

## Grain Bin Storage Company 30<sup>th</sup> July 2012

*Launch a company that provides franchises to rural craftsmen who will learn to manufacture, sell and maintain high quality on-farm grain storage bins. The franchise services include training, access to required materials and financing, and assistance in marketing.*

“Grain Bin Storage Company” (GBSC) is a working title for a company yet to be launched in Tanzania.

### Summary:

Rural craftsmen shall be trained and coached to operate their own small businesses in selling reliable grain bins to villages. GBSC then is a network company that franchises successfully trained entrepreneurs. The franchise agreement includes sustained training and coaching to expand the business options of the entrepreneurs, bulk purchase and provision of specialized materials and tools for them to produce high quality bins, access to financing, and assistance in marketing. The businesses of the franchisees and of GBSC must each break even at their level, whereby it is expected that GBSC can only break even at a fairly large number of franchisees. Start-up investments will be required to achieve this.

An alternative or complementary concept is “integrating grain bins in TSS operations of TruTrade” which will build on the same background information presented in section 1 below. See separate concept note. While that concept note attempts to attach the venture to an existing ongoing venture, this concept note addresses the challenge at its roots, aiming for sustained operations. So, while the effort described in this paper is still in the early phase of conceptualization it more rigorously addresses the challenge.

## 1. Background

### The bins

Bins of various sizes made of galvanized metal sheets are a technology for reliably storing dried grains over several months in rural households. The bins protect the grains from rodents and also allow to fumigate inside the bins for protection against insects. This technology is well known. However, making sure production of bins results in assured quality and sustained delivery in widely dispersed rural locations is a logistical challenge. SDC is about to launch an effort in Tanzania for making such bins available. It also seems that specifications for the bins may include their lockability, which is a prerequisite for our interest in them.

### Stored grains as collateral for credits

The warehouse-receipt system is well understood in its operations, but also in its operational and financial shortcomings with the SACCOS. So, based on this experience we can build an analogous mechanism for a “grain bin receipt system”, whereby a TSS agent will check on the quality of grains going into a bin and then lock that bin. The TSS agent then gives the household a receipt that states the amount of the grains and the assurance that it is of acceptable quality and will be marketed in future TSS-registered deals as soon as the household decides to sell the stored grains. The household will then be able to take this receipt to a MFI and get a credit for it, to be repaid when the grains are sold through a TSS deal. In effect the TSS agent becomes the collateral manager for the MFI.

Whether MFIs are available in any village needs to be assessed for each village. The traditional SACCOS often have a poor reputation among villagers. So it may be that specific credit arrangements will have to be launched in those villages where nothing is yet working for credits in order to trigger a “grain bin receipt system”.

### TSS

“Transaction Security Services Africa” is a brand held by RAVI Ltd. and licensed to TruTrade Ltd. With TSS TruTrade 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 is trained and licensed to operate with TSS along with his or her network of independent local TSS agents. This network is

independent of the value chain and provides this service on a commission that is tied to the level of income that farmers ultimately can get from the deal. For every deal, one TSS agent is responsible for interacting with the farmers who are selling. The TSS 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 advance payments to farmers and later bonus payments in case there is a bonus to be paid. Another TSS 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 calculated on the value of the transaction for the farmers, which is documented, transparently communicated to both buyers and sellers, and agreed with them beforehand. TruTrade Ltd is a company that is recently launched in Kenya and operates throughout Kenya, Tanzania and Uganda. RAVI holds stakes in TruTrade.

### **Trading centers**

Wherever possible TSS agents in villages are equipped with a building and equipment that allows for reliable bulking and quality control and packaging of produce to make shipments for TSS deals ready for transport. These buildings are typically owned or rented by TruTrade and then rented out to the TSS agents at cost covering prices. Such buildings are NOT warehouses for strategic storage of grains, they are structures where produce only stays for an average of 1-2 weeks until bulking is achieved and the TruTrade-organized trucks come to pick it up.

This is where the grain bins come in: Strategic storage, ie. for 2-9 months, is done in the grain bins in the households. The TSS agent will know which households have how much to market and will regularly check with them to ask when they intend to market. Once they decide to sell, they will be asked to bring their produce from their bins to the trading center for then bulking up with other grains for registered TSS deals.

### **Present operations**

In Tanzania TruTrade is presently operating a network in the southern highlands around Mafinga-Makambako-Njombe, expanding to Mbeya and Songea.

In central Tanzania contacts have so far been made with traders in the Babati area, around Katesh, in Gairo and in Kigwe. Trainings have already happened with potential traders there and negotiations are under way to launch new networks there.

Also traders in Daressalaam are built into the existing network arrangements to take care of the buyer-side of TSS operations.

Expansion of these TSS-licensed networks is directly linked to the resources that can be put into training and coaching new members to pick up the business model of TruTrade. At present efforts of Traidcraft are under way to speed up the capacitation. Negotiations with IFAD are also presently under way to support the expansion of networks.

