

Village Trading Centers for Agricultural Trade in East Africa 8th August 2012

Build and maintain small village trading centres that TruTrade rents out to licensed agents who provide quality control of produce, bulking and packing services for contributing to deals managed by TruTrade with the TSS brand (Transaction Security Services).

Summary

TruTrade Ltd is a company registered in Kenya that franchises a network of independent small entrepreneurs throughout East Africa to work as agents of the Transaction Security Services (TSS).

TruTrade Ltd will build small suitable structures called "Trading Centers" for bulking and quality control and packaging of agricultural produce in suitable locations in or near villages throughout a rural area with agriculture potential. TruTrade Ltd will own the Trading Centers, ensuring their correct longterm maintenance. TruTrade Ltd then rents them out at a cost-covering rate to its franchised trained agents of the TSS network. They will manage the Trading Centers as their own independent village level business.

Such village Trading Centers will allow farmers to upgrade the value of their crops through quality control and packaging, stocking for bulked marketing, etc. It is this organized and reliable bulk-marketing – as opposed to the present haphazard and unreliable, chaotic and highly wasteful roadside marketing – that will give small holder farmers higher income and therefore the incentive to grow more and quality crops, thereby further enhancing the business.

This arrangement is designed for sustained operations and flexibility of funding. Each TSS franchisee on his own can not raise the capital to build such structures. And TruTrade on its own can't operate them. Warehouses operated by farmer organisations have largely failed for reasons now well understood. So, ensuring ownership by a commercially oriented franchising company that then rents it to a franchisee is now expected to be the breakthrough.

Investments will be for building the Trading Center (soft loans), start-up capital for the franchisees (soft loans), building of short local roads wherever required and maintenance of these roads (public investments), and trainings and on-the-job coaching for the franchisees to learn modern communication and business skills (public grants).

A first pilot structure suggests the costs will be around 18'000 USD per Trading Center, to be financed with a 6 year loan at 10% flat interest rate. TruTrade Ltd can hire staff to supervise the buildings, and still break even with a rent that a franchisee can cover with the commissions and other proceeds of just four 10t deals per month. His/her income then climbs fast with each additional deal making its way through the Trading Center each month. It is enough for TruTrade Ltd to only break even as the main income shall be the commissions that TruTrade Ltd can earn due to these structures allowing many TSS registered deals.

Situation at present

This is the situation as presently observed in Mgololo area in the southern highlands of Tanzania. It appears to be typical of most other village locations throughout East Africa:

1. The Mgololo area in the southern highlands of Tanzania has potential for a big range of crops as it could tap streams and rivers for small scale irrigation. It is accessed by the Tazara railway (irregular service presently unsuitable for bulk trading of crops) and with dirt roads from Mafinga and Makambako, which are both main local trading centers.
2. Marketing of crops from the farm gate at present is entirely "roadside trade", ie. petty traders will pick up produce at the roadside. There are no trade schedules, little advance notices, no fixed quality criteria, no organized packing and stocking, unsuitable holding areas, no financial services available, etc. This all results in very high wastage and poor quality of the products being finally transported out of the Mgololo area, and this means very low incomes for the

- farmers and insufficient incentive for them to grow crops for the market. The area is not producing anywhere near what it could produce
3. The potential for organized marketing of diverse crops is there, which would result in substantial increase of household incomes in the area.
 4. At present there is not a single warehouse operating in all of this area..
 5. An agrodealer is working in the area (Bahat Tweve) who however does not have any storage facilities except the small rooms he has at home.
 6. Bahat Tweve is also a member of an emerging rural business communication network that uses modern ICTs to provide TSS™, ie. Transaction Security Services, that organizes secured deals between farmers and traders/processors (see <http://www.linkinglearners.net>). The members in this network are licensed “TSS agents” who operate their small businesses in the rural market spots and villages for bulking crops for marketing, and/or marketing agricultural inputs in the villages.
 7. Communication in the area at present is already surprisingly good with mobile phones and even internet via GPRS modems.
 8. A first pilot structure is presently being built in Mgololo area with grant funding from the Swiss company RAPP Group. It is expected to be commissioned in October 2012. Negotiations are under way with IFAD to expand this pilot.

