not trust such staff to continue their services once the project is over.
- Public investment through grants needs to be very carefully designed and calibrated in order not to jeopardize the emergence of commercial behaviour of marketing services. "Competitive neutrality" of grants into commercial ventures is an art difficult to master.
- Rural advisory services have a role to play in showing farmers how to achieve quality in terms of produce, of predictable availability and quantity, suitable storage, and packaging. Poor farmers often also need to learn how to analyse available market intelligence and then calculate their productive investments correctly to achieve a profit. Most cannot yet produce a partial budget of their production operations.

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**BRIEF 45:
Investment
Challenges to
Scaling Up
'Inclusive'
Businesses.**

Scaling up emerging 'inclusive' business models presents many challenges to investors. Experiences over the last year show that transparent transactions along the value chain along with Cash-on-the-Bag (COB) payments to small farmers can be commercially viable. Social impact is demonstrable. Farmers regularly get 20% higher prices for their produce. Value chains operate at 80% efficiency with costs per deal being only 20% of total deal value. However, it is equally clear that such impact will not be enjoyed by large numbers of farmers unless investors come together and address the real world conditions of: very low skills of rural entrepreneurs in money management; ingrained cheating among all value chain players; poor infrastructure, legal systems and policies; and low speed and poor security of financial transactions within and between COMESA countries. The burdens on financing identified here require a close interaction should be established between public and private investors, but who and how should leadership be provided?

Conditions for Commercial Scale up

Experiences over the last year show that transparent transactions along the value chain along with Cash-on-the-Bag (COB) payments to small farmers can be commercially viable. Some ten trader-networks across Kenya, Uganda and Tanzania have proved this. However, this is only true when a range of required conditions are in place and work reliably. Where these conditions were in place, COB has been profitable for all involved. One critical internal condition is the required skills and behaviour of the trader-networks themselves. Critically important external conditions concern transport, infrastructure

and money. We examine each of these conditions in more detail:

- Skills and behaviour for trader-networks to operate COB are fundamentally different to what traders have been doing so far in their market operations. Even through they intellectually agree with and appreciate the rules and regulations of transparent transactions, conventional instruction does not work because each situation with each deal is slightly different, and the traders have to react in new ways. It is almost a prerequisite that the traders make mistakes in COB procedures and can then analyse themselves the resulting problems in order for them to grasp and internalize the lessons and change their behaviour to suit the transparency rules with which they agree. This is an iterative process, and it takes time. It also results in some traders dropping out as they discover that this isn't what they want to do.
- Timely deliveries from remote villages to processing plants remain a critical challenge because transport is unreliable. Too often mechanical or operational problems on the way delayed deliveries even to the point of buyers no longer being able to pay on delivery. Given this situation the most profitable type of deal, the regular delivery to factories, could not be realised in spite of several attempts to establish them. Operating their own trucks would require capital and overhead costs beyond their means. Rather it would seem traders should have a running agreement/contract with well-managed transport companies. While scheduled cargo services don't yet exist they would be a solution too.
- Too often bad weather has made it impossible to bulk the produce and keep it safe. Many deals were lost due to these problems. There is not much traders can do with regard to roads. However, establishing collection points that allow bulking of produce before contracting with buyers for deals is within what they can organise. This means putting up structures in the villages that assure safety of the produce while waiting for transport and protection against bad weather.

- Cash is a problem because it is in such short supply. It will invariably be used for whatever has top priority in the fast changes that happen in rural markets. Recovering cash at short notice when it was used for other purposes has repeatedly become a major issue and has hindered transactions to the point of losing profitability. But what alternatives are there? Normal bank transfers are shown to be too complicated, time-consuming (hours of queuing) and unreliable for time-sensitive trading. There are very good reasons why traders have to work with cash in rural areas. Money transfers through the mobile systems seem to show promise. The main bottleneck for mobile transactions turns out to be the limited liquidity of the cash points in rural towns and villages. There is no easy solution to that.

So, while we know that COB can become a commercial venture, it is still a struggle to ensure the required conditions are in place in the general rural setting. Trader-networks can show commercial viability and competitiveness in the field. Social impact is demonstrable. Farmers regularly get 20% higher prices for their produce. Value chains operate at 80% efficiency with costs per deal being only 20% of total deal value. However, it is equally clear that such impact will not be enjoyed by large numbers of farmers unless investors come together and address the real world conditions described. The challenges to investors we point out here are based on a lot of learning on the ground.



A secure and sheltered collection point in a rural trading centre, Mt Kenya.

Challenges to Investors

Very low skills of rural entrepreneurs in money management. Few small rural entrepreneurs track their expenses or make projections on future business. Records are rarely kept and no one uses computers and spreadsheets to keep records. Any money in the pocket or bank is treated as a single resource to be used for the next most urgent expense regardless of whether it is personal or business related. Loans taken for business can end up paying for a personal expense like school fees. A further problematic behaviour is with traders who prefer to hold on to a crop out of fear of making a loss and hoping to recover any loss later. Rather they should immediately auction off their problematic crop, cut their losses, and move on to next deals to recover from any loss. The necessity of coaching large numbers of traders on financial management, including attitudes as well as basic tools, places an additional financial burden on scaling up.

In-grained cheating among all value chain players. Any new business offering transparent trading operations goes against the past thirty years of commercial experience. Such businesses not only have to prove themselves but they must also change the 'mind-sets' of farmers, buyers and entrepreneurs. Minds are not going to be changed by sensitization, awareness raising or 'advertising'. The minds of farmers and other value chain players will only be changed by repeated experience of a transparent way of doing business. And that business must bring benefits to all players in the value chain. Providing that experience is expensive as no player in the chain is prepared to discount their hedging against cheating until the business operation is proven to be free of cheating. This implies the development and introduction of intricate and yet easy to establish control mechanisms that ensure transparency and thereby engender trust. The necessity of 'subsidising' the business operation and 'educating' value chain players in the start up phase places an additional financial burden on commercial scale up.

Poor infrastructure, legal systems and policies. It is well known that poor roads disrupt deliveries in heavy rains. Poor roads also inflate transport costs. Transport itself has proven to be grossly unreliable to the extent that regular deliveries cannot yet be promised. This warrants a closer look on what can be done to make transport more reliable. Lack of adequately weather proofed or secure collection points and village warehouses expose small farmers to risks of theft and spoilage. Trade and produce are also put at risk during border crossings because of inadequate infrastructure and lengthy administrative procedures. Legal procedures and costs are such that farmers will side sell against contracts and buyers will default or delay on contracts and Local Purchase Orders. When the police are involved costs can quickly escalate without results. Not only is legal redress unattractive so are debt collection services when the amounts involved are small. A further source of risk arises from government policies and regulations. An export ban imposed without advance warning on the back of food security policies injects uncertainty into what is already a risky business. The good intentions of government regulations backfire when they become opportunities for corruption. The necessity of coordinated action and investment on the side of local and national governments places additional financial burdens on enabling the scale up.

Low speed and poor security of financial transactions within and between COMESA countries. This inefficiency operates at three levels: bank-to-bank transfers, cash transfers and payment systems. Transferring money between banks and even between branches cannot be achieved online at this time. In spite of repeated promises by banks same-day online transfers still are not available. This means that SWIFT transfers are required which take anywhere between seven and fourteen days. Not only are these transfers very slow in relation to the speed at which trade operates but they are also costly. While the use of mobile phones for money transfers is growing, both access and amounts are limited. Cash, with all its risks, will remain the way farmers are paid for their produce.

The necessity of solving liquidity problems for mobile money providers and putting in place tracking systems for cashless payments places additional financial burdens on scale up.



Transport arrives late at the 'open air' pick up point.

We come to the conclusion that scaling up emerging 'inclusive' business models requires considerable preparation. Skill development and taking care of the real world conditions limiting commercial growth presents investors with considerable challenges. It is obvious that purely commercial financing is not feasible. The burdens on financing identified here require a close interaction should be established between public and private investors. Who and how should investors provide for capacity building and R&D and infrastructure and trading operations? Who and how can private and public investors be convened to mutually leverage each other in a clearly defined private-public co-financing venture? Who and how should provide the leadership?

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Good Practice Guideline on Cashless Payments

These guidelines help COB deal coordinators to achieve a cashless payment system, whereby cash can be moved virtually and only the intended end-recipient can cash that money at the cash-points if s/he so wishes.

Cash is in very short supply in the informal rural economy. It has a premium. When farmers can pick between a good price for their produce that will be paid at a later date, or a low price but paid in cash right now, they will almost always pick the cash now option. Cash always flows to where the need is biggest to fulfil a commitment. If a payment can be delayed and another commitment becomes more important than the original one, then the cash moves there, and the original commitment is then somehow dealt with in the future. This general behaviour critically damages the reliability of various payments that have to be made in payments of COB, return of COB, payment of commissions, bonus, fees, etc. etc. Most importantly it means that for deal coordinators to give somebody cash to distribute to others sometime in the future is very risky.

For COB deal coordinators this means that the clearing account must be managed as far as possible with cash-less transfers. For each deal:

1. The agent who checks bags can trigger through ICTs the payment of COB from the clearing account to the mobile account of a registered farmer, but only the farmer can cash it.
2. The agents can also do the same for payments to registered transporters and similarly pay for other middle costs.
3. Buyers pay straight into the clearing account, never in cash to network agents or network managers.
4. Commissions are calculated from the finalized COB deal form and paid directly from the clearing account to the mobile accounts of the involved network members.
5. Bonuses to farmers are also calculated from the finalized COB deal form. The data-sheet of the collection points gives the other information about which farmer provided which bags to the deal (ie. tag numbers). From this the bonus for each farmer is calculated and the clearing account pays it directly into the mobile account of each registered farmer.

However, the transition from cash to mobile payments has yet to be enhanced in villages. This can be done through:

- Arrange for sales of agricultural inputs to be payable through mobile payments.
- Arrange for school uniforms and any fees to be paid through mobile payments.
- Train village shops how they can benefit from mobile payments (ie. for selling kerosene, soap, etc.).
- Provide highly demanded goods such as solar equipment against produce.
- Support whoever wants to establish a cash-point in the village.

Good Practice Guidelines on Collection Point Management

This guideline provides network managers and their agents with what is required by COB rules for managing collection points. It is the network agents in the rural areas that are in charge of collecting, checking, ensuring correct packing and shipping of produce for any particular deal that they are involved in. This means they manage collection points according to COB deal standards.

A COB compliant collection point is as follows:

1. It can only be managed by a trained network agent who is entirely knowledgeable about the COB procedures and rules
2. It can be temporary or fixed
3. It is equipped with
 - correct scales
 - communication equipment
 - moisture meters
 - possibilities of drying the produce
 - any specific equipment required for grading and controlling the quality required by the buyers
 - any specific equipment for correct packing according to requirements of buyers
 - any specific means to take care of rejects
4. It is reachable for the vehicles intended to transport the collected produce
5. It has a safe holding area. This means it is lockable and guarded over night and the produce is protected from the weather.

Ideally an agent has a construction at his/her disposal, owned by the network and rented out to the agent. The rent is part of the middle costs. This only makes sense if at least 1 deal of the value of about 3,500 USD is operated from that location every week.

The structure is not a warehouse in the traditional sense, because it is only for bulking, checking, and forwarding. So its operation is for throughput instead of stocking, and the value is generated through the number of deals and the commissions, not the stocking of produce.

Such structures must not only be for holding produce, they must also have space to accommodate related services, eg. input shop for fertilizers and pesticides, an ICT centre (usually solar-powered) and a kind of restaurant or bar. This makes it a village trading centre where people can meet to discuss and organize the marketing of their produce.

Good Practice Guidelines on Rules for COB deals

These guidelines outline the rules that network managers must follow in order to be allowed to operate as COB. These rules are discussed on LLL-NMC. If a network manager fails to keep these rules, his membership on the network is on hold. No further new deals can be fully registered by this network manager until the issue is cleared.

1. Each deal requires a Local Purchase Order (LPO)

Each deal will only be fully registered if there is a signed and stamped local purchase order. The LPO can be scanned and sent as an attachment to Email for fast processing. The original is kept by the coordinator until the deal is finalized.

On the LPO the following information must be there:

1. Type of produce, specification of quality
2. Amount of produce
3. Delivery date(s)
4. Agreed amount that the buyer will pay for the full consignment
5. The clearing account number to which the buyer must pay the agreed amount, along with the address of the organisation who owns that account.
6. The time when the payment is due to arrive in the clearing account.
7. Penalties in case of delays in payment

There are exceptions to this rule:

- For auctions the LPO is not required. However, in such a case the coordinator must explain on LLL how is the bidding procedure, and who are the buyers who are asked to bid.
- For first times of double-loop deals an LPO is also not required. However, in such a case the coordinator must explain on LLL what is the delivery route and present a list of the buyers with names and locations and mobile numbers.

2. Keep COB cash maximum 3 days.

If COB money was sent to you, you are not allowed to keep it as cash or in your account for more than 3 days. If you hold any COB money that was not used, on the fourth day you must send it back to the clearing account.

In case you think that you need to keep the money for some unforeseen reason, you must immediately inform on LLL without delay. If it is agreed, you can keep it. Otherwise it must be returned.

3. Explain status of a deal on LLL-MAC at least once a week

The network manager who coordinates a deal must explain on LLL what is going on with the deal at least once a week. If there is any trouble and s/he fails to explain on LLL what is going on with the deal and fails to take action according to how we discuss it on LLL, that network manager will be held accountable for any losses with the used COB.

4. Delivery of produce only against signed delivery note and acceptance of invoice

Any COB agent taking care of buyers may only leave the produce if the buyer (or his legal representative) signs a delivery note and accepts the invoice. If buyer does not sign delivery note, the produce must stay in control of the coordinator and be put into emergency storage. This means the COB agent either has the produce or s/he has the signed delivery note along with the LPO.

The delivery note contains:

- Address of network manager
- Type of produce and quality specifications, plus amount of produce that was actually handed over.
- Referral to the LPO: The buyer acknowledges that this is a delivery according to a certain LPO, with number of LPO and/or date of that LPO.
- Any complaints with quality or volume clearly spelled out and accepted by the COB agent dealing with the buyer. The COB agent signs on the delivery note to accept these complaints, but only if s/he agrees with the complaints. Otherwise the produce is not delivered to the buyer and remains in custody of the COB agent who puts it into emergency storage for separate disposal.

The invoice is filled out and given to the buyer as soon as the buyer signs the delivery note.

The invoice contains:

- Address of network manager
- Amount to be paid (note: This amount is dependent on what exactly was delivered and accepted by the buyer, so this must remain open until the last moment to be filled out).
- Number of the clearing account and banking details.
- Time by which it must be paid
- Penalties in case of late payments (referring to what was agreed in the LPO).

If a COB agent is no longer in control of the produce and also does not have a fully correct delivery note, then this is a very serious situation that needs to be immediately addressed. We must be immediately informed via Email and mobile. The deal coordinator then awaits instructions from us on how to proceed.

5. Immediately forward any payments by buyers to you.

Buyers should always pay directly to the clearing account, never to you or your account. In case you hold money that buyers paid to you, you must immediately forward it to the clearing account on the very next banking day. Even if buyers only pay part of the money, you must forward that part immediately.

If you require an exception to this rule, you must explain it immediately without delay on LLL. Only if agreed can you keep it. Otherwise the money must be forwarded on the next banking day after explaining on LLL.

