



**BRIEFING  
NOTE 30  
ON:  
Market transaction  
security services:  
a modern  
business  
opportunity**

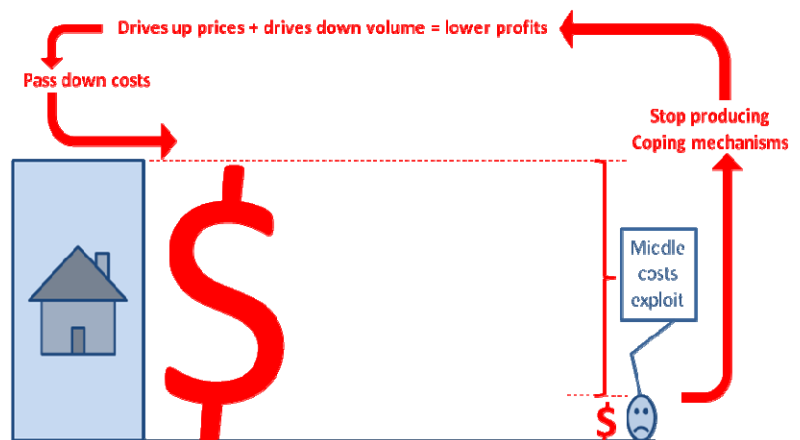
**This briefing note answers some frequently-asked questions about market transaction security services. We start by explaining what transaction security is all about and why it is a business opportunity. We close with a few words on the challenges to setting up such businesses and why modern ICTs' make the provision of transaction security services in rural areas possible now.**

What is transaction security?

Transaction security services provide the buyer and seller with delivery of the agreed volume and quality of produce at an agreed time and place. In practice this means a full 10-ton lorry carrying the right variety of produce, properly graded, dried and packed, with no debris arriving at the processing factory gate on the agreed day and time. Transaction security services provide the seller with payments as agreed at the point of change of ownership. In practice this means farmers get paid the agreed price per kilo when their produce has been weighed and checked at a pre-determined collection point. Payment to farmers is 'on the bag' by electronic cash transfer. Transaction security services track produce as it moves from the farm to the factory, so that if anything goes wrong it can be fixed without a fight. In practice this means that the sources of any losses, like poorly sealed bags can be identified and fixed. Transaction security services can also trace a bag of produce right back to the farmer who supplied that bag. In practice this means that every bag is labelled once it has passed weight and quality checks at the collection point.

Why is it a modern business opportunity?

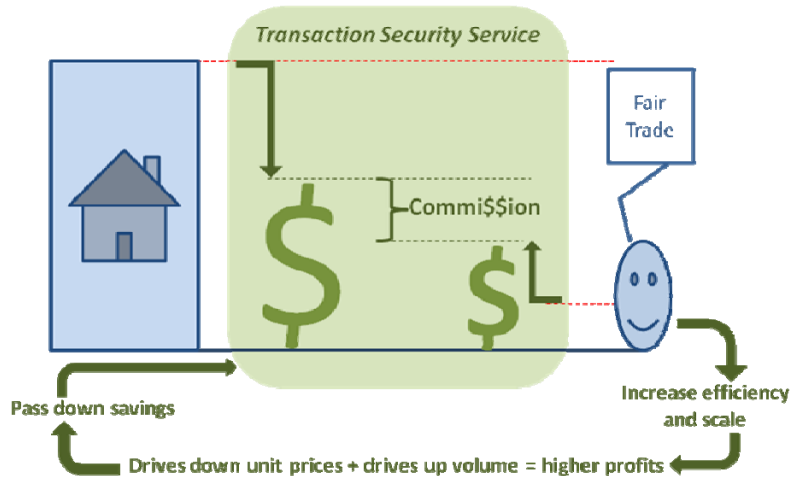
Today, large volume buyers like grain millers, oil processors and fruit juice and vegetable canners, spend a great deal of money to source their produce. Typically, they use agents who in their turn hire middle men to go out and buy the produce from farmers. On top of this they also pay, either directly or through hire, for transport and storage costs while the produce is in transit. The cost per kilo of produce is very high –often three or four times what the farmer gets. An oil processor may pay 30 Ksh for a kilo of sunflower, but the farmer will get less than 10Ksh per kilo from the middle man who visits his farm. The huge gap, more than 60% of the value of trade, between prices to buyer and seller goes on 'middle costs.' Some of these are necessary costs,



like transport and storage, but much is either correction for 'cheating' or 'exploitative' mark ups for the many middle men involved in the transaction. Farmers cope with low prices and middle men cheating on weights by putting stones and debris in bags. Someone then has to pay to have the stones and debris removed. For large processors the costs they incur are simply passed down in the form of a lower price for produce. For some small farmers the low prices barely cover the cost of production, so they stop producing for the market. This behaviour drives down the volume of produce getting to processors and drives up their prices which results in lower profits for all.

Where is the business opportunity?

The business opportunity in transaction security services lies in the 60% gap between what large processors pay for produce and what small farmers get for their crops. The business is attractive when it reduces the cost to volume buyers, increases the return to farmers, and provides a commission to the service provider. Fair terms of trade for small farmers will drive up yields and increase the number of farmers engaged in the market. Moving to much higher scales of operation will bring higher profits to all, as the high volumes compensate for the natural reduction in unit prices. Over time volume buyers will pass down their savings to farmers in order to sustain assured quality supplies.



make a rural network of transaction security services cost effective.

Modern ICTs are also becoming an important tool in banking. Smart cards and cash points are spreading into smaller and smaller towns, bringing these services much closer to small farmers. They are certainly within the reach of most farmer associations and savings and loans societies. Cash transfers via mobile phones are now possible for the smaller payments that each farmer expects from their sales. 'Mpesa' style services are spreading rapidly throughout East Africa. Cashless payment made directly to a small farmer is one of the unique selling points of transaction security services. Cashless payment, fair trade, tracking and tracing produce all make transaction security services a modern business opportunity.

What are the challenges to setting up the business?

The greatest challenge to the emergence of transaction security services is that they can succeed only if provided on a large scale. If farmers are to get better prices and processors are to get cheaper supplies margins will be small for transaction security service providers. Small margin businesses must move very large volumes of produce to many different high volume buyers to make a profit for investors. Operating at such a large scale has become possible thanks to modern information and communication technologies (ICTs).

Why are modern ICTs so important?

Mobile phones have become the essential tool for modern marketing by small farmers, middle men and large volume buyers like processors, wholesalers and exporters. Mobile phones enable the time sensitive communication that transaction security services demand. One-to-many SMS text messages allow businesses to operate on a large scale, and also reduce the cost of communication. Operations that once required costly farm visits and meetings are now cheap and easy. GPRS modems are bringing all the resources of the internet into rural areas where mobile telephone coverage exists. Modern ICTs

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