### **Drying equipment**

Moisture content is the single most important external factor for the success of storage in grain bins. This is even more pronounced in beans (aflatoxins!). It will therefore be unavoidable that also suitable technology and procedures for drying and cleaning at the household level must be introduced along with the grain bins. Almost certainly this will mean there needs to be a R&D effort at the village level to figure out the most effective and efficient means of drying and cleaning produce for storage and marketing. Such technologies will vary from one region to the other, depending on the climatic conditions during harvest of the crops to be marketed.

## 2. Business Idea

A “Grain Bin Storage Company” (GBSC) will be set up in Tanzania that trains and coaches local producers of grain bins as independent small entrepreneurs in diverse locations. Also providers and producers of drying and cleaning equipment will be trained and coached to provide reliable equipment. These independent small rural entrepreneurs will be franchised by GBSC to hold a quality brand for their equipment. GBSC ensures that the logistics are in place for the franchisees to have access to the required materials and financing, along with continued training and coaching using the “Linking Local Learners” methodology of RAVI to enhance peer-learning from each other to sustain and expand their business options

This is a networked business at two or three levels of networking, whereby the franchised independent small entrepreneurs operate their own independent business and need to break even at their level, while the franchisor GBSC itself runs its own business and needs to break even at its level.

### Sales:

#### Small entrepreneurs:

They sell their equipment through marketing channels they either manage on their own, or through channels organized for them by GBSC.

#### GBSC's incomes will be from:

- Franchise fees from the small entrepreneurs commensurate with the commercial success of each of them
- Sales to franchisees of specialized materials that have been bulk-purchased on their behalf, eg. suitable metal sheets for bin production, moisture meters, tarpaulins, etc.
- Commissions on bulk sales by franchisees to various programs and companies, negotiated and organized by GBSC, eg. to TruTrade and similar
- Training and coaching fees for further expanding the network, paid by programs intending to attract GBSC to new areas.

### Unique selling proposition:

The equipment is provided locally through local networks of entrepreneurs, who hold a quality brand that is checked and supervised. Warranties will be available and complaints are taken care of by GBSC.

## 3. Operations:

- GBSC selects, trains and coaches suitable rural entrepreneurs to reach full competence in reliably producing and selling their equipment according to fixed quality standards.
- GBSC then invites successful trainees to enter into a franchise agreement with GBSC, who then licenses them to make sales with a quality brand.
- The franchise agreement includes the provision of logistics that the franchisees can not organize on their own or where bulk orders come into play, eg. for raw materials such as metal sheets or finance. Also the franchise agreement includes sustained training and coaching, and mentoring of peer-exchange learning.
- GBSC also engages in R&D to expand the technologies and services that the franchisees will be able to provide. Funding of such R&D can initially not be commercially viable and therefore grants will be required.
- GBSC continuously explores the markets for the products of the franchisees and negotiates with large programs and companies on behalf of the franchisees for expanding the sales.

## 4. Legal

- GBSC will have a fully commercial for-profit outlook right from the beginning, along with legal documents to that effect
- GBSC is to start with a simple company registration that can then be changed to share-holding if and when the operations and investors require it.

## 5. Launching

Start a pilot effort with:

- Organize required materials and tools for technical trainings and make them available at the right locations.
- First training and coaching of 5-10 suitable rural entrepreneurs in one or two regions who will learn to build 20 grain bins each as a first series.
- Negotiate for a first secured sale of these 20 bins per trainee, eg. with TruTrade Ltd.
- Based on field experiences identify technologies and services that need to be researched and developed for the drying and cleaning operations
- Analyze operations and financial flows

## **6. Scaling-up**

Based on the pilot venture, redesign the venture and submit bizplan to investors for scaling up, be they public donors, charities or commercial investors with loans or equity. A PPP shall be envisaged whereby the costs of capacitation for scaling up will be borne by public donors or charities, while the costs for materials and operations shall be borne by private (social?) investors through loans and equity.

## **7. Role of RAVI**

RAVI is an incubation company that coaches potential ventures by and for and with rural Africans to the point where they become investable.

This venture is in early stages. RAVI is the conceptual mastermind and coach behind this venture. By default RAVI will simply provide consulting services and be paid for those by interested agencies.

Whether RAVI will additionally take equity in the venture will depend on how negotiations work out in recruiting suitable entrepreneurs who will own and manage GBSC, and on how negotiations work out with funding agencies.

## **8. Next steps**

1. Negotiate with various bidders for the SDC tender where RAVI shall have an agreement to be the private commercial partner in what they suggest in their bid. Then design and budget accordingly while safeguarding the strategic interests of RAVI (ie. what happens after SDC funding ceases).
2. Alternatively submit to investors interested in the same effects, such as AECF and others