6. What is Finalization of a deal?

What does "Finalization" mean? Finalization can only happen after the full amount for the deal has been paid by the buyers into the clearing account. As soon as the full amount has reached the clearing account, the deal coordinator is informed. The network manager who coordinates the deal then takes the COB form and puts in the real figures and information as it really happened. We call that "finalization". This finalization is the basis to calculate and then distribute the bonuses and commissions. Once that is done we call a deal "closed".

So keep in mind

- First all the money from buyers for a deal must be in the clearing account
- Second the coordinator of the deal has to finalize the COB form and send it to LLL for final analysis. A coordinator is not allowed to delay a finalization.

7. Finalize a deal within 1 week of full payment by buyers

First the coordinator of a deal is informed that all the money from the buyers has reached the clearing account. Then the coordinator has maximum one week to finalize the deal.

8. Finalize within one month after full registration

The finalization must be done at the latest one month after full registration of a deal. If there is any problem with buyers or sellers the coordinator must explain immediately without delay on LLL and make proposals how to deal with the problem. It can then be discussed.

If after a month something is still not working out with the deal, it will be finalized based on the available figures. Any remaining financial issues are then taken as special cases for follow up with the coordinator and/or buyers. Legal action will be taken if required against network managers or buyers, depending on where the mistake is.

Good Practice Guidelines on Securing Emergency Stores

These guidelines provide network managers with solutions to the problem of buyers reneging on agreements when the produce is delivered. COB deals promise to the buyer that s/he will get the agreed produce on time at the correct quality. On the other hand, the buyer agrees to sign delivery notes and accept invoices and pay on delivery or according to agreement.

But experience shows that with new buyers often problems arise:

“Sorry, I am not entitled to sign this delivery note. The boss is not here”

“Sorry, we can not pay you now, we can pay in a weeks time”

“Unfortunately we no longer need your delivery, we are very sorry for this”

“Can you please offload over there, the boss will come soon”

COB rules say that an agent either is in control of the produce or has a signed delivery note and has provided the invoice. It is not allowed to leave a produce anywhere without clear documentation of delivery and payment.

So in such cases the agent has to find other means to find a buyer, or wait for other buyers to turn up, or any other kind of measures that take time.

This creates problems with the truckers, to whom the deal coordinator has promised that they can offload within two hours of arrival to free their truck for the next client.

It is therefore important that the deal coordinator has a means to send a truck to a safe place where it can offload and the produce stays in control of the network while the problems with the buyer are sorted out, or the produce can be auctioned off, etc.

Ideally networks owns or rents stores in the main markets where its main buyers are. Such stores will be under control of their agent who takes care of the buyers in this area. The costs for renting such stores must be paid out of overheads. On the other hand, such stores can also act as bulking stations for return loads for the arriving trucks, particularly if these trucks are operating scheduled cargo services. This will help in paying for the storage

Food Practice Guidelines on COB Finance Flows

These guidelines provide Network managers and their agents with instructions on how COB finance flows will operate for all registered deals in the COB project. We have had plenty of experience with delayed payments from buyers and networks. These instructions will help us achieve full transparency and good control of all payments involved in COB deals. The Project will operate a payment clearing and reconciliation system that is controlled and able to immediately see when something is going wrong with payments to take corrective action. The payment system databases are updated through the various stages on the respective shelves in the LLL online library at www.linkinglearners.net/mac.

The Project therefore operates a clearing account in each country that does this:

1. A COB advance is only available if a deal that is fully registered. That means there is an approved COB deal form that will go on the shelf " active deals". If a deal does not have its form on the shelf " active deals", it is not fully registered. You can always go and check yourself. If your deal is not there, there is still something missing. So only when a deal is fully registered can the project authorize COB payments.
2. The buyer pays the full amount that is fixed in the COB deal form to the project clearing account in each country.
3. If there was a COB advance the project first recovers the COB and the COB fee from any money coming in from the buyer.
4. When the full amount according to the COB deal form has been paid by the buyer, the coordinator of the deal "finalizes" the deal by replacing the projected figures in the COB deal form with the figures as they really happened, and sends this to the LLL online library at www.linkinglearners.net/mac.
5. The project then refunds third party financiers of the deal in case they were any.
6. After this the project then pays out the bonus and commissions according to the figures in the finalized COB deal form. The deal is then called "closed".

Good Practice Guidelines for Registering of COB Deals

This guideline lays out the process for network managers to register COB deals. COB deals are different from other deals because they are transparent. It is clear from the beginning who will be paid how much for doing what. And then also COB deals are tracked. That means that if there was a mistake it can be found out what was the problem and the corrections can be made fairly. There is no scope for any stories by any of the involved people. Everything can be checked and corrected and in case of mistakes the right people must bear the consequences. This is why COB deals are trusted by both buyers and sellers.

There are various stages of registration during the process of a COB deal

1. Planned deal

This is not yet a registration. It means that a deal is foreseen by COB agents and their network managers sometime in a future season. Such deals are listed and roughly scheduled several months in advance in order to be able to plan the activities of a COB network. This does not yet get a registration number.

Example:

“Beans from Gairo to Kariakoo; July-September 2012”

2. Pending registration

Pending means it is now serious and sellers and buyers and the COB agents want to see if they can agree to do this deal together. Of course all the negotiations and the details are not yet clear and still need to be clarified further. The COB form is the tool to negotiate the details and plan and calculate a deal. For this purpose the COB form gets a pending registration. The deal gets a unique tracking number that is preceded with a “pen”. This means that the information and figures in the COB form are not yet fully agreed. They can still change because of new information or due to negotiations. The most updated version of the pending registration is always listed on LLL so that all involved COB network members can check the status.

Example:

“penBT12-239: Beans Gairo to Kariakoo”

3. Full registration

When negotiations reach conclusion, there will be a LPO from the buyer. That is the trigger to put the final version of all figures and information in the COB form and request for full registration. Checks are made whether all the standard requirements for a COB deal are there. If yes, the deal gets a full registration. The “pen” is now removed from the registration number. Once this has happened, no more changes are allowed in the COB form until the deal is done.

Example:

“BT12-239: Beans Gairo to Kariakoo”

Now the deal goes ahead and is in fact along the agreed lines that are shown on the COB form

4. Finalization

Once the buyer has paid the agreed full amount into the clearing account, we no longer expect any more money to come in. Once that situation is achieved, the network manager who coordinates the deal is informed that he must now finalize it.

The network manager then takes the COB form and puts in the real figures and information as it really happened. Almost always there are changes because middle costs were different than foreseen, or there was a quality issue with a few bags so the fully paid amount was different than foreseen, etc. etc. The COB form gets the prefix "fin". This means it is now clear that this is the finalized version of the COB form of this deal. Once there is a "fin" in the COB form number, no more changes are allowed. Why? Because this finalization is the basis to calculate and then distribute the bonuses and commissions.

Example:

"finBT12-239: Beans Gairo to Kariakoo"

5. Closing

Now the bonuses and the commissions are paid from the clearing account. Once everything is paid out and no issues remain with regard to money or quality or anything, we can close this deal. We don't forget about it, but we put it in the data for further analysis of the COB business.

Good Practice Guidelines on Analysing Risk in COB Deals

These guidelines provide a checklist of areas of potential risk for each step of the COB deal operations for the network to assess for COB financing to be released at minimal risk. The guideline also provides a set of control procedures for the networks to follow to minimise risk on COB financed deals.

OPERATION	RISK	CONTROL
1) Prepare pending COB deal	Bad buyer, Bad seller, Poor agents, Narrow margins, High middle costs, No buy-in by buyer or seller	Check COB Deal Registration form for profitability – middle costs Check buyers, sellers, agents record on performance register Check transporters/warehouse record on performance record Check insurance transport/warehouse Check financing requirement and buyer/seller buy-ins
2) Register COB deal	Poor buyer commitment, Poor seller commitment, Poor transporter/warehouse commitment, low margins /profitability	Buyer provides LPO, Buyer provides deposit on financing, Sellers register mobile phones/accounts for deal with network, Network makes alternative transport/ warehouse arrangements, Approve deal Approve COB financing
3) Release of COB finance	Bank transfer delays to network manager/agent Diversion of money	Authorize fund transfer, Online transfer to Network manager/agent bank account
4) Collection point management	Sellers bring poor quality produce, Theft of produce Cheating on weight of produce	Agent makes quality and quantity check, Agent seals and tags each bag Agent arranges security at collection point/storehouse, Agent uses network certified scales, Ag Extension Agent present to verify quality/quantity
5) COB payment	Sellers side sell agent underpays sellers Diversion of money	Network manager/agent pays cash/mobile money to sellers, Sellers sign cash/mobile phone payment receipts
6) Pick-up and transport	Changes in weight or quality of produce in store or in transit (drying out, pests, damp, bad handling, etc) Diverting or changing bags with inferior quality produce in store or in transit	Agent and transporter/warehouse check bag weight, seals and tags on loading. Agent and transporter sign notice of pick up. Agent or seller representative accompanies transporter to delivery point.

OPERATION	RISK	CONTROL
7) Delivery to buyer	Dispute over quality and/or quantity of produce	Agent checks quality and quantity of bags and informs network manager. If no agreement then no delivery. Buyer signs notice of delivery accepted
8) Buyer payment	Dispute over price, Changes to payment agreement in LPO	Agent issues invoice from sellers to buyer to pay into clearing account Agent does not off load produce until payment agreement accepted (either COD or within 30 days) and verified by network manager.
9) Deal completion	Partial, delayed or non payments	Confirm payment received, Network manager fills out actual TSS form for successful deals to determine seller bonus and network commission payments Network starts actions specified in Terms and Conditions of TSS deal started on defaulting buyers Network manager pays balance outstanding to clearing account
10) Sellers bonus and network commission payments	Agent underpays sellers Network manager underpays Agents Diversion of money	Authorize bonus and commission payments and online transfer to Network manager/agent bank account Network manager/agent pays cash/mobile money to sellers, Sellers sign cash/mobile phone bonus payment receipts Network manager and agents sign commission payment receipts
11) Impact and performance tracking		Determine social and economic impact of deal Determine and update performance record of buyers, sellers and network members involved in deal

Good Practice Guidelines for Secure Auctions

These guidelines provide Network managers and their agents with instructions on the operational steps necessary for them to organise and run a secure auction. Network managers are responsible for finding the buyers but their agents are responsible for running the bidding and keeping them informed at every step of the auction including the final decision of the farmers on who has won the auction.

Step 1. Check farmer produce

Check all the produce that the farmers can get together and make sure it is the correct quality. Help them fix a reasonable COB price for the auction.

Step 2. Secure storage facility

Make sure you have a good storage place in the village where you can lock up an auction lot, ie. at least 10 tons/100 bags. This place must be where farmers feel comfortable that they are in control and nobody can come and steal the bags while they are there for the duration of the auction.

Step 3. Check quality and quantity of produce

Fix a date when they bring the bags to the storage place. There you do all the quality checking and bagging and tagging. Each farmer gets a receipt for his bags and is paid half the agreed COB price. This is an advance. The bags remain in the ownership of the farmers. It must be clear to all the farmers that they cannot go and side-sell from the store. That store is locked for the duration of the auction, which is usually a few days, maximum one week.

Step 4. Secure the produce for auction

Now you have the auction lot ready. Now you know EXACTLY the true amount of produce that is available. And you know the EXACT quality of all this produce because you yourself controlled it. And because it is locked-up it cannot be side-sold until it is clear who wins the auction.

Step 5. Run the bidding

Now you ask various buyers to give you bids for that lot. You can send out an sms notifying them of the auction produce, quality and quantity and reserve price to all your buyers and other market access networks. The sms should also give them a deadline by which time their bids must be in.

Step 6. Assist farmers decide on buyer

After the deadline you discuss with the farmers which buyer they want to sell to. Remember you have to explain to them the full calculation: How much each buyer pays at his place when you deliver the bags there, how much is the transport and any other middle costs with this buyer, and how much is your commission, and what is the final price they can be paid. So they can compare and have to agree which buyer they will sell to. NOTE that if the farmers don't agree with any bid that they get, then they can pay back the COB-advance and take the bags out again and do whatever they want to do with them.

Step 7. Fix delivery terms

You then communicate to the buyer who won the auction, and fix the delivery date within the next few days. You also tell him to make the money ready, because you will only accept immediate payment on delivery in cash or cheque, or else the truck will not be offloaded at his place and drive out of his gate again.

Step 8. Arrange pick up terms

You then organize the transport. On the pickup date the farmers help in loading. You then pay them the other half of the agreed COB for each bag that is loaded.

Step 9. Exchange produce for payment

You go with the full truck to the buyer. After arriving you let the buyer make his controls, but the bags are not offloaded until you see the full amount in cash or the cheque directly to the clearing account. If there is a problem, the buyer has 2 hours to organize it. Otherwise you drive away with the full truck. Of course you can only do this if you already warned him to get the money ready. NOTE that if you have to drive away with the bags again, you contact the next best buyer and try to sell to him. Otherwise you have to warehouse the produce somewhere, and try to auction it off in another way. But that buyer will get a black mark on our LLL-lists. So next time everybody will know that he was not reliable.

Step 10. Complete the auction

The buyer pays directly to the COB clearing account. Once that happened you finalize the deal. Only then are payments of commissions and bonus to farmers if there is any are made.

Good Practice Guidelines on Transport Agreements

These guidelines outline ideas for network managers to improve the arrangements they have for transporting produce. Transport is the most important middle cost in COB deals. Reliable transport is also a critical requirement for networks to be able to keep the promise of delivery on a specified time to the buyers. Transport is also where a lot can be lost in case something goes wrong.

Transport suffers in rural areas because the trucks that actually go to villages are often those that are at the end of their useful life. Usually such trucks haul produce to the nearest town where they are offloaded at some trader or cross-loaded onto large trucks for the long haul over several hundred kilometres to the final destination. However, in COB deals the ideal is that a truck is loaded in the village and makes the trip straight to the end-buyer where it offloads immediately and is again free. This is what transporters want: Load, run, off load at a go and get paid immediately to free the truck for the next client.

To enhance reliability of transport, the following measures can be thought about when hiring trucks on the spot-market:

- Keep a track record of transporters, and only work with those who have shown to be able to keep their commitments
- Check the mechanical status of the trucks before hiring them
- Check the drivers on whether they have all the required papers to operate the truck
- Check whether the company has the means to send a replacement truck in case of breakdown on the road

Once a transporter shows he is reliable, the following measures are interesting to explore with the transporters:

- Request for an offer for 10 trips instead of just hiring for each single trip. In case this works, such a transporter can be registered, allowing for fast and easy tracking.
- Engage in finding opportunities for return loads for the trucks
- Arrange for a schedule of pick-up and delivery. This is particularly important for repeat deals, ie. regular deliveries to processing plants (mills, food processors, etc)
- Engage in a long-term partnership with a transport company, expanding a contract from 10 trips to 50 trips per year, etc...
- Support the emergence of scheduled cargo runs, allowing bulking up smaller assignments, ie. "buy the ticket for your 12 bags on the truck stopping at the road next Tuesday 10am".
- Buy and operate your own trucks. This is not advised for network members as it creates a conflict of interest with reducing the middle costs as far as possible in order to increase the income to farmers, and therefore the commissions to the network members.

Good Practice Guidelines on Value 'Trees' for Farmers

Agriculture marketing is generally thought of in terms of "value chains" whereby a commodity starts on the farmer field and then moves along a series of actors to the final consumer. However, in most cases what actually happens is that along the way a commodity often triggers new and separate value chains that branch off from the original chain. This then looks more like a branching tree.

