BRIEF 37. Risks Facing Market Linkage Service Providers

Linking smallholders to markets is full of risks. Risks arise from simple things like carrying around cash and getting your market prices wrong. Everyone knows that lots of things can go wrong when moving produce from farm to factory. Not following standards and regulations can also lead to losses. Less well known are the many ways buyers can reduce your profits or even cheat you completely. Undisciplined farmers can also drive up the costs of providing market linkage services. This brief provides examples from our experiences of some of these risks. Those offering services to facilitate transactions along value chains need to be prepared for such risks. The full story surrounding each risk illustrated can be read on our website. While this brief talk only of risks and where things go wrong our next brief will focus on tips and hits as to how these risks can be reduced.

Risks with Cash

Lack of banking facilities force to run the risk of carrying cash:

"We also had difficulty getting the money to the farmers to pay them for their soyabeans. Movement of money is difficult as there is no bank in the area. This is an area where it is dangerous to move with money. As people knew that I was coming to the village to pay the farmers I had to travel on the bus and give the money to an independent person who came with a motor bike." Grace Nalukwago moved cash 90 km from Hoima to a district without bank in Kyangwali.

"We do not have any bank that has a branch in both Nakuru and Soroti. Although Equity has a branch in Mbale the exchange rate is poor. At the border we get an exchange rate of 1 KSH = 25 UGX whereas the Bank rate given for 1 KSH= 22 UGX. The time we did use the bank we realised we lost around 50,000 UGX." Moses Gichuru withdrew Kenya shillings at Malaba, exchanged it at the border, and carried cash to Soroti to pay farmers.

Cash in hand can be 'diverted':

"I gave John Mwanasimba money for a round potato double loop deal collecting from local farmers and paying them; transporting the produce from Mbeya to deliver it to traders in Kariako market and collecting their payment. John completed the deal and I asked him for the money he had used to pay the farmers but he deposited less than the total amount. When I asked about this he said that it wasn't a problem he was doing a second deal so when he had this money again he would deposit it. He then tried to do a third deal, got into trouble and did not recover all the money." Bahat Tweve says that John still owes him 1.8 million TZS.

Risks with Logistics

Out of date market intelligence:

"When I saw the cattle I thought that the cattle had been totally over priced. The prices paid to the pastoralists were higher than those at the Kiserian Market, which is the terminal market for all the livestock. It was too difficult to sell these cattle since the prices paid were very high and the traders were telling me I was exaggerating the prices. We later learned that the prices in the local market at Kimana were high because there was a great demand for livestock in the Kilimanjaro heartlands as the Maasai were replenishing their depleted stocks after the drought." Wilson Ilanet says this has inflated the local prices for cattle to the same level as the Kiseran prices.

Using the wrong kind of transport:

"We decided to transport the sweet potatoes to Nairobi using a covered lorry instead of an open one. After two days the sweet potatoes arrived at the market but when they were unpacked about two thirds of the sweet potatoes had rotted. The potatoes had got too hot during the journey." Khamala Habbakuk reports the buyer would not take the sweet potatoes because of their condition.

"We eventually got our seven tons of cassava and three tons of sorghum from town and we tried to cover our loss by hiring a cheap low truck that gave us hell on the way back with bags falling off one after the other on the way." Moses Gichuru experienced produce loss from using the wrong kind of trucks.

Heavy rains make transport impossible:
"The cash-on-the-bag payments for paying the farmers who produced the finger millet for the auction in Isaula were ready. There were interesting bids from buyers. But there were two problems: first, there is no warehouse in the whole Mgololo area so the bags have to reach the loading point at exactly the time when the truck arrives to pick them up. Second, heavy rains made it impossible for trucks to reach there." Bahat Tweve reports this auction had to be cancelled.

Using inadequate storage facilities:
"As we could not sell the onions we thought that we would store them to sell at a later date. But our store was small and badly ventilated so we had to keep the onions in their bags and not spread out so they rotted. When we tried to sell them later on, we had to persuade the retailers to take them as they were of such poor quality." Samuel Mugo reports that produce was sold at a loss.

Delays in loading up trucks:
"We had a hitch with the local transporter arriving late; as there were many collection points we were unable to complete all of them and took the produce to the mills late at night. The milling had to proceed the following day due to these hitches and so we left for Nakuru late." Gaudesius Opio and Moses Gichuru say that although they spent more time their financial losses were minimal.

Poor quality control procedures:
"We sourced the onions from around ten farmers who we paid in cash. Joseph Mwangi and I inspected the onions, all except some bags that Seph had sourced for us and had already inspected. When we inspected the onions that Seph had checked we were not happy with the quality so they could not be transported." Samuel Mugo reports that they had to change the person we were dealing with.

