

## TSS Transaction Security Services for efficient agriculture marketing chains 1<sup>st</sup> November 2010

*This is a short concept note for people and agencies potentially interested in providing grant funding for demonstrating commercially viable "TSS Transaction Security Services" for agricultural produce in East Africa. Trials have shown that ensuring transaction security along marketing chains can substantially increase and stabilize the income of farmers. RAVI has launched a company in Kenya called TruTrade with the tools and operations for providing such services on a commercial basis through franchises to local network managers. Local networks of licensed "TSS agents" have emerged who operate commercially on commissions they can make from providing the service to both buyers and sellers. The challenge now is to scale up the TSS operations from these successful small trials to a level that can demonstrate commercial viability for this service.*

### 1. The Existing Situation

Marketing chains for agricultural products in East Africa are highly inefficient due to mistrust and exploitation resulting in much waste and many 'failed' deals. Farmers 'compensate' for the 'tampered' scales and measuring cans used by traders by putting stones and debris into the bags as well as mixing quality. Farmers bring lower volumes or simply do not come to meet the trader who may not bring enough cash to use promissory notes that are often not honoured. Trial runs show that with secure transactions along the chains efficiency can be increased so much that farmer income can be substantially enhanced and stabilized. (See *Table of TSS deal results at end of document*)

IFAD-funded projects<sup>1</sup> engaged Rural African Ventures Investments ([www.ravinvest.biz](http://www.ravinvest.biz)) (RAVI) to develop the tools and local capacity for making the transactions along the chains more secure. These investments resulted in the establishment of commercially oriented networks of market agents who provide services to the market actors for more efficient marketing ([www.agrinetug.net](http://www.agrinetug.net); [www.agri-trade.biz](http://www.agri-trade.biz)). IFAD continues to support the capacity building of network members through grants to Traidcraft UK<sup>2</sup> and Agridea Switzerland<sup>3</sup> using technical assistance from RAVI. RAVI continues to be engaged as the coordinator and facilitator of the learning among members of the network, and in the preparations for setting up commercially viable services.

RAVI has established "TSS Transaction Security Services" as a trademark for giving focus to the building of a recognizable and closely supervised commercial service operated by TruTrade to be provided by franchise to local networks of TSS agents. These franchises connect to make a TSS network that reaches across Kenya, Uganda and Tanzania.

Through the pilot trials in Kenya, Uganda and Tanzania many insights have been gained about where the bottlenecks are in rural marketing, and what can be done about them. The trials involved some one hundred entrepreneurs organized in eight regional networks. These networks provide the nucleus for scaling up. Expanding these networks and improving their business operations is an ongoing process. Most importantly it was discovered that market intelligence, though a critical ingredient for success, in itself is not sufficient for increasing marketing efficiency. What are also needed are bulking and storing operations designed for efficient marketing, secure and fast money transactions out to rural villages for payments "on the bag", fast and reliable processing of trade documents using ICTs, the possibility of tracking and tracing each single bag of produce back to the original farmer who packed it in order to improve the discipline in quality, and finally tracking of the payment discipline of buyers and the quality and delivery discipline of sellers. Tools for managing all these challenges have been developed and tested in the pilot efforts. While these trials have developed techniques that work they are at present too few and too small in volume to prove commercial viability of TSS and meet due diligence requirements for a major investment in the operations of the emerging TSS network.

The trial deals that have achieved TSS standards have attracted a strong interest among *buyers* struggling with enormous transaction costs for securing produce for their food and feed processing

<sup>1</sup> IFAD funded First Mile and Rural Knowledge Network projects implemented by Agridea and FAO respectively from 2006 to 2009 at a total investment of 2.1 million USD with Technical Assistance from RAVI.

<sup>2</sup> Ongoing IFAD funded Market Access Capacity Building project implemented by Traidcraft with Technical Assistance from RAVI

<sup>3</sup> Ongoing IFAD funded 'Preparation for Social Investments' project implemented by Agridea with Technical Assistance from RAVI

operations, and among *sellers* struggling to see desperately needed fast cash coming from the sale of their produce.