Examples of value trees that farmers can benefit from are:

- The simplest example is what happens with grading of vegetables: The high grades go into high-end markets, while the rejects ideally can be sold as high-quality cattle or pig feed
- Farmers typically sell paddy to rice mills. But actually after milling the rice splits into milled rice and bran (and husks, which may be profitably used for energy)
- Farmers sell sunflower seed to oil mills. But actually after milling the sunflower splits into raw oil and oil cake, while after refining the raw oil splits further into refined oil and lower grade oil for soaps, etc.
- Cotton is very interesting. Farmers sell cotton to ginneries. But actually after ginning the cotton splits into lint that goes into the spinning, while the cotton-seed goes to oil mills, which in turn splits it again into oil and oilcake. In this case it appears that often the oil-branch of cotton is more profitable than the lint-branch.

How can farmers benefit from the added value of such side-branches and therefore networks gain more commissions for itself and the network members? (Note that the network commissions are linked to what the farmers ultimately get for their produce):

- The total amount that the buyer pays becomes the total amount of what all buyers pay for all the resulting products from all branches.
- Middle costs of getting the produce from all the diverse branches to all these various buyers must be totalled up.
- The processing (ie. milling, ginning, etc) become a new additional type of middle costs

Then the same happens as usual with COB deals: Total amount that all the buyers paid for all the various products, minus total middle costs of all branches = Total amount available for calculating the commission to the network. Deduct that commission = what is due to the original sellers out in the villages.

This allows farmers to participate in the added value of what is being done to the commodity they originally sold. Processors will gladly go for this as they can then concentrate on good processing (ginning, milling) instead of also having to worry about the risks of trading.

Helping Farmers Add Value Brings Greater Profits

by
Mark Farahani³

Mark Farahani explains how KIRSEC in Kilosa, Tanzania, helped farmers to decide whether to sell their produce as paddy or to organise the milling themselves and sell it more profitably as rice; so adding value to their produce.

Registered Deal MF11-251



Raw and Polished Rice

In May 2011 KIRSEC coordinated the selling of one tonne (10 bags) of rice (clean and elongated) to buyers, Mkude Kaganda and Bakahamisi, in Kilosa. The farmers' representative was Teodor Hinda; the Transaction Security Service (TSS) agents were Juma Yahaya, in charge of the collection point and quality control, and John Mkasanga, responsible on the buyers' side. The price paid to the farmers, cash-on-the-bag, was 100,000 TZS per bag. The buyer paid a total of 1,200,000 TZS. Middle costs amounted to 11,000 TZS. The network

earned a commission of 118,900 TZS and the bonus for the farmers was 7,010 TZS per bag. Through this deal, by adding value the farmers were able to get a 32% better price for their produce. To achieve this KIRSEC used the Transaction Security Service (TSS) form to analyse the best way for the farmers to sell their produce. This is how it happened (as reported on LLL).

Should We Sell Paddy or Rice?

"KIRSEC has been together with the farmers, buyers and all agents involved, in hot debate in order to help the farmers decide which is more profitable: selling their produce as paddy or milling the paddy and selling rice. To help decide, KIRSEC investigated the milling process and costs.

According to the figures this is what we found:

- A bag of 120 kg of paddy can be sold for 70,000 TZS to the rice mill.
- The rice that is produced after milling is always about two thirds of the weight of the paddy, around 67%. (81 kg rice from 120 kg of paddy).
- The retail price of rice is 1,200 TZS per kg at the same location. 81 (kg rice) x 1,200 (retail price of rice) = 97,200 TZS
- That means that the income difference between rice and paddy is 97,200 TZS compared to 70,000 TZS.
- This makes it possible for the farmers to get 24,200 TZS more from one bag of 120 kg paddy by selling it as rice when you consider costs of about 3,000 TZS for milling 120 kg of paddy.

KIRSEC then presented the farmers with two options:

1. To bring a bag of paddy and get 70,000 TZS and walk away to do any other business they want.
2. To bring a bag of paddy and pay 3,000 TZS for the milling; then to try to find buyers for the rice and retail it for about 97,200 TZS. By doing their own retail marketing of rice they can get an additional 24,200 TZS for each bag of paddy.

³ Edited by Anne Dennig in May 2011

A Decision is Reached

Following the transparency introduced by the TSS form and the information that this uncovered, KIRSEC explained to the farmers the comparative prices of selling paddy or rice. Using this knowledge the farmers decided not to sell paddy and instead, coordinated through KIRSEC, they took their paddy to the milling machine (bearing all costs), and sold rice to the buyers. They cut out a middleman, they gained maximum profit and bonus too as the market price was high following the good quality of their rice. The rice was sold directly at the milling machine to small and medium buyers and KIRSEC took a 10% commission on the deal for their service.

KIRSEC knows that farmers want a good price for their produce but that they are in the habit of selling paddy and not thinking about adding value. KIRSEC is helping farmers to look at options to add value to their produce and improve profit margins. KIRSEC aims to work with the farmers to collect and mill enough paddy to fill a truckload (10 tonnes), so that it can be sold as rice to a bigger buyer. Of course we then need to know the price the buyer will pay and do the research on the middle costs of milling, warehousing and transport.

After closing the deal, KIRSEC (together with the farmers) went on investigating where the medium buyers sell this rice. Big volumes are collected and transported to Dar Es Salaam but they also sell some to the small retailers around Kilosa for the food kiosks, locally called "gange". Here they sell rice to consumers at 1,300 TZS per kg.

This deal has sparked a number of questions from the farmers, following the higher profit and bonus they got:

- How can this business be maintained?
- How can we mobilize ourselves and come up with one voice for change?
- Can we organize ourselves as a business group, and would we be capable to manage this ourselves?

- How many food kiosks operate in Kilosa and how many kilograms of rice are consumed per day?
- Can we organize a business group and make a contract to supply these kiosks?

KIRSEC advised those involved in the deal to call interested farmers and explore the case for discussion.

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KIRSEC's Coconut Centre, Tanzania

by
Mark Farahani⁴

Mark Farahani discusses KIRSEC'S experience with using a transit store as a necessary component to ensure a good service for both sellers and buyers for the network's deals for coconuts.



The Coconut Centre in Manzese with a market information board

The KIRSEC Coconut Centre

I promised to tell an interesting story about something that is being tested here at KIRSEC in Kilosa, Tanzania. The story concerns the idea of the need for storage to overcome some of the challenges experienced by KIRSEC and most other Transaction Security Service networks in delays to deal closing.

The Coconut Marketing Challenge

Our farming system here is diverse and varied, which means that we don't have uniform planting and harvesting. One farmer is harvesting today, another next week and others the week after, which makes sourcing for a large deal difficult. Most of the farmers don't have money for their day-to-day livelihood, despite having a coconut plot with healthy fruit. They can't wait until their coconuts are mature so they borrow money in advance for their survival. When the crop matures the traders, who have bought the crop in advance, come and harvest. It is in this situation that there has

been unfair trade as the traders easily exploit the farmers' need for cash.

KIRSEC's Model

KIRSEC's objectives are to do business through fair and transparent trade; we realized that there was a need to organize the coconut marketing around Kilosa in order to do business efficiently. Through our study and experience with past deals in chicken, coconut and maize, we realized that traders spend a lot of time going around hunting down produce (particularly in the coconut growing areas) this is very costly for them. We have therefore organised a transit store where the coconuts can be stored and sold from.

Transit Store

In Manzese, KIRSEC is experimenting with a small store for the storage of coconuts in transit. Here the coconuts can be delivered by the farmers and kept until there is sufficient produce for buyers to collect without travelling around to the individual farmers. At the transit store quality control checks can be made and produce can be packaged. At the store the buyers and sellers can also find out about the fair and transparent pricing, packaging and labelling. Through this system the network develops business trust with both sellers and buyers. The farmers are happy because the store gives them greater trust; in case of any problem they know where to come to seek advice and it's a place for time-to-time local meetings to allow us to improve business.

Finding Buyers

This is how we started. We spoke to farmers and decided on a fair price by calculating the middle costs that the network would incur and a commission for the service. Then we searched for all small and medium coconut buyers around Kilosa and those from Mikumi, Dumila, Dodoma, Msowero. We identified buyers and we offered them our marketing service. We found out the size of the coconuts required and we introduced them to our new service where buyers can receive coaching on modern marketing for a few minutes and then collect their commodity following their orders. We showed the buyers the deal

⁴ Edited by Anne Dennig in November 2011

calculations with the Transaction Security Service form, which led us to agree on the prices per nut according to size. Then we prepared a Local Purchase Order in both Swahili and English language, which we agreed with the buyers.

Quality and Size



Weighing coconuts to standardize sizing

We are very careful with the quality of the produce and have trained local agents who are experts in the grades and quality. For example we measure by using a weighing scale to standardize the sizes. The agents know that a nut less than 1 kg we term as "small", between 1 kg to 1.2 kg is "medium", and more than 2 kg is "big" (which most consumers don't prefer).

Packaging

We have also improved the packaging. Before the coconuts were packed with 250 nuts in one bag, which is too big, costly and cumbersome. Many bus transport companies don't like to take such large bags. We are now packaging coconuts starting with 10 kgs in a net for local retailing here at Kilosa and we also have packages of 100 nuts, which the bus companies are happy transporting to Morogoro or elsewhere.



Packaging for transport

Outcomes

The buyers have been happy with KIRSEC's marketing service because the prices they are charged are fair and the calculation on our costs and commission is transparent. The service helps them to save time and the quality of coconuts they receive is good.

Challenges

We are still in a learning stage and still have challenges to overcome. For this service to work well we need:

- Committed local agents
- A good safe system for sending the cash-in-hand needed for giving the farmers money in advance (cash-on-the-bag)
- Transport to go around the villages. Collecting 3000 nuts by bicycle takes time and sometimes you can't meet the agreed date for delivering the goods.
- More information boards to inform farmers of prices and demand from buyers.
- Better mobile phone communication; most of rural areas are still not connected and we have lost a number of deals just because of some members within the network were out of range of mobile signals for more than three days.
- To market sufficient volume for the local agents to earn sufficient commission to be commercially viable.
- More warehouses or stores, the rental costs of which are then calculated in our middle costs and have to be paid by the buyer to cover rent and watchmen when necessary.

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Why TSS Can Help My Business

by Beatrice Obara⁵

Beatrice Obara, the new network manager for Nairobi, Kenya, describes her experience in rural finance and trade and explains why joining the Transaction Security Service (TSS) network can help her business.



Beatrice Obara

New Network Manager

I'm Beatrice Obara, the new network manager for Nairobi. I'm a microfinance specialist now but I started my career by working with the ministry of cooperatives. I'm skilled in finance as well as in bringing farmers together in cooperative groups for social and economic purposes and registering these groups through the legal structures that allow them to trade.

Experience in Rural Finance

After the ministry I worked with Kenya Rural Enterprises Program (KREP) a USAID project helping people in rural areas who did not own land, to access credit. KREP was a pilot to find a way for rural entrepreneurs to do business and to be successful by benefiting from access to credit in order to scale up their business. KREP became the first commercial micro-finance bank in East Africa. We demonstrated that the informal sector can benefit from unsecured loans; the repayment success was 95-100%. We proved that it could work!

Innovative Financial Services

I then moved to the Gatsby Trust. They were looking for someone to pilot innovative rural financial services. They realised that not only do the farmers and producers need loans but beyond that they need market access. I worked for them looking for financial products, which would suit market access within our Kenyan system. We came up with three basic products to help rural entrepreneurs:

- Invoice discounting: A process where a commissioned agent takes over a buyers' invoice and pays producers in order to avoid payment delays and supply stoppages.
- Leasing: For equipment, machinery, etc.
- Loans: To help with transport of produce and post-harvest handling, storage, etc.

Invoice Discounting to "Smooth" Trade

We found that agricultural value chains can benefit from invoice discounting. A buyer who processes and packages needs time before he can get cash to pay the farmers. This gap in the flow of cash leads to a blockage in trade. Therefore some arrangement is needed to fill this gap and to run this solution as a business. I believe that this is one key thing, which is required in the rural sector to enable trade to run smoothly.

After the Gatsby project ended I started my own company La Roschel D'deby Enterprises Ltd, a factoring house, the first one of its kind here. A factoring house pays the suppliers, taking on the invoice from the buyers; it's a middle payment system between the buyers and the farmers.

Finding Similar Ideas in COB

When I met Clive Lightfoot I found that the TSS cash-on-the-bag financing (COB) is trying to solve this same financial challenge in rural trade. The COB is trying to release the pressure on the buyers and traders so that they are able to turn over more deals and thus give more business to the farmers. The difference between COB and my business is that COB uses a Transaction Security Service where all those involved in

⁵ Edited by Anne Dennig in November 2011

the transaction (even the smallest farmer) benefit from it. Whereas what I was doing with the KREP program and in my business was just helping the trader. But the TSS/COB system helps the farmers with a fair price and can send a bonus back to farmers and through this we can build customer loyalty for our clients.

There is much to do on the ground to improve the relationship between traders and farmers so that the farmers have more security in their market access and know that their products will be bought. Customer loyalty through fair prices and repeat deals will help with this challenge.

How TSS/COB Can Help my Business

My company is in its third year now. Using TSS/COB will help my business in three main ways:

1. I lack finance to scale-up my business. My funds are used up if I have three loads of cotton at the same time. I need access to finance to increase the trade, and I can do more deals if I am within the TSS and can use the cash-on-the-bag financing.
2. The difference in working with TSS is in terms of farmer satisfaction and loyalty on the ground. The TSS achieves fairer prices for farmers and also bonuses. This gives me confidence to enter into a contract with a buyer because if you have loyalty with the farmers you can be sure of produce. If you have contracts with farmers and buyers then you can have a regular business at larger scale.
3. I find strength in our network of TSS agents in the region. In addition to useful Kenyan network contacts, Tanzania and Uganda produce many products that come to Nairobi. So those country networks will help me to have more products that we can trade in.

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Buyers Default on Agreement

By Jacinta Namubiru⁶



Jacinta Namubiru, Network Manager for AgriNet explains what she has learned from a failed deal with SEBA Foods, Tororo.

Registered Deal JN11-226

The buyer for this maize deal was SEBA Foods, Tororo. The agents managing the collection points were Josephine Nakanwagi in Sironko and Stella Imot in Dokolo. The requirement was for clean, dry maize. The collection and delivery were in August 2011. The agreements made on the TSS form included the amount to be paid by buyer on delivery: UGX 15,000,000/ and the price to farmers: UGX 12,312,000/ or per bag: UGX 61,560/.

Reporting on LLL in August

“Yesterday, I was supposed to deliver 20 tons of maize to SEBA foods as we had agreed. But on reaching with my truck, the manager of SEBA, refused to pay the UGX 750/ per Kg cash, as we had agreed by word of mouth, but instead he insisted to pay the prevailing market price of the day, UGX 570/. I disagreed because this new price meant a total loss to my business. I refused to offload the maize and took it to Agrifeeds where I have put it in the stores until the prices increase. I’m contacting other buyers in Busia market and Mbale but the price is still very low compared to what I paid the farmers as cash-on-the-bag (COB). I will try to contract a lawyer tomorrow for advice. I am feeling pressures that are rising after every hour, given that the days of my financing agreement for COB are expiring on 12th August 2011.”

