



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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