

Demonstrating TSS through Bonus Payments

By Bahat Tweve ¹



Bahat Tweve, CEO of The Southern Highlands Biashara Mapema, explains what he has learned about the effects that his network's bonus payments have had on the farmers who supplied two maize deals in December 2013.

Finalizing the Deals (January 2014)

At last after bad weather and Internet problems I am connected again and I can share some of our learning. After our two recent maize deals we have managed to make all bonus and commission payments to finalize the deals. In addition to this we have been able to pay interest to Lucy Kyando and myself (as third party funders) and to return the float money used to our own commercial cash-on-the-bag (COB) fund. The clearing account thereby drops to zero, no issues are left and we can close the deals.

Therefore let me share what we learned from these two deals. Details of the first deal have been covered in a recent impact story (Story190_Tweve Maize Deal tBT13-248). Here are some more thoughts and details on both the maize deals: BT13-248 and BT13-249.

Maize Deal BT13-248

This is the first deal for some time that we have been able to close correctly. We achieved full transparency with the farmers and buyers and have the paperwork signed by all the farmers to show that they got both COB and bonus payments. It was a tiny deal of only 1.5 tons of maize, taken over a fairly short distance (ie. 50 km); but we actually did all the required steps for TSS and learned what the issues are.

Of course being a small deal this meant that the commissions were eaten up by the transport costs and we also made sure that we kept our commissions low in order that we could pay out a small bonus to farmers. It was good to do this small deal so that we have the figures and experience to grasp how TSS works for bigger deals and we used this knowledge to help complete our next deal.

Maize Deal BT13-249

BT13-249 was a deal for 3.6 tons of maize from Magunguli to Makambako. Sifuni Nsemwa was responsible to the sellers' side; Lucy Kyando for the buyer's side; and I coordinated the deal. Eva Mlelwa represented the sellers, and the maize was sold to three different buyers in the spot market in Makambako.

The value of the deal was 1,517,500/TSH (971 USD). Five farmers were involved and their total income was 1,211,971/TSH, the average income of the farmers was 155 USD. The unit of sale used for this deal was the debe (a plastic measurement bucket). 200 units were supplied and paid for; the collection date was the 23rd December in Magunguli and the delivery was on 30th December in Makambako.

The price to the farmers was 6,000/TSH per debe, 60/TSH per unit more than other buyers (a 1% difference). The total network commission was 50,499/TSH; the agents working with the sellers and buyers received 25,249/TSH, and as network manager I received 12,625/TSH for coordinating the deal. 28,530/TSH was paid out for the financing received and the 12,625/TSH commission to TruTrade was reinvested in our commercial COB fund. The total middle costs were 255,030/TSH and 11,971/TSH was paid to the farmers as a bonus.

The Most Important Lessons Learned

- Make sure to pay a bonus, especially for the very first deal with a farmers' group. It is important to be able to go back to the farmers and show them the calculations, so that they realize that TSS is different from what they are used to and this will encourage repeat business.

¹ Edited by Anne Dennig in 2014

- Transport is really the biggest headache. It is completely unreliable, so we need to work on a solution. When I talk of transport it is not only transport to the market but also transport from the farms to the collection points, where we standardize and re-bag, according to the buyer instructions.
- Training TSS agents at collection points is a big issue. It is important to explain our system to farmers so that they understand about bringing their produce to new places. My agents have also had to learn to do the TSS paperwork needed e.g. to fill in the names of the farmers and to get them to sign when they get their COB and bonus payments.
- Third party financing is possible. As we did not have enough COB we had to find other sources of funding, e.g. Lucy provided some funding out of her own pocket to cover the middle costs in Makambako. We could then return that money to her with 2% interest. Of course this is small, but we now know how to track this with the clearing account.

Showing How TSS is Different

We need to show the difference between our TSS network and the normal business people and one way we can do this is by paying bonuses. The farmers were really happy to receive their bonuses even if they were very small (according to the deal capacity). It really made sense to farmers when I went back to pay them the bonus and explained why they had got it. The farmers could then see that if they contributed one debe to the deal they could not get the same bonus as others who had contributed 10 debes, and for this reason on the second deal they increased their volume of contributions.

The Bonus Shows the Difference

When we are paying the COB to farmers at the collection, they can't see the difference between TSS and normal business. But when we are paying them a bonus, then we show them the difference. This is especially true for these cereal crops, because in Tanzania

farmers usually only get a bonus for cash crops like coffee, tea and tobacco. So it makes sense to farmers when they get the second payments for their sales on these deals for maize. They also understand that we are not the buyers of their produce but that we are linking them with buyers.

More Business Through Bonus

My network has therefore found that particularly for the first deal with farmer groups it is very important to be able to pay a bonus, even a very small one. In order to show a bonus for BT13-248, we cut our network commission almost to zero. This made sure that we could return to the farmers and explain how the deal worked and confirm to them the benefits of TSS.

The effect of paying the farmers bonuses has been that farmers realized the difference between TSS and normal business and wanted to do repeat and increased business with us, which can be seen by our second deal. The figures for BT13-249 show that the farmers had even more bonus but at the same time the network had a lot more commission.



A debe of maize

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