Advice and Worries

I was advised to use a lawyer to sort out the problem with SEBA changing the agreed price; but this was impossible as no paperwork was given to me by SEBA. They

do not issue Local Purchase Order (LPO) agreements. I was also advised to auction the maize immediately but thinking that prices would go up soon I did not. When I couldn’t repay the COB finance I felt pressure, the prices kept on dropping day and night so I couldn’t sell. I was desperate and I couldn’t do any more deals because I hadn’t paid back the finance. Then I started selling the maize in small amounts of three tons, two tons, even half a ton, to the small millers in Tororo and to small traders.

Looking Back and Learning

I was worried by the losses I was making on the maize but keeping hold of it has made more losses. It is now November and I have just ten tons left. I now need to sell the rest through an auction or I can try to reopen my negotiations with SEBA. Driving away the truck certainly gave SEBA a shock – they thought that I would compromise, so I don’t think that they will play that game again with me. I hope that with a new manager coming in they will be starting a proper system of LPOs so I think it’s time to reopen negotiations. I have a network of TSS agents that can supply large quantities of maize and soya.

December: I have met the SEBA foods manager and he has promised to give me LPOs for soya beans and maize this week. So we can start to do deals on a TSS basis.

From this experience I have learned:

- Never to do business unless the buyer issues their own LPO. Otherwise you have no chance to get legal help.
- Never cling on to the commodity in hope of price rises – rather sell immediately and make your losses there and then and move on to another deal. You make more losses on storage, re-drying, treating for weevils and re-bagging.

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Dealing with Price Fluctuations and Buyer-Seller Contracts

by Paul Nyende⁷

Paul Nyende, Managing Director of AgriNet, shares his experience and advice on fluctuating market prices and buyers defaulting on Local Purchase Order agreements.

Registered Deal PN11-271 is Delayed



Collecting and drying maize in Kamuli

We had a buyer, Agroways in Jinja, for 30 tons of maize in July 2011. We collected and bulked the maize in Kamuli for six to ten days after we had received the cash-on-the-bag financing (COB). The reason for the long period of collection and bulking was that the buyer insisted on quality “clean, dry, white maize” and the farmers brought in “wet crop”. Therefore we had to make the farmers re-dry their crop. This delayed delivery because there was not enough sunshine to dry the crop.

Market Prices Fall

In the meantime, the maize prices fluctuated drastically. We were ready to deliver all the tonnage on Friday 5th August. On reaching Agroways, there were many trucks packed at the warehouse waiting to be offloaded, and the buyer was reluctant to take our crop. The buyer told us that the market price was now lower by UGX 150/ per Kg and offered a new price of UGX 450/ instead of the UGX 600/ that we had agreed upon in the Local Purchase Order (LPO). He gave us a condition to either take that lower price or to sell our maize elsewhere. We were faced with the dilemma of the buyer not honoring the LPO, which his representative had signed. The Agroways’ representative acted

in error, according to his boss, who says that he pays “the days’ price” and NOT the price agreed when the LPO was signed. We seem to have been misled on this point by the Agroways’ representative. We decided not to sell at a loss and to hold onto the crop. Our plan B was to wait and sell it to any buyer when the price went up. Fortunately, we managed to sell some of it to the very buyer who had let us down, this time he paid a cheque on delivery and some of it was sold to another trader who paid cash. We have about 1,500 Kg remaining to sell; so far we have returned UGX 11,960,000/ of the total COB financing of UGX 13,000,000/. If we can sell the remaining produce for around UGX 700/ per Kg then we will have paid all the financing, but there will not be any significant commissions for the network members.

What can we learn here?

- The TSS agent is responsible for making sure the farmers understand the requirements and do not tell us they have the crop when it is not up to quality standards, and in this case do not bring a wet crop to the collection point.
- Risks that cannot be avoided, such as rain that prevents farmers drying their crops or rain that prevents trucks from reaching collection points, should be addressed in our terms and conditions in the LPO. We need to recognise these risks and make arrangements to deal with them. This should include changes in middle costs (i.e. for commercial drying) and perhaps even price.
- Let’s be careful, even when a buyer gives an LPO, because he may well change his agreement or default. Therefore we need to have standby legal advice in case of default on an agreement, a lawyer to advise or take up the matter.
- Always have a plan B and in this case auction would have been a better option than staying with the commodity for over a month, unsure if the price would ever increase significantly.

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⁷ Edited by Anne Dennig in November 2011

A Growing Network and Plans for Better Business

by Bahat Tweve⁸



Bahat Tweve, with members of his Tanzanian network working on TSS

Bahat Tweve, Network Manager for the Southern Highlands of Tanzania, describes the development of his Transaction Security Service (TSS) network and the potential of his network for regular deals throughout the year.

TSS Network Areas in Tanzania

I have been expanding my network to source produce in the following places:

- Kasanga ward: Ihomasa and Igowole (maize, beans, timber and round potatoes)
- Kiyowela ward: Magunguli and Makungu (maize, beans, timber and round potatoes)
- Njombe region: (timber, maize, round potatoes and beans)
- Iringa town and east to Ruaha and Mbuyonu (onions and sunflower)
- Mbeya region: Uyole, Mbalizi, Mlowo, Itaka (maize, beans, groundnuts, finger millet, simsim, yams, bananas, round potatoes, sweet potatoes, coffee and tea, timber and soya beans)
- Songea town, Madaba (maize, beans, sweet potatoes); Namabengo (soya beans) and Namtumbo (beans and finger millet)

⁸ Edited by Anne Dennig in November 2011

TSS Training and a New Agent

We have a newcomer to our network: Brighton Valonge. He is based in Njombe and was in charge of the sellers' side in our last potato deal. Seven of my TSS agents were trained at the Traidcraft Training where George Williams also trained me as a trainer for TSS. I then went on to Uganda to take part in the training and exchange there with TSS agents and Network Managers. Our TSS agents who were trained were:

- Thadey Mwakaguo - Songea
- Thomas Mbedule - Igowole
- Aurelia Mlelwa - Ihomasa
- Jane Mgina - Makambako
- Pasco Kisavah - Dar Es Salaam
- Batister Kidehele - Mbingu
- Rodeni Muhewa - Ugesa
- Edina Kasule - Mbalizi
- Shukuru Nelson Mwashoma - Mbozi
- Stella Anyitike - Uyole
- Anyelwisye-Itaka - Mlowo
- Eliasi Nyetella - Tunduma

I have plans to expand the network further to Magugu where there is plenty of rice. I am also expanding up to Sumbawanga and Rukwa. I want to make sure that I cover the big five most important production regions in Tanzania: Rukwa, Songea, Iringa, Mbeya and Njombe.

Regular Deals All Year Round

At present I am not getting enough commission because I am not doing enough deals. I want to be able to earn commission up to one million TSH per month. So to do this I need to do one deal every day and to do this I am finding and training more TSS agents. I am concentrating on potatoes, maize, beans and timber. We have to think about products that we can supply all year. It is possible for timber and potatoes to be supplied all year if I source from different areas.

Challenges with Maize Deals

I'm interested in maize but this is something that the government can ban us from exporting because of protection of the country for food security. With maize, rice and all cereal crops the government

sometimes stops cross-border trade and this effects the price – some of our maize would go to Zambia or through Kenya to Sudan. From Mbeya the maize would go to Zambia and Congo or sending maize to Moshi would be sending it to Kenya, Somalia, Ethiopia and Southern Sudan. We were linking to the buyers and when the borders were open the prices were competitive with better prices for farmers but when they were closed they were not.

A New Market; The Comoros Islands

The Comoros Islands depend on Tanzania for most of their food. The only thing that they grow is vanilla. We have had various meetings with buyers from the Comoros Island. We invited them to visit Makambako in the Southern Highlands so that they could see our produce and also appreciate the distance this produce has to travel to Dar es Salaam and then onward to the Comoros Islands. It was a good and successful meeting and they have started placing orders for potatoes and onions. I am doing a private deal first, sending 10 tons of onions and 20 tons of potatoes. If this goes well we will do a TSS deal with cash-on-the-bag financing (COB). The crops have arrived but we have not yet received payment.

Timber Deals

I am planning to deal in timber; this pays well because it is high volume and high value. It needs a big COB but pays a big commission. I want to have a regular timber deal each week. This means I will need to pay 21-22 million TSH per truckload of timber. This would go to Dar es Salaam where buyers pay 24-25 million TSH cash on delivery. I have identified buyers and I already have a Local Purchase Order. The transport charge is two million which we have added into the 21 million needed for the deal. A big semi-trailer will take 50-60 cubic metres of timber.



Circular saw operators in Magunguli

Learning with Every Deal

My network is continuing to grow and with a wider network we'll be able to source a variety of produce throughout the year. We still have many challenges but we are learning with every deal, that is how we are improving our business.



Bahat Tweve supervising the collection of potatoes in the Southern Highlands, Tanzania

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Cash Flow Challenges Affect Bonde Soko Network

By Moses Gichuru⁹

Moses Gichuru explains the cash flow difficulties of one of the processors he supplies, and the knock-on effect of this to Bonde Soko and the TSS Network.



Moses Gichuru with Lucy Ndungu at the mill

Supply of Cassava and Sorghum

Bonde Soko has been sourcing cassava and sorghum for Levar Millers. Lucy Ndungu is the owner of the Levar, which produces Juhudi flour, a porridge mix. Bonde Soko has supplied Lucy with approximately 90 tons of cassava and 30 tons of sorghum this year (2011). Whilst Lucy is very happy with the quality of the produce supplied she has some challenges in terms of the speed of payment for the delivery, which of course includes our middle costs and commissions.

Cash Flow Problems



Like many other processors, Lucy suffers from a cash flow problem. At times, Lucy stops milling until she has money to buy more produce. Her mill lies idle and production stops. Ideally, Lucy

wants to have a regular supply of produce to keep her business going throughout the year and her machinery in full-time use.

Waiting for Supermarkets to Pay



Levar Miller's Packaging Store, Nakuru

Lucy's cash flow problem starts with the supermarkets; when she sells her flour to them she has to wait for around four weeks for payment. It is therefore difficult for her to pay Bonde Soko promptly when we deliver the raw materials. But we have to pay the farmers cash-on-the-bag (COB) and the transporters also want money immediately.

At the moment Lucy gives Bonde Soko a cheque that is post-dated by two weeks, but she would prefer to pay after three weeks. We need to pay back our COB finance within two weeks, so this makes for a very tight turn around that Levar struggles to service. When a buyer delays, Bonde Soko pays fees on the COB finance and the longer we take to repay the more we have to pay. Another consequence is that COB money is not available for other managers in the TSS network to do their deals.

The Late Payment Challenge

At our meeting of the Kenyan Network Managers in November we discussed these slow payment difficulties. It's not just the millers who have cash flow problems and have difficulties to pay within a two-week time frame. One idea to deal with this is to have a memorandum of understanding with the buyers, which stipulates that they pay 1% per week of the COB finance in case of late payment.

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⁹ Edited by Anne Dennig in November 2011

New TSS Links Between Nakuru and Nyanza

By Moses Gichuru¹⁰

Moses Gichuru, Network Manager of Bonde Soko, explains how through the TSS network he has made new links in Nyanza to source cassava, cottonseed cake and rice germ for his buyers in Nakuru.

New Marketing Links with Nyanza

To supply Juhudi, Kemwa and other porridge flour producers in Nakuru, I need to source 50 tons of cassava flour per week. Some of this comes from Uganda from our Soroti Network but I have been looking at some additional areas within Kenya to meet this demand. We have decided to open up new marketing links within our Kenyan networks. Beatrice Obara is a new Network Manager and has an extensive network in Nyanza. One of the crops that her network can supply is cassava and in November 2011 we made a trip to establish links there.

Marketing Help Needed

George Otiep, Homa Bay



George Otiep is our cassava contact in Homa Bay. He works for the Catholic Diocese and he promotes cassava and groundnuts with

support from NGOs. The cassava variety that they have promoted is resistant to disease and early maturing. It has been tested using demonstration sites and the farmers are now producing on a large scale. The variety is drought tolerant and each farmer has a minimum of one acre while the majority cultivates four acres.

The farmers are now growing cassava in 12 districts so the production side is going well, but George like many others involved in production projects, would like help with marketing. 20 producer marketing groups are already established to market together and the program can mobilize the cassava

from small stores into one collection centre. The cassava is chipped and dried but the moisture content has not been measured. Each of the 20 centres can produce 100 bags per week all year round.

Value Addition by Homa Bay TSS Agent

Lencer Ouko



Our buyers, Juhudi and Kemwa, want ground cassava; so the chips should be milled before collection. This value addition can be organised in Homa Bay

by Beatrice's TSS agent Lencer Ouko. This will come as a middle cost together with transport to Nakuru. We explained to George that Bonde Soko's marketing service is transparent; we want him to have the prices from other buyers so that he will know that we are competitive on price. We will show him all the middle costs and the charge we make for our commission. We look forward to this new market.



More Links with Nyanza

Tour of The Lake Basin Development Rice Mill

Bonde Soko also needs to source rice germ and cottonseed cake for the animal feed market in Nakuru. During our visit to Nyanza we met rice and cotton producers from Beatrice's TSS network. I am now linking to her network to organize the supply of rice germ from the Lake Basin Development Company and cottonseed cake from the Makueni ginnery.

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¹⁰ Edited by Anne Dennig in November 2011

Tough Lessons Learned from a Maize Deal from Dokolo

By Paul Nyende¹¹

Paul Nyende, Managing Director of AgriNet, describes the challenges faced in attempting to keep Transaction Security Service (TSS) promises to buyers and sellers in a cross-border deal that has led to more learning on deal making and procedures.

Registered Deal PN11-2125

This deal, which I coordinated, was planned for maize sourced from Dokolo, Uganda to be sent to Mombasa Millers Ltd, Kenya. The amount required by the buyer was 30 tonnes (300 bags) of maize. The TSS agents were Tonny Ogwal on the sellers' side and Fred Ekwebit and Beatrice Obara on the buyers' side. The deal was authorized on Thursday 27th October 2011, with cash-on-the-bag (COB) finance advanced for executing the deal. Then the following events occurred: on Thursday 27th October I travelled to Dokolo to verify the quality and quantity of the maize at the collection points, before paying the COB money to the TSS agent to pay the farmers. Fred Ekwebit followed the next day to Dokolo, to accompany the truck from Dokolo to Mombasa.



Maize bulked in Dokolo

On reaching, the collection points, I found that the quantity we needed was available but the quality could not meet the requirements of the buyer. Sampling, cleaning and re-weighing was then done,

bag-by-bag, this took almost two days in order to get enough maize to transport (20 tonnes).

Bad Weather and Transport Trouble



Paul Nyende's 4 x 4 pickup truck is stuck taking maize to the main road

In the meantime, it started raining so heavily that the roads became impassable. Attempts to get trucks to the village collection points became futile, with truck drivers demanding up to three times the normal transport charges. After two days rain, finding a truck became too difficult and the deal to Mombasa became impossible to fulfil in the required time.

In this desperate situation, I decided to use my small 4x4 pickup to ferry the 200 bags to a close and safe location that big trucks could reach; but I still got stuck at least twice on each of the 20 trips that I made. Then there was the damage to my vehicle and to the bags during offloading and reloading; waste through spillage; labour for loading and offloading and pushing the car whenever we got stuck on the road.