## 2. The Challenge

The present challenge therefore is to move the few TSS trials towards a demonstration of operations at sufficient scale to prove commercial viability of the TSS service franchise and make a convincing case to social (and commercial) investors for providing soft loans for the TSS network to grow in Kenya, Uganda and Tanzania.

The bottleneck to proof of commercial viability is the very limited resources available in the “Cash-on-the-bag” financing facility required for successful TSS deals. RAVI set up this facility to develop a way for dealing with this critically important ‘marketing’ dilemma: The fact that buyers have been cheated too often and therefore will only pay when they see the produce at their factory gates, whereas farmers have also been cheated so often they can not afford to part with their produce on the promise of later payments. This dilemma is exacerbated by the fact that banks have been cheated so often that traders who directly deal with farmers have no access to any formal and acceptable credit facilities for short term trade credits. Successful TSS with a “Cash-on-the-bag” facility demonstrably cuts through all these problems.

A lot still needs to be learned to demonstrate the commercial viability of TSS operations, and understanding the bottlenecks in getting to commercial scale. Experience suggests that due to the complexities of fast-moving markets the proof of commercial viability can only be done through expanding the COB financing facility so that TSS services can be offered at the appropriate scale. This is risky, as doubtlessly further hidden obstacles will emerge that again need to be overcome through learning exchange among the members of the TSS franchise networks.

## 3. The Proposition

RAVI needs to raise USD 200,000 to run a one-year demonstration of the commercial viability of the TSS network in ten regions within Uganda, Kenya and Tanzania. This will allow for the scaling up of TSS operations to at least 1 truckload (10 tons) of agricultural produce valued at 5,000 USD managed according to TSS standards per week per local TSS network. Any network earning 5 to 10% commission on 40 – 50 deals per year netting about 20,000 USD per year will have proved their commercial viability. These funds will also enable an appropriate level of monitoring and evaluation of each transaction to be conducted. RAVI through its franchisor TruTrade will match this amount to support the training of existing and new network entrepreneurs. ***The objective of our demonstration of commercial viability is to show that local TSS franchise networks can be managed at a scale that can break even on commissions they charge for their services.***

In order to achieve this demonstration, the following needs to be undertaken:

1. The existing revolving fund of presently some 10’000 USD for providing the finance facility to achieving the critically important “cash-on-the-bag” (COB) standard must be substantially augmented. Assuming networks will require COB financing for one 5,000 USD deal per week and roll over that money in two weeks then for 10 networks 100,000 USD will be needed to support the scaling up of TSS deals.
2. Further TSS agents need to be inducted into the existing local networks and trained up by RAVI and its franchisor TruTrade to achieve the required skills. The peer exchange among the TSS network members on the learning platform must continue<sup>4</sup>. This will require continued moderation by local mentors to a budget of 36,000 USD.
3. The tools developed in the trials must be systematically applied and adapted to reach commercial scale. The developed tools are for a) reliable tagging of bags, b) tracking the movement of the produce, c) tracking the movement of money and the use of cashless payments, d) tracking the financial reliability of buyers and the quality reliability of sellers, and

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<sup>4</sup> RAVI manages and operates a resilient internet platform along with a peer-exchange learning methodology that has proven to be instrumental in achieving the successes so far in developing the Transaction Security Services ([www.linkinglearners.net](http://www.linkinglearners.net)).

e) tracking the performance of both the TSS deals and the TSS agents. This will require continued R&D by RAVI to a budget of 50,000 USD.

The results of this demonstration will be used to develop an investment proposal for social investors and provide sufficient experience in trading records and social impact on the ground to be able to pass due diligence procedures.

#### **4. Planned next steps**

RAVI intends to put together a grant budget of 200,000 USD for implementing this demonstration and present it to agencies who may have a stake in ensuring that farmers incomes can increase due to TSS, and who want the service to be operating commercially in order to achieve sustainability. Furthermore some agencies may be interested to invest themselves after the successful demonstration.

The next steps are therefore to:

1. Identify who may be interested in making sure this scale-demonstration of TSS can happen and get their feedbacks, which will then lead to..
2. Design of the details of the grant proposal and setting up a detailed budget.