



### **BRIEF 33. Market Access Services: Steps to Commercialization**

Improving small farmers' access to markets attracts much public interest these days. The logic is simple and compelling. Giving small farmers secure markets and better prices stimulates investments, increases production and gets people out of poverty. Many projects have demonstrated this chain reaction. Sadly, projects are limited in scale and duration. They only benefit farmers inside the project area and the benefits stop when the project ends. In response renewed efforts include 'commercialization' to improve small farmer access to markets. Over the last five years we have been attempting to commercialize market access services in Kenya, Uganda and Tanzania with support from IFAD<sup>1</sup>. While we have not fully succeeded in commercializing our market access services we have identified a number of important steps towards commercialization of these services:

The first step is establishing commercial relationships between business operators and their clients. Demonstrating the commercial viability of the business opportunity is the second step. Inventing how to operate a commercially viable market intelligence service is the third step. Transaction security services that handle everything for the secure movement of product from the farm to the factory as well as the movement of money back to the farmer is the fourth step. The fifth step is to organize a Cash-on-the-Bag service to overcome the distrust barriers with trade credit.

#### **Step 1. Establishing commercial relationship between business operators and clients**

Commercial relationships have been hard to develop where farmers expect 'free' services from donor-funded projects. Clients are

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<sup>1</sup> Firstmile Project implemented by AMSDP, Agridea and RAVI; Local Market Services Development Project implemented by Traidcraft, Agridea, RAVI; RKN Project implemented by FAO, AgriNet and AgriTrade, Agridea, RAVI.

reluctant to pay for market access services when they are supported by a project. Commercial relationships are difficult to establish with rural entrepreneurs as well. Rural entrepreneurs familiar with the ways of NGO projects expect payment to try out new market access business opportunities. Recruiting entrepreneurs prepared to start up new commercial ventures in market access has not been easy. Much time has been spent on trying to convert people with a non-profit mindset to become entrepreneurs. It now appears that local 'champion' entrepreneurs are better at finding commercially minded 'entrepreneurs' than project managers. Despite the difficulties commercial relationships have developed among local entrepreneurs, often with a leader who gets things organized. Many have set up their own local network business to provide market access services. There are currently six local networks in Kenya, five in Uganda and two in Tanzania.

#### **Step 2. Demonstrating commercial viability of the business opportunity**

Members of local networks providing market access services can make good profits. They sell advertising space on their information boards for those who wish to buy or sell a diverse range of products. They take a small commission every time they assist sellers find a buyer or buyers find a seller. More recently, some have been able to charge a monthly subscription fee for arranging for their clients to receive trade alerts on their mobile phones as SMS text messages. While each transaction is small so is the cost of providing the service. More importantly, none of the successful members has requested or received funding from the project to either launch or run their business operations. Rather operating costs have been met out of incomes either from the information board or from their other businesses. Even less successful members insist on continuing with their board as they believe it will work for them eventually. Across the network it is now clear how information boards can be a profitable asset for a rural entrepreneur.

### **Step 3. Operating a commercially viable market intelligence service**

Keeping costs low makes it possible for rural entrepreneurs to profit from sharing market intelligence. All the rural entrepreneur needs is a mobile phone and cash to pay for sending an SMS every morning. Each morning they collect local market prices of commodities that are of interest to their clients and text them to their service provider. The service provider then sends them prices of the markets and commodities of their interest. Network members do not have to pay for the market prices and trade alerts they get each morning from the service provider. Market intelligence is shared among network members for free. However, they do not get this information unless they share their own local market prices with the service provider. So they pay for market intelligence by providing theirs for free. The service provider arranges for the exchange of market intelligence among all network members. Putting this information up on their information boards everyday brings clients to them. Clients ask to advertise on their boards and for assistance in finding buyers for their products. Small farmers appreciate the chance to advertise what they have to sell in the search for better prices. The combination of local market prices with trade alerts is information local traders and farmers want to get on their mobile phones. The charges members put on these services easily cover their costs and provide a profit margin. They confirm that the profits they are making are sufficient for them to continue providing local price information to the service provider.

### **Step 4. Operations for transaction security services**

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. 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 arguments. 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 tagged once it has passed weight and quality checks at the collection point. Such transaction services directly linking producers and large buyers reduce the inefficiencies in marketing chains enough to give better prices to both farmers and buyers. Transaction security services have emerged as a key to improving small farmer access to markets and better prices.

### **Step 5. Overcoming distrust barriers with 'cash-on-the-bag'**

Farmers, trying to get the better prices larger buyers offer, fail because they distrust each other. Small farmers rarely trust distant buyers to pay them. Large buyers rarely trust distant farmers to send the agreed quality and quantity of produce. Deals fall apart because buyers will only pay once they see the bags at their factory gate, and farmers will not part with their bags unless they see the cash when the bags leave their farm. A commercial service taking the risk of putting up the cash so small farmers can be paid as they hand over their crop is what farmers and buyers want. The risk a buyer takes in providing cash so farmers can be paid on the farm are that farmer's will not bring the right quality and quantity of produce to the right place and right time for pick up. The risk farmers take in providing bags on credit is that buyers will not pay the agreed price at the agreed time. The networks' Transaction Security Service takes care of these risks. A few trials providing 'cash-on-the-bag' financing to 'transaction security services' deals have been made. Although small, these trials show that such services can have a substantial and immediate impact on farmers' income and be profitable for their operators. A 'cash-on-the-bag' credit facility can overcome the distrust barrier to trade.

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