It took me three days to get the 200 bags to the main roadside. Fred and I then waited for returning trucks coming from Sudan, Lira or Gulu, to load the 20 tonnes of maize for Mombasa. For three days we could not find a lorry willing to take the load or those who would take the load demanded three times the normal charges.

We again had to make a decision whether to continue losing time or money or both by waiting for a cheaper truck. Other costs we had to incur included: temporary storage on the roadside stores; security for keeping the goods; brokers of transporters; lodging and extra fuel for my pickup and repairs.

¹¹ Edited by Anne Dennig in November 2011

Finding a Truck to Busia

Finally we got a truck that carried 20 tonnes and we moved with the maize to Busia, Uganda. We then realized that we could sell the maize in Busia at a fair price rather than continuing to transport it to Mombasa, so we had to sell the maize there through a broker in the Busia Produce Market. The role of the broker is to find the best buyer, negotiate price and sell off the commodity for a commission. She sold the maize for KSH 28/ per kg, and then exchanged the money into UGX at a rate of 1 KSH : 26/. This exchange rate was not very good, yet the best we could get at that time. This meant that we had to lose some money through currency exchange. We decided to do a repeat deal immediately since the farmers had more maize to sell and the buyers also expressed that they would take the maize if it came in quickly. We also thought that by repeating the deal it would help us offset the losses we had made.

Learning from Experience

With the experience from the previous deal we got the maize from the farmers to the Busia market within four days. This time the farmers had re-cleaned their maize, we started booking the transport much earlier and we used a smaller truck to ferry the maize to a safe location where large trucks could reach.

Collapse of Price and Confidence

On reaching Busia market, the broker told us that the prices had collapsed drastically the previous day by two Kenyan shillings; this was the final blow to this deal. We only managed to sell the maize, recover the COB finance advanced and take off all costs except the costs for my vehicle repair (for which I had to eat into my own business profits). This experience made me start being fearful in engaging in more deals. Many of the network managers also attest to this experience and fear, and this explains the low levels of deals executed in Uganda despite availability of the COB finance.

Challenges Faced

1. TSS agents on the sourcing side did not anticipate: the poor roads (due to rain); the rise in the transport costs and the

difficulty of finding transport without prior booking.

2. The quality of the maize according to the farmers and TSS agent was satisfactory; but on verification by the deal coordinator, it was not. We held two different positions on quality but in the end the buyer is right.
3. Farmers changed the price at the last minute before pick up, saying that they had got information that prices had increased elsewhere. They refused to give up the produce, so we were forced to renegotiate because we could not go back empty handed and ended up paying UGX 30/ more per kg. Could we have refused to add on the price the farmers wanted? I think yes, we could have got the same quality of maize from the middlemen at a similar price. But the business model to source from farmers ties us, and we wanted to pull off a successful deal with this group and our TSS agent whom we had trained through AT Uganda, a local NGO partner. Pulling out and disagreeing would have sent the wrong signal and damaged the relationship established with the farmers.
4. The Busia market is always open for any buyer and seller, however, it has many dynamic forces such as price fluctuations, currency exchange rates and broker tactics, to mention but a few. All these have to be learned and taken care of before selling or buying in this market.

The Future

Despite all these mishaps, we are optimistic and full of hope that we will succeed with deals of this kind. We have now analyzed the deal financially and established that we did not make a profit from this deal, i.e. no commissions were made, but we managed to pay back the COB finance. Was it worth it? Yes, for the lessons learned.

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Growing a Marketing Network for Pastoralists

by Wilson Ilanet¹²

Wilson Ilanet shares his story concerning growing his new network of Transaction Security Service (TSS) agents in Kajiado County, Transmara, Narok and Northern Tanzania.



Wilson Ilanet Network Manager at Kiserian Market

The Indigenous Maasai Marketing Centre

My TSS network company, The Indigenous Maasai Marketing Centre, is based in Kiserian.



Left to Right - Wilson Ilanet, Moses Rereu, Elizabeth Penori, Elizabeth Kaitei, Emmanuel Kimer, Peninah Lasoi

Building a Maasai Marketing Network

Over the last two months, I've visited several producers groups. These groups included youths, women, families and also the self-help groups in Kajiado County,

¹² Edited by Anne Dennig in November 2011

Transmara, Narok and along the Tanzania, Kenya border. I managed to access these groups through CBOs, NGOs, and some government offices, to advertise our TSS services to the producer pastoralists. I informed them that our network is a link to a better market, prices and payment modalities, with transparency and secured transactions. This was a very expensive and hard activity but thankfully I was able to discuss with thirteen groups from these locations and identified some people to work with as network TSS Agents:

Harrison Supeyo – secretary

Moses Rereu TSS agent

Sultan Hamud TSS agent

Maria Sisina- Kajiado Bissill TSS agent

Moses Kutano- Kitengela TSS agent

Elizabeth Penori- Isinya TSS agent

Elizabeth Kaitei –Kipeto, Oloirien TSS agent

Peninah Lasoi- Narok, Suswa TSS agent

Light at the End of the Tunnel

What came to my attention in these locations is that there had been CBO, NGO and even government initiatives but none of them had ever taken a step towards the marketing of the producers' products. Therefore this opportunity enabled me to tell them that at last there's light at the end of the tunnel through fair and secured trade with us.

Identifying Challenges and Solutions

The marketing challenges the Maasai face and some solutions through TSS:

1. Markets for big livestock volumes
 - ✓ We are negotiating with the big buyers who we think have the potential to buy our products i.e. KMC and Farmers' Choice.
2. Finance to pay sellers on collection
 - ✓ We already have the TSS cash-on-the-bag (COB) finance but still we are discussing with other financial institutions for loans, as the COB is a revolving fund that should be refunded before 14 days, which is not always possible. In the livestock industry the COB may be a little bit hectic as the market dynamics/prices may change overnight depending on the supply

and demand; therefore to safeguard from taking the COB loan and failing to return it in due time we need to negotiate with other sources that can give funds over a longer period.

3. Market cartels
 - ✓ We are working directly with buyers to avoid the cartels, brokers and other middle costs that negatively affect our trading.
4. Quality specifications of livestock required in the market
 - ✓ We will be visiting these groups before sourcing, to be realistic and clear on the quality specifications of livestock they will be selling.



TSS Kajiado (left to right) -Wilson Ilanet, Simon Matura, Emmanuel Kimer

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Two Tricky Cattle Deals

by Wilson Ilanet¹³

Wilson Ilanet, network manager of The Indigenous Maasai Marketing Centre, explains how late payment by buyers on two cattle deals has left him in debt.



Wilson Ilanet

Registered Deal WI-11-282

We bought 10 bulls in Kajiado and sold them to two buyers in Kiserian. One, a trader, paid on time but the other, a hotel manager, paid with a cheque post-dated by 14 days which then failed. We involved the Police and we are still following up the payment. I had used the cash-on-the-bag finance (COB) from Pride Africa to pay for the cattle on collection and so to pay back the loan I sold my own cattle. Therefore the deal has been finalized because I used my own money to pay it back.

Registered Deal WI-11-2106

The next deal was for castrated bulls sourced in Suswa for the Kiserian market. We bought 20 bullocks in Suswa when there was demand in the market in Kiserian. We managed to sell ten bullocks in the first week and there was only a delay of one week for payment which I put into the Pride Africa account. In the second week the market dynamic had changed so I kept the 10 bullocks on the pasture and took buyers to my home to auction there. I was able to sell the remaining 10 bulls to a trader who supplied them to Kenya Meat Company (KMC) as per the local purchase order he had. He did not pay for the bulls immediately but will pay once he is paid by

KMC. I sold these bulls to this trader because he had offered me the price of KES 30,000/ each. I sold them on credit because these bulls were growing thinner and thinner every day since they were from a farm with plenty of grass and now were feeding on little and scattered grass with my cows. The previous prices I had been offered by other buyers who visited the farm were KES 25,000/ each so I think I was able to secure the best price. I did not also want to risk selling the bulls to KMC myself because as time passed the animals had reduced in weight and delay might have led to bigger losses. However, I have not yet received payment from the trader.

Conclusions on Late Payment

These cattle deals have been a big stress to me and I am working on some issues to make my Transaction Security Service (TSS) deals successful and profitable. I am going to raise some capital for my network, which we can use as a security fund to repay the COB in situations like this. I know that my network cannot do the deals in my deal plan unless we return the last COB requested. **Our main challenge is the late payment from the buyers' side.** Buyers have twice failed to pay in the time I expected; with the post-dated cheque which failed, and the other buyer who still has to pay for the 10 cattle he took to KMC. When I use COB finance and buyers don't pay in time, I have to pay interest on this financing and then I don't make any money or worse still I am in debt. On the positive side I have really gained experience through with the TSS system. I registered these TSS deals through Pride Africa, I sourced the cattle and paid the pastoralists, I negotiated with buyers and built trust with sellers. In fact, in the deal of the first 10 bulls there was not enough COB to pay for all the bulls and I was given one on trust, which I paid for later. Through using my new and growing network of TSS agents, the training we've had and our links to farmer groups, I think that it will be possible to do better business.

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¹³ Edited by Anne Dennig in November 2011

Business Unusual; a Deal from Rural Tanzania to Dar Es Salaam

By Bahat Tweve¹⁴

Bahat Tweve takes us through the stages of a potato deal from the farmers in Magunguli to buyers in Dar es Salaam and suggests some solutions to the challenges he faces.



Cash-on-the-bag payment

Registered Potato deal BT11- 2126

In November 2011 the Southern Highlands' Network organised a potato deal for the farmers in Magunguli. Ueli Scheuermeier and Geoffrey Livingstone followed the transaction as observers, to better understand the stages of the deal and the challenges we face in providing our Transaction Security Service (TSS). They came to meet our farmers in the field to see the collection of the potatoes and then tracked the produce as it was transported from Magunguli to Dar Es Salaam to the various buyers.

Necessary Communication for Deals

Communication is a challenge in rural areas, but essential in organising deals. I have a solar panel to charge my telephone and computer and a modem to connect me with the Internet. I get the strongest signal for my modem from my outdoor office (see photo). I use the Internet to register my deals on LLL and to get the clearance to move funds from the cash-on-the-bag financing to service my network deals. My mobile phones are my way to communicate with my TSS agents. I have to be in touch with my agents responsible for the sellers and buyers.



Bahati in his outdoor office with Geoffrey Livingstone

Money Transaction and Deal Arrangements

Once my deal is registered and the cash-on-the-bag (COB) finance cleared I take out the cash that I need to pay the farmers and the middle costs. To do this I usually have to wait in a queue at the bank. This time I waited for two and a half hours at the NMB bank in Makambako. Then I travelled with this cash to the farmers, which is always a risk.

I sourced the crop from farmers in Magunguli with my new TSS agent Brighton Valonge while my TSS agent Pasco Kisara was finding buyers in Dar es Salaam. I trained Brighton on grading and tagging and farmer payments, using the prices calculated in the TSS form. We had many different buyers, the chip sellers in Dar es Salaam and some other small buyers on our route. It was a double-loop deal, which means that we were picking up potatoes at several points and delivering them in different places to various buyers. We paid the farmers cash-on-the-bag on collection and collected cash payments on delivery with the buyers.

Harvesting Grading, Bagging and the Weather

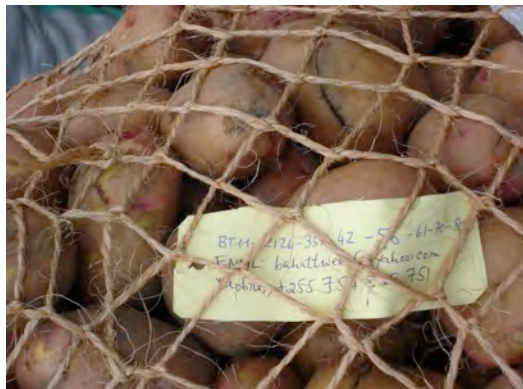
If it had rained when the farmers were digging the potatoes the deal would have been cancelled as wet potatoes will rot easily and the roads would have been impassable. Brayton was worried about this and held up the transporter when it looked like rain and therefore we lost five to six hours of loading time. The grading is done in the harvesting area; the potatoes are put into certain buckets grading those of correct size for the deal. The potatoes are then

¹⁴ Edited by Anne Dennig in November 2011

bagged and taken to a picking up point. Four farmers were involved in this deal supplying from 10 to 31 bags each. Without a shelter for the bags rain is a problem and we were lucky that it did not rain during harvest, bagging or collection.

Estimating Weight and Tagging

We have no weighing scales so we have to use bags to estimate the weight of potatoes. 75 bags of potatoes = approximately 10 tonnes.



Tagged potatoes with farmer codes and contacts

Writing out 75 tags with the tracking system and my contacts took a long time, but these were necessary in case of any disagreement with the quality. A phone call came through after one drop off to say the potatoes were of good quality and with a request for another order. Our TSS agent in the market said that the buyers in the market reacted positively to the tags.

Getting the Truck to Collection Points



Ueli and Geoffrey with farmers at a collection point

The Fuso (10 tonne truck) came to two of the collection points. The other two loads had to be taken by tractor to the truck. It is difficult to find a place to collect and load a 10 tonne truck. In getting to the farms our

lorry burned out its clutch and that had to be replaced before we could proceed to Dar es Salaam. Mechanical Problems with trucks are frequent.

Loading the Bags onto the Truck

Handling bags of potatoes is hard. It takes three men to put one bag of 120-130 kgs onto a truck.



Three men hauled each bag into the truck

Most buyers were happy with the quality of the potatoes but there is always some spoilage when using such large bags.

Seller TSS Agent Travels

Brayton, the TSS agent responsible for the sellers' side, had to accompany the trip as it was a double-loop trip and the transporter needed to know where to drop off the potatoes. This was an added expense, which we can't afford all the time.

Delays Affect Sales



The last pick up in the dark

Because of the uncertain weather and the clutch repair we were delayed by 12 hours. We dropped off only four bags on the way because we were travelling in the night past the roadside buyers and therefore had to take most of the produce to the chip sellers in Dar es Salaam outside the market.

Selling Challenges and Solutions

We want to sell as directly as possible to the end users. We sell our potatoes to the chip sellers who sell chips on the streets to the consumers but we hadn't lined up all the buyers and at that time the prices were fluctuating in the market. The margins were tight, which hit the commissions and bonus but we had no problems with the buyers; they stuck with the prices agreed. If the buyers don't pay cash we have to keep hold of the produce, which can be a problem. But in this deal only six bags were left over and these were taken to the market to be sold, we try to avoid this because of the CESS tax. Left over produce can be a major problem with nowhere to store it and the transporters' time to be paid for whilst buyers are found.

Collecting Cash and Depositing it at the Bank

The buyers didn't have advance notice of our delayed arrival so one buyer didn't have any money when we delivered and so we had to leave one agent to collect the cash later. Once again there was a delay at the bank and Pasco and Brighton had to queue in Dar es Salaam for four hours to pay in the cash from the buyers at NMB Dar.



TSS agents working with Bahati on the final deal calculations

How to Improve our Service:

The network earned commission for this deal and the sellers and buyers were happy with our service. This was the first of a number of repeat deals, which will get easier as we improve our business. These are some of our ideas for an improved system:

1. A Sellers' Collection Point

A solution to collection point difficulties would be a warehouse at a central collection point, accessible to a 10 tonne truck, which would serve around three villages. This collection point would be the place for:

- Small loads to be bulked and kept covered.
- A tractor to be kept to pick up the produce from farms.
- Grading, weighing, packing and tagging.
- Payment through an Mpesa point to enable farmers to receive a cashless payment and so reduce risk.
- An office for communication with the TSS network and LLL mentors through an Internet connection and with a printer for printing tracking labels, TSS forms etc.