Risks with Standards and Regulations

Using non standardized local measures:
"Thomas checked the farmers produce measured out with tins. The calculation was based on a tin containing 20 kg. When we got back to Makambako and weighed the bags we found each bag was 115 kg instead of 100 kg. So we checked the amount of beans contained in a tin using scales. We found that actually the buyer was getting 23 kg per tin. So according to that farmers were losing 3 kgs per tin." Bahat Tweve warns of using tins instead of kgs.

Correct paper work for border crossings:
"At Malaba border we came to a major hiccup because the border officials insisted that the cassava was milled and therefore a finished product. So it had to have the mark of the Ugandan Bureau of Standards and being a processed product should attract duty that was very high. After much negotiation that cost over seven hours we were able to get a vital call from Kenyan Bureau of Standards Nakuru office that convinced the customs office that the flour was a raw material for us and not a finished product. We shall be getting a written note from KEBS Nairobi before getting the next consignment". Moses Gichuru spent the night at the border.

Risks with Buyers

Delayed payments tie up costly credit:
"At Vet Care the manager who inspected the soya said that he would pay us UGX 2.5 million the next day and then pay the balance after one week. The following day he paid us. We paid the transporter and the farmers' representative for the soya we had received on credit. But the buyer's next payment was delayed. One week became two weeks and only after a month did they make the whole payment. The first time I returned to pick up the payment they had one million ready for me. So I said no because I knew that once I took the one million it would become the order of the day: come for another one million, etc. Two weeks after that they managed to give us the entire amount." Grace Nalukwago gets less profit from tying up credit by delayed payments from local feeds company.

"The only problem we had was that after we delivered the produce the second 50% was not paid by A2N. We had got a cash-on-the-bag credit for three million UGX from RAVI to pay the farmers and we had to wait for an extra month to repay this because of the slow payment by A2N. However with the TSS form we calculated the extra interest that had to be paid on the credit and A2N paid this." Jacinta Nambiru suffers from credit being tied up by late paying buyers.

Some buyers are fraudsters:
"On delivery of the beans in Kampala, we were to be paid cash. Henry Mawanda was there to supervise the offloading, tally the weights, oversee the quality control and receive the cash. While still off-loading the truck, the buyer asked our TSS agent to wait there while he went to the bank to pick the money. After two hours of waiting, the truck had off-loaded and left, the buyer called Mawanda asking him to go and meet him at the bank so that he could receive the cash from there to avoid security problems. This we thought was a wise move, so Mawanda moved to the bank leaving the beans under the custody of the buyers' store manager. On reaching the bank Mawanda found that the buyer was not there. When phoned the buyer said that he was coming shortly. Henry waited. The time for banks to close came and the buyer said he would make the payment the next morning without fail. The next day came, and alas his phone was off the whole day! This is when we detected the trick. We rushed back to where we had offloaded the beans but the man had come back while Henry was waiting at the bank and taken the beans away." Paul Nyende reported the scam to the police.

Beware of sudden changes the terms of trade:
"I started very well with sunflower. I made a good deal and I got a commission. Then I also made two deals for maize with the same trader. When we made the third deal, instead of me working to make a commission, the agreement was that I should buy the maize and then sell it to him. I sent the maize and the trader never paid me so a lot of money was lost." Susan Nduku lost money she needed for her other businesses of tea and milk.

Risks with Farmers

Farmers' 'misunderstand' quality requirements:
"The seed company transport arrived at eight o'clock in the morning to collect the seed. I had gone earlier to see the groundnut seeds, and had discovered a problem. When I had gone to the field the previous day to check the seeds all those delivered had been the 'Serenut 3' variety. On the day of the pick-up the groundnuts of two varieties had been mixed together. When I left the day before the farmers had been a little short of the target weight and they had topped up the groundnuts with a different variety, 'Red Beauty'. I don't know if the farmers really understood that the groundnuts were for seed." Jacinta Nambiru sees farmers mix varieties to make up the weight.

Farmers' delay bulking their produce for pick up:
"We had agreed that the farmers would collect the soya together, perhaps six bags in someone's home. We arranged the bulking with the farmers from these homes to one main collection centre. Then we called the transporter when we were ready to move the soya from the collection centre to Hoima. We thought that it would take one day to do the bulking. We spent around three days travelling to the farmers homes as the rains made it more difficult than we had expected." Barnabas Ntume reported how the transport had to wait at extra cost.

Farmers under contract still side sell:
"Production contracts had been signed in all three sub-counties by the farmers and local counselors. AgriNet provided the seed and offered UGX 700/ per kg for good quality sorted seed and a lower price of UGX 350/ per kg for the unsorted seed to contracted farmers. However, at harvest farmers wanted a quick sale and didn't want to spend time sorting the seed. So they 'side' sold to local middlemen who gave a higher price because they had not provided the inputs." Grace Nalukwago experienced side selling by contract farmers.

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