

Going Commercial with TSS: Challenges, Innovations and Opportunities

By Paul Nyende ¹



Paul Nyende explains how challenges experienced by AgriNet have led the company to innovate. Through these innovations new opportunities have opened up and these are allowing AgriNet to supply East African Maltings Limited (EAML) with white sorghum from its growing networks in Northern Uganda.

AgriNet's Track Record with EAML

From January to August 2013 AgriNet supplied East African Maltings (EAML) with 81 metric tons of white sorghum, worth 91,150,00/ UGX. We were one of EAML's top 20 suppliers in Uganda. For this season (December 2013 to July 2014), under the same contracting arrangements with EAML, we plan to supply about 500-800 metric tons of white sorghum, worth at least 575,000,000/ UGX.



White sorghum growing in Northern Uganda

Preparing AgriNet's Farmer Networks

We sold high quality white sorghum seed (SILA hybrid variety) to farmers in our networks from July to September 2013, and by November 2013 the first crops were ready for harvest. We offered a price to the farmers of 700/ UGX per kg based on the price negotiated with the buyer, i.e. 1,150/ UGX per kg for well cleaned, dry and re-packed sorghum. All went well as the farmers started to prepare their crop for collection. Two of our deals, one with Jacinta Namubiru's network (JN13-245) and

one with Tonny Oketch's network (TO13-244), were registered with the tech4trade (T4T) Academy and used the training financing for cash-on-the-bag (COB) payment to farmers. AgriNet also used its commercial COB to source for EAML, and using both means of finance we collected 50 tons of produce from the farmers.

Collections Stop in December

All the farmers were paid cash-on-the-bag at the collection point; the longest time that our farmers had to wait for payment was two days. However in December we had to pause collection due to a blockage further down the supply chain.



White Sorghum collected by AgriNet for delivery to Sunrise

A Blockage at Sunrise

We bulked the white sorghum together using the AgriNet 10 ton truck to pick up the produce from our agents in the field. We bulked this in a store in Lira and then sent the crop on to Kampala. Although we do quality checking at the collection point, EAML do not take the white sorghum into their stores until it has been cleaned, dried and repacked by a third party, Sunrise, a company in Kampala.

It was at Sunrise that our challenges arose. When large quantities of sorghum arrived at the Sunrise stores from various suppliers, they were unable to cope with these quantities. EAML had given out many contracts and this resulted in 200 trucks arriving at the Sunrise gates, waiting for the sacks to be offloaded. The truck drivers blocked the roads outside Sunrise and this caused chaos.

¹ Edited by Anne Dennig in 2014

An Opportunity for a Strike at Sunrise

The situation was made worse by the off loaders, who exploited the situation and went on strike for better pay; which they achieved, doubling their per bag offloading charges. In the meantime the chaos on the road outside continued and the suppliers (AgriNet included) were amassing extra costs due to the wait. It took four days to offload the sorghum from all the



waiting trucks.

Trucks offloading at Sunrise cleaning and warehouse

EAML Finds Other Cleaning Companies

As it is clear that Sunrise is overstretched, EAML has had to find other companies who they can subcontract to do this cleaning and drying. These companies, who are smaller than Sunrise, are also struggling to clean the amounts needed by EAML, so AgriNet has seen this as a chance to explore this as a new business opportunity.



Sorghum ready for EAML at Sunrise

Waiting for Payment

When at last our 50 tons of crop was cleaned, dried and re-bagged by Sunrise, it was taken by EAML. We then experienced our next challenge; our payments were and are still delayed (February 2014), due to internal payment bureaucracy within EAML. However, EAML has stated that they will buy all the grain that they have contracted from their suppliers, at the agreed price quoted in the contract. The payments may be delayed for an unknown period of time (until EAML sorts out the internal payment issues).

Challenges to be Resolved

AgriNet has therefore had these challenges to tackle:

- We have committed to buy all the sorghum from our farming networks but AgriNet's working capital and the COB from T4T has been tied up in the delayed payments from EAML.
- Delivery of our sorghum to EAML has been delayed by the cleaning difficulties.
- AgriNet's middle costs have increased due to the new challenges encountered e.g for temporary storage, loading and offloading and a new cleaning, re-bagging operation.

A Loan is Needed to Continue Business

With all these challenges we have had to find a way to continue to honour our commitment to the farmers to buy their white sorghum. However without payment from EAML we have had a cash flow problem. By the end of 2013 our AgriNet COB fund was drained, and T4T would not take the risk of loaning more money before the first payments had been received back into the clearing account. Therefore we have had to find another player willing to loan us the money to continue the business.

Root Capital Financing

AgriNet approached Root Capital for financing and we have been given a loan of 500 million UGX (= \$200,000). The terms for the agreement are that the loan is only to be used to source white sorghum for EAML, it is collateral free with an interest of 21% per year and for a period of eight months (January – August 2014).

Our strategy is to use this money to source as much white sorghum as we can for EAML. We will try to find some satellite stores to source the sorghum and we will pay farmers what we promised for the sorghum (700/ per kg), while others have been offering lower prices due to the challenges at Sunrise and EAML.

Learning By Doing

Root Capital's loan is enabling AgriNet to continue to learn by doing. There have been challenges that we did not expect. Now that we have capital to use, AgriNet will be able to

continue to source sorghum unlike many of our competitors.

Root Capital and TSS

The Root Capital loan is an impact loan. They want AgriNet to make money and they also want the farmers to make money from the volume of sales. **They want AgriNet to work using our TSS business model and system, to deliver volumes through fair prices and transparency between the farmer, AgriNet and the buyer.** Root Capital will be able to see all of the details of our deals e.g. the farmers involved, the prices paid, the amounts of crop supplied and the money the farmers have received (whether that was through cash or mobile money).

AgriNet also wants to overcome the risks of the delivery delays due to the cleaning issues and to learn how we can improve the business. If AgriNet does these deals well we will be able to make a good trading record and then we can go back to Root Capital next year for another loan.

Converting Challenges into Opportunities to Expand Business

Solving Cleaning Issues

Value addition is something that we have been longing to do, but we have been worried about rejections. Due to the cleaning hitches we now have the courage to try this. EAML is happy for us to supply cleaned, dried and re-bagged sorghum to them and the Root Capital finance will allow us to do this.

For our cleaning operation we have rented a store in Loro (Oyam district) that has the capacity to hold 200 metric tons of grain. We will use this new store for temporary storage and the re-cleaning, drying and re-bagging operations. This will enable us to deliver directly to EAML and to avoid the chaos with delays with the third party cleaners. We will take on the middle costs of the cleaning etc. rather than paying Sunrise for this. We are currently looking to rent or buy the cleaning equipment needed. The weather has been dry so there should not be any problems with the moisture content.

Solving Cash Flow Issues and Increasing Business

Slow payment by EAML has created a problem for all the suppliers of white sorghum and they now have cash flow problems. AgriNet has overcome this challenge by successfully applying for a loan from Root Capital. Now AgriNet has an opportunity to collect more sorghum, as many of our competitors have pulled out.

EAML will be buying in sorghum until the next harvest in July and we plan to supply 25 tonnes per week of cleaned grain directly to them. We are covering more villages in the areas where we have agents and we are training up some of our best agents, John Patrick Olara, Godfrey Tolit and Simon John Okello, as future network managers.

WHITE SORGHUM GRAIN

50 kg Net

PRODUCT OF UGANDA

Date of Manufacture : Oct 2013

Best Before: Nov 2014

Batch Number:.....

For EAMU Limited

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