2. Improved Transportation

- A TSS network transporter or a regular relationship with a reliable transport company with well-maintained vehicles, spare parts for emergency repairs and who could be given some responsibility on the deliveries.
- Insurance to cover the goods when they are in transit.
- Crates for transport of potatoes rather than large sacks. In this timber area and it could be useful employment for young people to make the crates from off-cuts.

3. A Selling Centre

It is difficult to keep a transporter waiting and to off-load and then on-load the produce if the buyer does not have the cash when we arrive at their stall. A dropping off and selling centre outside the market in Dar es Salaam would be a place where people could come to buy and there could be a continuous supply of produce (potatoes, beans and maize) fed by regular weekly supply from the network.

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Nyanza TSS Network Works with The Lake Basin Development Company on Marketing Challenges

By Beatrice Obara¹⁵

Beatrice Obara, CEO of La Roschel D'deby Enterprises Ltd explains her plans to link the rice farmers in Nyanza to the market through her Transaction Security Service (TSS) Network using cash-on-the-bag (COB) financing from Pride Africa (PA).



Paddy fields in The Lake Basin Area, Nyanza

The Promotion of Rice Production

The area of rice production in the Lake Basin, Nyanza is around 30,000 hectares. Farmers here have had support from NGOs and FAO to grow rice more productively by using new varieties, better planting techniques and an improved irrigation system. It is now three years since the farmers have changed their farming methods. In that time the production per acre has increased from 3 – 30 bags of rice. The groups are planting sequentially so harvesting in the area will be three times during the year. There are still challenges: one is storage as there are few stores available for the farmers; another challenge is too much rain, flooding from the river can be a problem but better water channelling supported by NGOs has helped with this; marketing is another challenge for these farming groups. **My network has been**

asked to help with this marketing challenge through our TSS system.



The crop production officer for FAO, Beatrice Obara and Clive Lightfoot speak to rice farming groups in the Lake Basin area

Speaking to the Rice Farmers

Beatrice's advice to the farmers:

"I am here to help you link to the market. The main crops that I market are cotton and rice but we want to have stores to collect your produce all year round. For marketing, accessibility is key and the bulking of sufficient quantity and quality of the crops. We will not leave you in the cold. We already have farmers' cooperatives so let's sell together. There will be no problems if you supply quality produce. We will sign a contract and we will be transparent with costs; we want you to get better value by missing out the middlemen. We want to provide a service related to real costs for market linkage. We need farmers to be disciplined and to provide us with quality produce. We will be fair and transparent; you will see the prices and can decide if you want to sell through our service."

A Buyer Needing the TSS Network



¹⁵ Interviewed and Edited by Anne Dennig in November 2011

Discussion on rice marketing (left to right)Fred Ekwebit (TSS Agent in Busia), Onyango Sylverius (LBDA) , Clive Lightfoot (PA) and Beatrice Obara (Network Manager)

The Lake Basin Development Authority (LBDA) is a big buyer and a promoter of rice growing in this area. At LBDA there are six stores with 350 tonnes of storage space. But their challenge is that they are only working at around 30% capacity. Per month they process 450 tonnes of paddy but they could produce much more if they had access to it. After meeting the farmers' groups we went to see this potential buyer for their paddy. We met the rice procurement officer for LBDA, Onyango Sylverius, who explained the problem he has linking with the farmers to procure enough paddy for the LBDA mill.



Beatrice and Onyango in the LBDA stores

Ugandan Brokers using Rigged Scales

One reason for the difficulty in obtaining paddy for the mill is because Ugandan brokers have been paying cash for wet paddy directly from the farms and taking it across the border to be used for local beer making. The farmers sell for cash at what they think are good prices. However the scales that the brokers are using are rigged and the farmers are being exploited.

LBDA wants the farmers to learn to do good post-harvest handling on tarpaulins to dry their paddy and to do good quality control with bags, which are tagged accordingly. But LBDA cannot pay the farmers cash for their paddy, the organisation is bureaucratic and has certain formalities for payment.

Cash Payments to Farmers

We discussed with LBDA and explained our network and business model and our hope

that we could do some market linkage business together. This was his Onyango Sylverius' reaction:

"I would love to do this together- we can go through and check all middle costs, prices and quality issues. We have the same concerns for the farmers' incomes that you do. We have already put money into water channels, and helped with production. The problem now is that the farmers are selling at the farm gate for an unfair price. We want to change this."

Conclusions and Next Steps

The TSS network wants to work together with the Lake Basin farmers to market their rice. One of our buyers can be LBDA. Our TSS network can provide the market linkage from the farmers to the buyer through the COB finance.

Our next steps are to get local purchase orders from LBDA and other buyers. Then we will make an MOU or contracts with the farmers' groups. My network intends to market the Lake Basin farmers' rice to the LBDA as a formal partner, and to any other legal market that will offer a good price to the farmers and are willing to be open in transactions.



Packaging Pichori Rice in LBDA mill

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Helping with Marketing for SHOMAP Farmers' Groups

By James Kanye and Moses Gichuru ¹⁶

The Kenyan Ministry of Agriculture supports the Small Holders' Marketing Program (SHOMAP). Pride Africa (PA) has been asked to help with the marketing for some of their groups. James Kanye, Moses Gichuru and James Weru will be working for PA with the SHOMAP groups to help them with some of their marketing issues.

Ruralnet and Bonde Soko Networks

James Kanye, CEO of Ruralnet will be working with five SHOMAP groups in Meru and Embu to help them to market their bananas and mangoes. He has met with the groups and will be training two Transaction Security Service (TSS) agents in each. The agents will be trained to understand the transparent marketing concepts of TSS; to fill in the TSS forms; and to use the Internet to register deals. James has plans to help the groups to market their bananas directly to the ripening sheds in Nairobi, Nakuru and Mombasa. He will also help the groups to market banana flour, which they process from dried broken bananas.

Moses Gichuru, CEO of Bonde Soko will be working in Nyandarua with eight TSS agents which he will train from four SHOMAP farmer groups. These groups need help to market potatoes and garden peas. TSS agents will be trained on the TSS business model and how to use the Internet to register their deals and link with the other TSS networks. Moses has already contacted two dependable buyers in Nairobi for potatoes and peas (the hotel chains Bridges and Upperhills Springs). These hotels want five tonnes of potatoes per week and two tonnes of grade two garden peas, (those which are not taken for export).

James Weru will be giving James and Moses backup with the training of the SHOMAP groups.

¹⁶ Interviewed and Edited by Anne Dennig in November 2011

Dakina; A SHOMAP Self-Help Group

David Ndungu, the chairman of Dakina



One of the groups, which Moses will be working with, is Dakina Self-Help Group. A member of the community based organisation, PEKA.

Dakina has 60 members; their chairman is David Ndungu. *David explains:*

"We have problems marketing potatoes and garden peas and need help with this. We have met Moses who will be helping us. We are in the process of constructing four potato stores; each to hold 1,000 bags – about 480 tonnes. On our farms, ¼ of an acre produces 15 bags of potatoes (of 110-120 kgs). We have two or even three harvests per year if the weather is good. At the moment we sell potatoes at a low price to brokers who come to the farms, or we sell at a slightly higher price on the roadside; but this marketing is not efficient. Dakina is a well-organised group, we have already been selling snopeas and sugar snaps to Finlays for one year. We have had a lot of training from Finlays and have had to put up a grading shed to meet all the Global Gap requirements. We are now looking forward to working with Pride Africa and the TSS network."



Sorting snopeas at the Dakina grading shed

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AgriNet Provides Transparent Marketing System for Ecomax

By Paul Nyende¹⁷

Paul Nyende explains a new initiative for AgriNet in 2012: to provide a marketing service to Ecomax, a company dealing with micro-irrigation, seeds, agro-chemicals and nutrients for crop production.



A meeting between Ecomax and AgriNet in Kampala



Bhaskar Reddy is the Managing Director of Ecomax, a company providing complete agriculture solutions to farmers. It deals with micro-irrigation, seeds, agro-chemicals and nutrients suitable for horticultural production. Ecomax started operations in Uganda in March 2011 with a 'Turnkey' project to develop farmland for its clients, providing services for land clearance, irrigation, seeds, pesticides, crop management and marketing. Ecomax prepares a model for clients who cannot manage their land for themselves due to lack of expertise or time.

Working Together

Whilst Ecomax can provide the technical assistance for the production of crops, they have asked AgriNet to provide a marketing service for their company. Ecomax will plan and produce the quantity and quality of vegetables and fruits indicated by AgriNet to have good market potential. By using drip irrigation the farmland will be able to produce vegetables and watermelons all year round to supply the demand in

¹⁷ Interviewed and edited by Anne Dennig in November 2011

Kampala. Ecomax and AgriNet hope that the production methods and marketing model will spread from the medium scale growers in their 'Turnkey' projects to many smallholders. Ecomax has micro-irrigation systems suitable for smallholders with 1,000 litre tanks for plots as small as ¼ acre. AgriNet is already making efforts to link Ecomax to the Farmer Field School groups in Northern Uganda, an area with a great potential for horticultural production using micro-irrigation.

Ecomax needs a transparent marketing system and AgriNet needs good reliable producers of high quality vegetables and fruit for buyers in Kampala. Ecomax has an understanding with its 'Turnkey' clients that they can market independently or through AgriNet.

Production Areas

Ecomax has three 'Turnkey' Projects; two in Kabale and one in Ziobwe, with 45 acres of land under cultivation ready to produce vegetables and fruits for the Kampala markets from January 2012 onwards. These areas will concentrate on high value seasonal crops. The first harvests will be in January for the following produce: tomatoes, carrots and cabbage from Kabale; and watermelon, French beans, okra and green maize from Ziobwe. Ecomax will provide crates for packaging and plans to produce three to five tonnes of mixed produce per week for delivery to the Kampala markets or outlying areas. The produce will come by truck to Kampala from Kabale taking six to eight hours, and from Ziobwe, taking approximately one hour.



AgriNet will provide regular market price information updates to Ecomax and a cash-on-the-bag payment will be organised for the agreed amounts of produce. AgriNet will take a commission for this service.

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A Fish Deal Goes Rotten

By Beatrice Obara¹⁸

Beatrice Obara, CEO of La Roschel D'deby Enterprises Ltd, explains the many challenges that occurred with a deal for a consignment of fish from Lake Victoria (Uganda) to Mombasa Millers, Kenya.

Registered Deal BR11-2110 for Omena for Mombasa Millers

We had an order for 380 bags (20 tonnes) of omena (small dried fish) for Mombasa Millers. This was a deal that posed a lot of challenges. We source this fish from Lake Victoria or Lake Turkana, so I alerted my agent who I use for trading in fish, Odiliah Zaid. Usually she uses her own funds to purchase the fish and it was the first time that I was to use the cash-on-the-bag (COB) finance in a deal involving her.

Travelling to Lake Turkana

Odiliah went to Lake Turkana and called me to say the fish was there. I went to Turkana, it took me two days, but when I arrived I wasn't happy with the situation as the lorry for our fish was the fourth in line and I was worried about the quality we would receive, so I asked Odiliah to go to buy the fish from Lake Victoria, either from Kisumu or in Uganda.

Fish from Uganda

Odiliah was told that there were lower prices in Uganda and she asked me to send the money, as there was cheap fish. I was worried because I had not seen the fish and my buyers are very particular, also I had no experience with the border crossing from Uganda to Kenya and I was warned that you can get a good price in Uganda but you can be tricked at the border with clearing charges. But Odiliah said the price was very good, so I decided to go ahead with the deal. My first challenge was that I found the exchange rate on the ground was different from the rate on the Internet. To avoid exchange rate difficulties the money to pay

the fisher-folk, the border clearing, and transport charges was transferred from Pride Africa to AgriNet. Paul Nyende, AgriNet CEO, then gave my agents, Fred Ekwebit and Odiliah, Ugandan Shillings for the payments. They then paid the fisher-folk and arranged the transport. But three days later the goods had not been transported and that is when I think that there was some tampering with the bags.

Transport and the Border

The truck then started for Mombasa with Fred, on board as I had instructed, while Odiliah took her own transport to Mombasa. But at the border the driver told Fred that he could not travel with the lorry over the border and he was left in the road! Fred rushed to the border point and waited for the lorry where he saw the clearing of the goods and when he had finished at the border he took the night bus to Mombasa and waited for the lorry there. I had told him that no one should open the lorry until he was there.

Arrival in Mombasa

Meanwhile I arrived in Mombasa; I wanted to meet the driver there to pay the second 50% of the transport costs on arrival. The driver, Fred, and Odiliah arrived in Mombasa. The driver wanted me to pay him immediately but that could only be done when the bags were offloaded and the produce cleared.

Discovering the Cheating and The LPO

I found Odiliah at Mombasa Millers, waiting to be paid in her name, not in the network company name or in my name; meaning that all the money would go to her. She had not expected me to be in Mombasa. The vehicle was in the queue, the offloading was done and the company said it would take two days to go through the quality checks. I thought that I could sense something was going on between Odiliah and the accountant. The accountant did not seem to want me to hold onto the goods and I had to apply for another Local Purchase Order (LPO) to be entered into the system. We made a fresh LPO and Odiliah had to sign this over to me.

¹⁸ Interviewed and edited by Anne Dennig in November 2011

Sand is Discovered

The accountant said that our delivery was not very good quality fish, so I said that we should open the sacks. There was also a discrepancy between the weight of the fish in the lorry and the fish delivered. I asked the driver why the net weight was different and he told me that he had been asked him to retain some sacks in the vehicle. This lorry could carry 30 tonnes and from the ground you could not see that some sacks were left in. These sacks were filled with sand!



The sacks of sand left in the lorry

Mombasa Millers reported that after they had finished with the sieving process of the omena delivered, that out of the weighbridge weight received of 16,490 kgs they had only got 9,200 kgs of fish. Mombasa Millers paid us KES 75/ per kg. Of the produce transported only nine tonnes were fish! The rest was sand, not only in the sacks left in the lorry but in the rest of the bags which had about half fish, half sand in them.

A Police Case

Immediately I saw the sand I said, "This is a police case". Odilia had then disappeared from the accounts office and her phone was off. Fred and I took the lorry to the police station. We are now waiting to see if Odilia was conned and why Fred and Odilia did not check the bags. A strange thing is that Odilia asked the transporter to stop and meet her during the journey so that she could take a crocodile tail out of the lorry which she said that she had mistakenly left in there. The transporter would not stop, as his company did not allow this as his journeys are tracked. Mombasa Millers were happy to know about the case and pleased

that we have involved the Police. They are aware that some deliveries do not reach them the way that they should. The money disbursed by AgriNet to my agents Odilia and Fred was paid directly to the suppliers' accounts, but in the days of delay the bags could have been exchanged; good quality fish for bad quality fish and sand. Could this have been a liaison between our agents and the suppliers? Fred, who is our agent in Busia, has the facts on the funds transferred to the fisher-folk and the quality purchased. We need to find out the truth of the matter from Odilia who is currently out of the Police cells on bond. Odilia has accepted responsibility, as she was in charge of the quality checks, and says that she was equally shocked by the quality received by the millers. Fred will also be a major witness in this case, as they purchased, verified and packaged the goods together. Odilia is an agent that I had already traded with satisfactorily three times. We await the findings of the court, but from this deal I find it difficult to trust agents 100%.