Business idea

1. The **potential to be tapped is the difference between today's wasteful marketing and the organized marketing of high-quality crops** from the area, resulting in higher prices that can be paid to farmers and therefore higher incentives to increase production and thereby generate even more business.
2. **Simple and good small trading centers** very near to farmers plots are the key infrastructures required to organize this. **The business idea is therefore to manage such trading centers.**
3. This idea needs to be picked up with two interlinked but separate businesses:
 - a. **TruTrade Ltd builds and maintains the Trading Centers** and then rents them out to
 - b. trained and franchised **TSS agents who operate the Trading Centers** as their own business. This allows the TSS agents to then also operate as networked marketing agents who can contribute to large deals for sourcing or auctioning crops.
4. There is a potential for growth from this arrangement, eg:
 - a. Inputs such as fertilizers and agrochemicals can be much easier managed and reliably distributed
 - b. Processing equipment can later be installed to clean and package products, even to semi-processing the products (Drying? Milling? Consumer packaging?) and thereby pull added value back out into the village.
 - c. If electricity can be made available (small pico-turbines in streams in the vicinity or windturbines, etc) then equipment for drying grains and even cooling for perishables becomes a further option in the future.
 - d. Mechanization becomes a viable proposition, with a tractor rental service becoming an add-on business operating out of the same location
 - e. The Trading Center becomes the focal point for market information, even for internet access, which in turn can trigger other ventures...
 - f. Crop receipt systems for micro credits could be adapted to fit this situation, whereby the TSS agent may become the collateral agent for the credit facility. This is presently envisaged to work through metal grain bins that stay in the farm households and hold grains for later auctioning through the Trading Centers.

Such Trading Centers – if correctly set up as independent but networked small businesses – will therefore become focal points for many aspects of agricultural development in their areas.

5. This arrangement will also allow public agencies (District councils, donor projects, etc) to support this effort in appropriate ways that do not jeopardize the commercial behaviour of the ventures and therefore can enhance their sustained operations, ie:

- a. Provide the funding to keep the roads open and thereby the Trading Centers in business. Local roads belong to the core infrastructure tasks of the public.
- b. Provide for a sustained program of on-the-job business training and coaching for the involved entrepreneurs, particularly the franchised TSS agents.
- c. Provide for peer-exchange among the TSS agents to learn how to grow their business, and for newcomers to learn the business from their experienced peers.
- d. Ensure that the regulations are in place for easy and fast installation of communication equipment and rural electricity wherever this becomes possible.
- e. Ensure fast administrative procedures for approval of buildings, roads, etc.

Operational concept

Two businesses will be designed and formulated, each with their separate businessplans.

1. A generic businessplan for the TSS agents. This business plan will only consider all that is required to keep a Trading Center operating well enough to be able to pay a cost-covering rent. It will not comprise the other businesses of the TSS agent that will also use the Trading Center and where his profit lies, ie. agrodealership and marketing broker through the TSS network.
2. A business plan for TruTrade Ltd. This will only concentrate on all that is required to be able to build and maintain the Trading Centers, and take a cost-covering rent that is still well within reach of the TSS agents. All other businesses that may evolve out of this (eg. tractor renting, energy services, crop receipt systems, etc) are dealt with in separate businessplans.

The operations that shall lead to sufficient rent for the Trading Centers are already past the piloting stage and can be demonstrated to work. Proof of operational concept is achieved.

In order for the Trading Centers to start to happen, capital will be required to **put in place a fully integrated scaleable module of a local string of 5 Trading Centers in an agricultural trade catchment area** (eg. Mgololo). This module shall then be replicated in other trade-catchments. This shall then be proof of upscaling. Further expansion shall happen based on experiences with the upscaling effort.

Full integration of the module means:

- Build 5 village Trading Centers in the Mgololo agricultural catchment area.
- train and coach at least 5 suitable local entrepreneurs to be capable TSS agents who can rent the Trading Centers
- build a local marketing network among the 5 Trading Centers with one central hub.
- tie this local network into the emerging Transaction Security Services network

Legal

TruTrade Ltd is a company by shares registered in Kenya. It is in the process of establishing a branch in Tanzania, with Bahat Tweve as the Tanzanian shareholder

The TSS agents are registered with their Districts and hold TIN numbers

Contractual arrangements are between TruTrade Ltd Tanzania and the TSS agents who will be renting the Trading Centers

Investment requirements

1. Soft loans or equity for TruTrade Ltd to build the Trading Centers according to a suitable standard design that allows quality storage of crops. Where suitable structures already exist they can be bought by TruTrade Ltd and refurbished to fit the requirements.
2. Start-up loans for TSS agents (soft loans)
3. Training and coaching for the TSS agents (grants from donor agencies)

Proposed Action

1. Explore with interested agencies (private individual investors, social investment funds, foundations, projects) who may be interested in providing capital for the buildings and for the start-up loans, and who may want to provide grants for the coaching of the TSS agents.

2. Build business plans for both TSS agents and TruTrade Ltd, and the investment budgets and implementation schedules.
3. Define a Public Private Partnership between
 - on the private side TruTrade Ltd and TSS agents as operational actors along with private investors (or their investment funds) as providers of loans or equity, and
 - on the public side projects, programs, government agencies and foundations for providing the grants for competence building of the warehouse managers and for the feeder roads where required.
4. Implement the fully integrated module in Mgololo and prepare replication in other areas.