Payment and Relationship with Millers

Mombasa Millers has paid for the tonnage received by them. They were very disappointed with the deal and just failed short of losing trust in us. However, they have promised a new LPO for another order, if we can deliver good quality fish for processing. I feel very embarrassed and used all the words I could to convince the proprietors that we **can** deliver quality products.



Mombasa Millers

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Nyanza Network, TSS Agents with Stores in Homa Bay, Rachuonto North, Kendo Bay and East Uyoma

By Beatrice Obara¹⁹

Beatrice Obara describes the network of Transaction Security Service (TSS) agents that she is building in Nyanza to market the produce from their farmer clients. She explains how essential it is that all her agents are linked to stores and therefore have a fixed presence in an area where they can then develop farmer groups as loyal clients.

TSS Agents and their Stores; Homa Bay



Good agents linked to stores are essential in my network; Lencer Ouko is the TSS agent and store manager in Homa Bay.



Beatrice Obara, Lencer Ouko and Moses Gichuru at the warehouse in Homa Bay

Homa bay is an area for catching and drying omena. These are small fish that are high in protein and in demand from companies such as Mombasa Millers for production of animal feed. In this area Lencer links with fisher folk for omena, and also with cassava farmers and cotton farmers for their cotton and the other produce, with which they intercrop the cotton.

¹⁹ *Interviewed and edited by Anne Dennig in November 2011*



Drying omena in the Nyanza region

TSS Agents for Cotton; Rachuonto North and Kendu Bay



TSS agents James Ogola and Sammy Kai

James Ogola and Sammy Kai are TSS agents who operate in the area covering Rachuonto North and Kendu Bay. The network can supply cotton from November to February sending around 15 tonnes per week. Sammy and James use stores in Otara and Sijenge Village to collect the cotton.

Charles Mwagi is a farmer who grows 16 acres of cotton and is supplying Sammy's store. He sent six sacks in the last delivery to Makuani. He has intercropped his cotton with green grams and needs a market for this too.



Sammy Kai at the store and Charles Mwagi with other cotton farmers

Charles has been growing cotton since the 1990's and he knows that late payment is a problem. He used to sell to Kindu bay and the Nyanza ginnery but Nyanza ginnery did not give him the seeds back, so selling raw cotton to them did not make sense. Charles and his group of farmers sell to our TSS network because the weighing scales are correct and we pay cash-on-the-bag (COB) using the Pride Africa COB financing.

East Uyoma



One boll of cotton: Edward Oucho in East Uyoma

We also have agents with stores in East Uyoma; Edward Oucho and Charles Ogone are TSS agents in this area.



Edward Oucho, Beatrice Obara and Charles Ogone

Edward is based in Ragengni market; Solomon Mulindi, network manager for Western Kenya, has trained him on TSS. His store has a capacity of 20 tonnes, and per season his area can provide 70 tonnes of cotton from 10 farmer groups of up to 100 farmers. These farmers also produce green grams and soya. Like most TSS agents Edward is also a farmer, he grows 10 acres of cotton on black cotton soil, which doesn't need fertilizer. He gets 150 bolls on average from each plant so one plant can bring in

KES 65/. One acre produces one tonne of raw cotton, which brings an income of KES 65,000/.



Edward's store in Ragengni Market

Edward explains: "We need money all year round, so our other crops are important.

There's lots of land to plough but we need a tractor for this, as the black cotton soil is hard to till by hand. We plan to plough 50 acres in December for cotton and we will rent a tractor through Beatrice for this."

One of our main stores for cotton is at Ndigwa Market where Charles Ogone, a TSS agent and leading farmer organises the store.



TSS Meeting on quality control in Ndigwa store with local farmers

Developing A Loyal Client Base

We can develop a loyal farmer client base through regular fair and transparent market dealings with farmer groups. To do this we need a strong network of well-trained TSS agents, who are linked to stores in the farming areas. Here they can bulk and market all the farmers' produce using the Pride Africa cash-on-the-bag financing.

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A Groundnut Disaster for Bonde Soko

By Moses Gichuru²⁰

Moses Gichuru explains the challenges that his business (Bonde Soko) experienced due to a truck strike, which affected a deal for groundnuts sourced from Uganda for a buyer in Nakuru.



Lucy Ndungu from Juhudi Processors

Registered Deal MG 11-2114

The deal was for 20 tonnes of shelled 'red beauty' groundnuts sourced from farmers in Serere, Uganda for the buyer, Juhudi Processors in Nakuru. The planned collection date was 29th September 2011 and the delivery date 3rd October 2011. The total amount to be paid by the buyer on delivery was 2,000,000/ KES. Expected middle costs were 121,889/ KES. The COB paid out in September was 1,167,000 KES.

Bonde Soko's Worst TSS Experience

The experience of this deal is the worst experience that I have had since I started the TSS deals. This is what happened.



An LPO from Juhudi dated 19th September was obtained, with a delivery date of 3rd October with an agreement for payment five days after delivery. The quality requirements were documented on the Local Purchase Order (LPO) as

shelled red beauty groundnuts less than 2%

debris, less than 6% broken and with moisture less than 12.5%. This was a new commodity for Bonde Soko. We had sourced cassava and sorghum for Juhudi from Uganda before but this was our first experience with sourcing groundnuts. I sourced the commodity from Engineer Opio's network of farmer contacts in Serere, Uganda and I was given the farmers' price.

At the Border

The first bad experience was at the border with the exchange rate of KES to UGX which went down from 27 UGX: 1 KES to as low as 25 UGX: 1 KES. Considering I was exchanging 1.4 million KES you can guess how much I lost through this exchange rate change. On arriving in Serere I found that I was dealing with new groups of farmers, not my usual cassava sellers. The farmers that had dry groundnuts raised the prices slightly from what had been agreed, because these groundnuts were at a premium due to massive rainfall pounding Northern Uganda.

Transport Issues

I had arranged for a truck to pick the produce up in Soroti but the truck was stuck. There was a three day long-distance truck strike at the Malaba and Busia border crossing points that paralyzed all cross border activities. The lorry drivers were on strike because of irregularities at the border, where they were paying fees but not receiving receipts. As a consequence the drivers were being arrested in Uganda because they could not show evidence for the fees paid. The ripple effect of the strike meant that I was marooned for seven days on the Ugandan side of the border and unable to transport my goods. This delayed delivery.

Too Late for Juhudi

The Juhudi LPO had a delivery date of 3rd October. We were late and Juhudi refused the order as she had already procured some nuts in the time of the delay. We agreed that if possible she would buy the groundnuts later.

I then had to look for other customers, but there are few buyers of groundnuts in Nakuru. Then price of groundnuts collapsed

²⁰ Interviewed and edited by Anne Dennig in 2012

from 100/ - 70/ KES per kg so I did not sell as the prices offered were below the prices I paid for the groundnuts and I decided to keep the produce until the prices improved so as to recover my investment.

I stored the groundnuts at a colleagues' store (as Bonde Soko does not yet have a warehouse) waiting for Juhudi to buy them rather than disposing them to the small buyers. But eventually instead of selling wholesale to Juhudi I had to sell retail to buyers taking a few sacks each. In January I had sold enough to make a first repayment of the COB loan. I continue to do my best to recover the balance from the multiple buyers who shared the groundnuts.

Repayment

On 18th January I made one repayment back into the COB account for this deal of 500,000/ KES. There is 667,000 KES of the COB loan remaining to be paid. This will be paid in March, 70,000/ KES immediately and 97,000/ KES later in March.

Observations on the Deal

We lost money due to problems with the exchange rate. It would not have made any difference whether we had used the money from the Kenyan or Ugandan COB. The COB would still have been impacted negatively as long as two currencies were used. Therefore we need to learn practical ways to factor in the currency depreciation in negotiating prices with our buyers.

Planning transport in advance is advisable and must be looked at holistically in relation to other issues like costs and affordability. But when trucks go on strike no earlier arrangement that I know of can be made to guard against this. All trucks went on strike.

Cross-border trade comes with additional risks and challenges but this is one of those TSS deals that until now has made continuous profit and successes, challenges notwithstanding. This is the first time we are facing a potentially loss making situation.

Lessons Learned

- Never deal with a crop without alternative buyers. Be wary of a deal

in a new commodity that does not have many buyers, as it is very difficult to dispose of if something goes wrong with the intended customer.

- With a new crop it is important to be conversant with the quality issues. These take time to learn.
- Don't do big deals with new groups of farmers. Start small and build up a reliable group of farmers.
- It is a mistake to hang onto a crop and to keep hoping to get a better price. It is better to sell immediately, take losses and return the COB loan for use with other deals.

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Confusion on Pricing leads to COB Loss on Cattle Deal BR11- 2124

By Wilson Ilanet²¹

Wilson Ilanet describes the problems that resulted in the loss of 222,080/ KES on a deal supplying 20 beef cattle to Meat Choice in Nairobi. Beatrice Obara was the coordinator of this deal and a member of her network, Irene Akinyi, worked together with Wilson Ilanet and Harrison Supeyo.

Registered Deal BR11- 2124

Beatrice Obara's agent Irene Akinyi went to Meat Choice in Nairobi on 19th October 2011 in search of an order, and was issued with an LPO for the supply of 20 beef cattle for delivery on 24th for slaughter on 25th October. I then sourced the 20 cattle in Mashuru with my network agent Harrison Supeyo. The COB loan requested was 772,000/ KES and the six pastoralists were paid 713000/ KES. Middle costs amounted to 56,400/ KES.

Quality and Prices

When Irene visited Meat Choice she was given the information about the quality required and the prices that they would pay for the cattle. This quality information was not clear to me as I had not had dealings with Meat Choice before and there was some confusion over their payment per kg, which was not for 'live weight' but for 'carcass weight'.

Expected Prices and Prices Received

When the deal was registered we expected the buyer to pay the 884,000/ KES, but due to the quality problems the buyer paid a total of 540, 913.37/ KES. After slaughter 513,673.37/ KES was paid for 19 of the cattle and 27,240/ KES for the last cow (which had to be treated before slaughter). We expected a price of 260-265/ KES per kg but were only paid between 200/ and 233/ per kg and this is what brought us the loss of the 222,087/ KES.

Lessons Learned

- A coordinator and his/her agents should be knowledgeable in the area of trade or if not they must start with a small deal in order to learn.
- It is important to fully understand pricing mechanisms before you start a deal. I should have visited Meat Choice to find out all the quality and pricing issues before I went into the field to source the cattle, the information on paper from Irene (who was not a specialist) was not enough.

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²¹ Edited by Anne Dennig in 2012

Hard Lessons Learned from Ruralnet Rice Deal in Mwea

by James Kanyi²²



James Kanyi, Network Manager of Ruralnet, explains the lessons learned from a registered deal to sell rice from the Mwea farmers to Giliani Supermarket in Nakuru.

Registered Deal JK11- 277

In July 2011 Ruralnet planned a deal for the sale of three tonnes of Pishori rice from the farmers in Mwea to a buyer, Giliani supermarket in Nakuru. We aimed to collect the rice on 18/7/11 and to deliver it on 25/7/11. We calculated the price offered by the buyer against the middle costs, commission and the payment to the sellers. As follows:

- KES 455,000/ to be paid by the buyer
- KES 38,384/ estimated middle costs
- 10% commission (KES 41,662/)
- KES 374,954 payment to sellers
- KES 125/ payment per bag

My network TSS agent Elizabeth Njoki acted on the sellers' and collection side of the deal while I was responsible on the buyer's side. We requested cash-on-the-bag financing (COB) of KES 1.2 million to buy rice from Mwea to Nakuru, however the COB received was KES 500,000/. I was able to access this cash from the bank on Friday 22nd July. First I followed up with Giliani on the issue of the local purchase order (LPO). When I insisted on it I was told that they would issue an LPO if our product met standards. Having set aside money for Kenyan Bureau of Standards certification (KEBS), I went straight there and applied for the certificate. I was told to wait for few days for a letter to request sampling.

Finding Farmers not Traders

Elizabeth and I went to source the rice. We knew that the rice market day in Mwea is normally on Tuesday and Friday, but we

found the prices for rice were high and that there were no farmers but only traders and brokers there posing as farmers. The traders were using cups to determine the price where two cups (slightly more than 1kg) were at KES 75/ each. We did our calculations and realized that chances of making a profit were scarce.

Finding Farmers

We therefore decided to go straight to the farm gates; this took us half a day but we learned that since this was a planting season the farmers did not have the crop at their homes. Those who had kept paddy either sold it to traders/brokers as paddy rice or milled it themselves to sell on market days. Therefore we headed back to find Nice Rice Millers Co. Ltd. When we arrived many women started surrounding us to capture the attention of this new customer. When the traders realized that we wanted to deal with the farmers, no further information was disclosed. We could only see a motorbike arrive with bags of paddy rice. The driver talked closely with these traders and all of sudden the bags were removed and weighed there and put into the Nice Rice warehouse and everything was silent.

To break the silence we told the traders that we were going to buy milled rice, and requested the price. We were told KES 125/ per kg and we decided to buy 200 kg. We then disclosed to them that we were willing to buy a large quantity with good prices to farmers. Then one lady trader whispered to me "why don't you buy paddy rice from farmers and then mill it". Quickly we enquired about the costs and found that it was worth doing it. They asked how many bags of paddy rice we intended to buy from the farmers and considering the buying price we told them more than hundred bags. Then we started getting contact with some farmers and the next day we were able to source 20 bags of paddy rice. I left Elizabeth to source the rest of the rice but in that time the price for paddy rice went up and Giliani would not increase their price for milled rice. They informed us that we could do business in future once paddy prices are lower at harvest time. They insisted that our produce must be well labelled with bar

²² Edited by Anne Dennig in 2012

codes and packed in 50kg, 25kg, 10kg, 5 or 2kg bags In the meantime we were left with three tonnes of rice lying in the Nice Rice Millers' warehouse.

Decision to Auction the Rice

Elizabeth Njoki, TSS agent for Ruralnet comments on



LLL: "After our business with Giliani failed to go through, James and I decided on an auction. We have been hoping to get buyers, but the prices were affected first by the

Ramadan month when Muslims were not consuming a lot of rice, which led to large stocks of white rice. Secondly the prices fell due to the farmers bringing a lot of paddy to the market in preparation to pay for school expenses. These factors have caused the prices to reduce drastically. We are worried if we sell our rice at this time we shall make losses and we don't want to do that."

In November we assessed the situation The COB finance we had taken was KES 500,000/. The farmers had been paid KES 375,144/ for 4,872 kg of paddy rice. Our total expenses so far were KES 38,384/ including the price for milling of KES 9,744/, (KES 2/ per kg). We had three tonnes of milled rice still in the store. We had started to sell it in small amounts as the buyers came to the area and we had to accept that we would make a loss because we couldn't sell to Giliani as we still didn't have a KEBS certificate.

Finally in February 2012 all the rice has been sold to various small buyers from Thika, Nairobi and Nyaharuru. The last lot was sold on 10th February and the money was paid into the PA account. The produce was sold at a loss as the market was flooded with rice and it was going for as low as KES 90/ per kg. The deal has now been finalized with a loss of 79,600/ KES is outstanding.

Learning from Experience

- Get an LPO from a buyer and have the contacts of alternative buyers if needed.
- Allow time for your research on market trends and prices in a particular area in

order to know the right time to source rice.

- It is necessary to find the real sellers. In our first attempts we found traders posing as farmers in the milling area.
- Don't continue with a deal if the prices don't work out. When prices shift, reanalyse the deal and if you can't renegotiate cancel the deal and return the COB early rather than get into trouble.
- When planning a rice deal put in a deal plan in advance, talk to farmers and get an agreement early, ready for the harvest time.
- Source paddy at harvest time from the farmers, if they are not keen to dry it allow at least three days for this, then mill it to add value and then take to the buyer.
- Get to know the system. In this case part of the millers' fee was the bran, he also supplied the transport and the tarpaulins for drying.
- There were problems with the KEBS certificate for Gilani. More research is needed in advance on this. We paid for the KEBS certificate but no inspection was carried out, we then sent a sample and there was no reply to this. Eventually they asked for more money for the analysis. We have been waiting for over four months. It does not make sense to go through these procedures unless you are going to have a regular delivery with large amounts. It would be better to have the research on this done at our office level for all the networks to learn from.
- Cost of the service. A new deal requires more time and expense for travel to the area, airtime etc; these costs should be covered by a higher commission. Is there another way to allow for the costs for developing new markets or new types of deal? If so where do those costs come from when you are still a small business?

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SHOMAP – PRIDE AFRICA COLLABORATION FOR LOCAL LEARNING TO PROVIDE SMALLHOLDER HORTICULTURE PRODUCERS ACCESS TO TRANSPARENT AND SECURE MARKETS

Rationale

The Government of Kenya's Smallholder Horticulture Marketing Access Programme (SHOMAP) and Pride Africa (PA) have a common interest. They want to establish local learning among value chain players, commercial market access service providers and local authorities. Such local learning should improve smallholder horticulture producers' access to transparent and secure markets that offer better prices than local middlemen.

SHOMAP and PA face a number challenges that they expect this collaboration to address as follows:

- SHOMAP needs to find out how to get smallholders linked to reliable markets, reduce exploitation by middlemen who buy from smallholders at very low prices, and get smallholders a greater share of the market value of produce. They want to get value chain players learning to: a) improve efficiency of marketing, b) introduce transparency into their transactions, and c) reduce cheating and improve discipline in marketing operations. They want to get local authorities to understand commercial operations of local value chains, and adopt positive and supportive attitudes towards commercial service providers.
- PA needs to scale up its local learning operations in CoB services to smallholders, get local BDS providers facilitating local learning processes and train up new network agents. They want to: a) mentor online learning processes linked to local action, b) capture and synthesize local lessons learned into good practice, policy briefs and impact stories, and c) coordinate, monitor and evaluate local learning in market access interventions.

To meet these challenges SHOMAP and PA will collaborate to: 1) Contract commercial local market access service providers offering COB market access services based on cost of service and not speculation on price difference and maximum prices to smallholders. 2) Build the capacity of smallholder producers and local entrepreneurs to engage in transparent and secure market access operations on a fully commercial basis. 3) Establish local learning among value chain players and local authorities to improve efficiency of value chain operations and prices to smallholders. 4) Link the local learning of value chain players and local government across different districts within Kenya using modern ICT's. 5) Enable local BDS providers to mentor value chain players online and face-to-face and link their learning to national and international levels through the NEMAS.

Memorandum of Understanding

The Government of Kenya's SHOMAP programme will collaborate with Pride Africa's IFAD supported Cash-on-the-Bag project to contract commercial market access service providers and local learning service providers to meet their collective challenges to provide:

- Smallholder horticulture producers' access to transparent and secure marketing services.
- Capacity building of local entrepreneurs and other value chain players including local authorities for operating a local learning system that improve smallholder producer access to markets.
- Capacity building of local BDS providers to capture and synthesise lessons learned and link them to national levels through NEMAS.

Under this collaboration SHOMAP will contract local market access network companies: RuralNet in Nyeri, Western Region Network in Bungoma and Bonde Soko Services in Nakuru to provide secure and transparent transaction services to its producer groups. In its turn PA will provide local learning capacity building services to all value chain players and local authorities. Pride Africa will make available its secure transaction service platform and Cash-on-the-Bag (COB) financing system to the local market access network companies.

This collaboration is expected to last for two years going through set up, trial and scale up phases. It will take six months to set up both market access and local learning operations in a few selected areas and value chains. This will be followed by a further six months of trial marketing and learning services. The second year will see scaling up of both market access and local learning operations throughout the SHOMAP area and in all value chains. At the end of this scaling up the local commercial service providers of market access and local learning will continue providing their services to the smallholder horticulture value chain on a fully commercial basis.

Goal and Objectives

All parties involved in this collaboration: SHOMAP, PA and market access network companies, share a common goal to improve the incomes of smallholder horticulture producers through access to transparent, secure marketing services that provide a fair share of market value to producers.

The objectives to be achieved over the two-year period by all involved are:

- To link SHOMAP supported horticulture producer groups to new markets through commercial market access service providers offering transparent and secure deals using COB between producers and buyers.
- To build capacity of local entrepreneurs, producer groups and local authorities for operating a local learning system based on business-to-business learning among key value chain players that enhances producer access to markets and gain a great share of produce value.
- To build capacity of local BDS providers to facilitate local learning processes and synthesise lessons learned and link them to national levels through NEMAS.

Activities and Timetable

Achieving the goal and objectives set for this collaboration requires three different phases of operation. The first phase comprises the operations necessary to set up the collaboration. To be established are: 1) coordination and M&E, 2) local learning systems, 3) documentation and linkage with NEMAS, and 4) transparent, secure deals using COB between producers and buyers. This phase is expected to take no more than six months. Once coordination, M&E, learning, linkage with NEMAS and market access services are established the collaboration moves into a second phase of trial operations. Trials of local learning services, market access services using COB will take no more than six months to complete. An evaluation at the end of the twelve months will decide on a third phase of scaling up the local learning and market access services to commercially viable levels. Scaling up is expected to take no more than one year. After this third phase is complete both market access services using COB and business-to-business learning will continue on a totally commercial basis.

This proposal now focuses on the activities and timetable for the first phase of setting up the collaboration. The details of the activities to be completed over the next six months are as follows:

- 1) Raise awareness of local government and producer groups of new market access service:
 - Brief DAOs and ShoMAP desk officers so they can explain how market access networks using TSS/COB service works to producer groups.
 - DAO and ShoMAP conduct question and answer meetings with producer groups on how market access networks using TSS/COB works.

2) Recruit local entrepreneurs to new business opportunity as network agents in local market access network companies:

- Recruit two local entrepreneurs to become network agents for each producer group.
- Train local entrepreneurs in use of COB deal operations, and collection centre management.

3) Entrepreneurs, producer groups and buyers 'learn-by-doing' transparent secure deals operations and COB finance:

- Train producer group leaders, ShoMAP desk officers, Divisional Agribusiness development officers in COB deal discipline and operations.
- Find buyers, coordinate deals and oversee collection centre management and COB payments.
- Deal registration and assessment for COB financing and payment tracking.
- Coaching online and field visit of agents and producers on COB deals.

4) Establish a business-to-business learning system for local entrepreneurs and service providers:

- Training and registration of local learners (entrepreneurs, producer group leaders, SHOMAP desk officers, local authorities) to use LLL online learning platform including manual.
- Assistance to local learners get local access to the internet.
- Mentoring online of local mentors from local BDS providers and local authorities.
- Document and synthesise lessons learned in the form of good practice, policy briefs and impact stories and link to NEMAS national and international levels.

The timetable for the activities over the six-month period are:

Activity	1	2	3	4	5	6
Brief DAO and ShoMAP on TSS service	■					
Producer group Q&A		■				
Recruit local entrepreneurs	■					
Train local entrepreneurs in TSS	■	■				
Train producer groups, SHOMAP, DA	■	■				
Find buyers and coordinate COB deals		■	■	■	■	■
Register and assess COB deals		■	■	■	■	■
Coaching entrepreneurs and producers		■	■	■	■	■
Train local learners in LLL		■				
Assistance for internet access		■	■			
Mentoring of local mentors		■	■	■	■	■
Document lessons learned and link to NEMAS					■	■

These four activities complete the phase of setting up the collaboration. Once they have been done and an assessment by all partners conducted the collaboration will move into its second phase of trial operations. Trial operations will extend over six months to include:

- Repeat COB deals with growing numbers of producer groups.
- Further recruit local entrepreneurs to expand numbers of producer groups able to access new market access services.
- Expand numbers of local learning groups of entrepreneurs, value chain players and local authorities using the LLL local learning system.
- Synthesis of lessons learned in briefs and good business practices and document impact of COB deals on producers, buyers and local entrepreneurs in stories.
- Share experiences, ideas and impact stories and link to NEMAS.

Roles and Responsibilities

SHOMAP, Pride Africa and the market access network companies have specific roles and responsibilities to play in this collaboration as follows.

- SHOMAP will mobilise local government authorities and horticulture producer groups and support the capacity building of producers. SHOMAP will also invest in market infrastructure where needed and provide access to its value chain analysis databases. They will also support a 'learning champion' from among their staff to oversee the local learning system and participate in the NEMAS meetings and online Community-of-Practice. They will be responsible for raising awareness of this new marketing service and appropriate engagement of local authorities, producer groups and contracting the three local commercial market access network companies. They will assist local learners access the Internet so that they can engage in online learning.
- Pride Africa will mentor market access network companies to offer transparent, secure market access services to SHOMAP producer groups using the LLL online learning platform and methodology. They will capture the lessons learned and document them in the form of good practice, policy briefs and impact stories. They will be responsible for establishing a business-to-business learning system for local entrepreneurs and value chain players in the SHOMAP area and linking these to similar market access service networks in Kenya, Uganda and Tanzania. Pride Africa will also make available its TSS deal registration and tracking operations along with COB financing to the local network companies.
- Three local network companies: Western Region, RuralNet and Bonde Soko Services, will provide TSS transparent, secure market linkage services with financing for Cash-on-the-Bag (COB) payments to producer groups. The local companies will find reliable buyers offering premium prices for produce that meets quality grades. They will be responsible for assisting SHOMAP create awareness of the TSS/COB service, recruiting local entrepreneurs to provide these services and providing opportunities for transparent secure deals between producer groups and local buyers.

Coordination and M&E

PA will coordinate this collaboration on behalf of all parties. They will conduct regular monthly meetings with representatives from SHOMAP, Pride Africa, and the three market access network companies to monitor progress of:

- Market access companies against business targets.
- Local learning operations against learning milestones.

Pride Africa will maintain the following databases for purposes of M&E:

- Database for tracking the performance of entrepreneurs, producers and key market chain player in each and every deal.
- Database for tracking the impact of each and every deal on producer groups' production, prices and incomes as well as the incomes of local entrepreneurs.

The impact after the first six months should be assessed. Based on the outcome a six-month trial phase will follow. SHOMAP will provide the baseline data on which the impact of this work will be assessed. This assessment exercise will include the following:

- Analysis of performance and impact data gathered by Pride Africa.
- Due diligence field visits to verify the performance and impact data.
- Multi-stakeholder reflection workshop for horticulture producer groups, local entrepreneurs of the market access networks, local authorities along with collaboration partners SHOMAP, Pride Africa, and network companies.

ANNEX J. COB Defaults. KENYA

TSS Deal Registration	COB disbursed (KES)	Date	COB returned (KES)	COB Defaults (KES)	Comments
SL11-257b	90,000	20-Jun-11	70,000	20,000	Vehicle hits a cow which is then lost. More details see story 169
JK11-277	500,000	19-Jul-11	420,400	79,600	Problems with breaking through a local cartel. Finally had to auction the rice with resulting loss. More details see story 164
WI11-2106	667,800	06-Sep-11	352,000	315,800	The guy who owes the money in effect is broke. Wilson reports a decision by Maasaai elders to organize a Harambee that collects the missing money that never happened. More details see story 165
BR11-2110a	1,669,105	14-Sep-11	1,614,000	55,105	Fish deal that went badly wrong with cheating and high middle costs. Sold at loss. More details see story 159
SL11-2107	720,000	19-Sep-11	120,000	600,000	Would have to come from Ufugaji Bora who have consistently tried to avoid the network manager who is reluctant to continue chasing.
MG11-2114	1,167,000	27-Sep-11	570,000	597,000	Delayed delivery due to truck strike in Uganda. Had to sell to small retailers on credit. Trouble recovering from small street retailers. Manager reluctant to continue chasing More details see story 162
BR11-2124	772,000	22-Oct-11	549,913	222,087	Cattle deal with misunderstanding on the quality criteria between buyer and sellers sold at loss. More details see story 163
BR11-2136	800,000	27-Oct-11	442,800	357,200	Quality problems on the second shipment of rice due to delays and quarrel with farmers on who does the checking. Finally had to sell at a loss. More details see story 167
WI11-2138	85,200	01-Jan-12	0	85,200	Agent absconded with the money. Network manager cannot find him. More details see story 166
MG12-25	435,200	24-Feb-12	0	435,200	Network manager was conducting trial with Horticulture producers paying COB to producer groups for produce. Groups got into internal dispute over produce and kept the funds. Network manager still chasing up.
W12-211	400,000	12. Mar 12	0	400,000	Instead of sending in what buyer paid, agent used it to do a failed tomato deal. Was forced by family to give a land title to cover the loss. Network manager reluctant to take up land title so little chance of recovering the money.
				3,167,192	Total KES default COB (USD 37,261)

ANNEX J. COB Defaults. UGANDA

TSS Deal Registration	COB disbursed (UGX)	Date	COB returned (UGX)	COB Defaults (UGX)	Comments
PN11-271	15,000,000	25-Jul-11	11,968,400	3,031,600	Agent absconded with money. Network manager keeps chasing up.
JN11-226	12,000,000	29-Jul-11	5,070,000	6,930,000	Network manager keeps chasing a defaulting buyer, but little hope.
PN11-2101	13,000,000	26-Aug-11	4,300,000	8,700,000	Paul Nyende is chasing the agent who absconded. Police have been searching for him and after a while he presented himself. Court action pending
PN11-2137	17,500,000	12. Dec 11	5,800,000	11,700,000	Paul Nyende is chasing an absconded agent with court action
PN12-24	1,100,000	31-Jan-12	963,000	137,000	Failed deal by Ronald Ssegaluma where cabbages did not meet quality standards
				30,498,600	Total UGX Default COB (USD 12,199)

ANNEX J. COB Defaults. TANZANIA

TSS Deal Registration	COB disbursed (TSH)	Date	COB returned (TSH)	COB Defaults (TSH)	Comments
BT12-21	13,261,000	23-Jan-12	0	13,261,000	Buyer of timber was with government contract. Delays in payment by government results in backlog of missing payments
MF11-284	2,600,000	26-Jul-11	1,100,000	1,500,000	Lost 0.5 Mio due to erroneous mobile payment, plus much higher middle costs than anticipated. Poor planning.
MF11-289	1,085,000	05-Aug-11	0	1,085,000	Side-usage of COB money by network manager (a govt. Officer) for buying laptop and computer trainings. This person has left the network.
MF11-2123	1,800,000	21. Oct 11	0	1,800,000	TSS agent absconded with the money, responsible network manager (a govt. Officer) has left the network
				400,323	Balance of clearing account that was with network manager who left the project claiming unpaid expenses.
				18,046,323	Total TSH Default COB (USD 12,030)