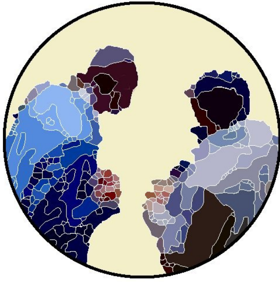

BRIEF 38. Reducing Risk: Practical Tips for Market Linkage Service Providers

Linking smallholders to markets is full of risks. Everyone knows that many things can go wrong when moving produce from farm to market. Sellers compensate for low prices with stones and debris or un-graded produce. Buyers compensate for interrupted cash flow with delayed payments. Some will cheat you completely. These are the obvious risks. But many more deals go wrong for more simple reasons: inadequate quality checks can result in buyers rejecting produce; an unplanned middle cost can wipe out any profit for the service provider; from farm to market produce passes through many hands and any one making a mistake can threaten profitability; mistakes in either the movement of produce or payments can cause failure. Such failures can be avoided by assessing the risks BEFORE deciding on whether to do the deal or not. Getting properly prepared before starting the deal also minimises mistakes. Practical tips for reducing risks and minimizing mistakes, based on two years of learning in developing commercial market linkage services in Kenya, Uganda and Tanzania, are provided in this brief.

Assess the Risks

Paradoxically, when deals fail they often do so for very obvious reasons: quality specifications were not met because standards were not known; a middle cost was not identified because the value chain was not understood; a buyer changes his price when produce is delivered; a price sounds good but after all the 'middle' costs were paid there was no profit. Such mistakes sound simple, but without due diligence at the outset they are made too often. The following tips can help avoid these simple mistakes. So, before you decide to do any deal make sure you:

1) Know the crop or commodity. Avoid doing deals in commodities you do not know well. If it's new to you make sure you know how, where and when it is produced. Know how weather, pests and disease affect its availability and quality. Know what affects quality standards: variety, size, colour, etc. Make sure you understand the value chain from farm to market: who are the key players and where are the inefficiencies. Try to find someone knowledgeable and discuss the deal with them.

2) Do due diligence on the buyers. Avoid doing deals with buyers you do not know well. Watch out for buyers who suggest a very good deal and push you to move fast. Do not let yourself be rushed. Do not let anybody confuse you. Don't do a deal where you are not fully clear about everything. If you do have a new buyer check their background carefully. Go beyond checking identification details and physical location of their business and ask neighbours if they know this person. Ask do they belong to the community and how long they have been trading there. See if someone you trust will recommend them. Make sure your buyer provides you with a Local Purchase Order specifying all the conditions of the deal. Make sure you get mobile numbers for them and for other person in case they are not reachable. When dealing with a buyer you have already done business with check their track record so you can feel comfortable to deal with them again.

3) Determine if the deal is profitable. Avoid doing deals where the price margins are low. Make sure you know the prices middlemen pay to farmers. Check the market prices at both buyer and seller ends and make sure you can compete with them. If not, don't try to beat your competition by giving farmers a low price or reducing your commission. It is better not to do the deal than jeopardize your reputation. Make sure price difference are sufficient for you to pay farmers more than the best price middlemen pay. Make sure you know about all the middle costs. If not make a list of things you still need to check, and then check them out. Make sure your commission covers your costs of facilitating the deal and also provides a profit. Where margins

are small go back to the buyer to try and get a better price, or try to reduce the middle costs.

Get Well Prepared

Deals often go wrong because the required preparations for it to run smoothly have not been made. If any one of the many people involved is unclear of their responsibilities this can mess up a deal. Missing documentation, poor communication between value chain players, and late payments all mess up deals. Getting well prepared reduces the chance of deals going wrong. The following tips can help reduce errors. So, before you start any deal make sure you:

1) Confirm that responsibilities are accepted. Everyone involved in the deal, from the person managing the collection point or warehouse to those checking the delivery and making payments, must understand and agree on responsibilities. Make sure everyone is clear on what they must do concerning the deal. Those responsible should agree that they will together bear the costs of any mistakes. How they share the costs of mistakes is for them to discuss and agree. Make sure the transporter knows the correct vehicle needed for the task.

2) Prepare legal documentation. Having the all the right documents matters for when things go wrong. Where necessary legal procedures require correct documentation. Make sure your buyer will provide a Local Purchase Order that specifies all the conditions for the deal including payment conditions. Make sure you have cash receipt books ready to use every time cash is changing hands, including payments to farmers. Make sure you have delivery notes and invoices for your buyer when you deliver the produce.

3) Set up communication links. From collection to delivery produce moves very quickly and passes through many hands. Even when things go well rapid communication is important and all the more so when something goes wrong. Get prepared by making sure the deal coordinator has all the mobile phone contacts of everyone involved. Arrange for alternate contact numbers just in case of emergencies. Those managing the collection point or warehouse and delivery should have each other's mobile numbers as well as that of the transporter. Be prepared by making sure everyone knows when the deal is expected to happen and who to call if things go wrong.

4) Confirm payment arrangements. Delayed or non-payments happen too often. This is not only because of buyers; it is also because of banks. Slow and unpredictable banking systems especially for cross-border payments to farmer group bank accounts undermine trust and disrupt deals. Indeed, moving money from one bank to another bank is unpredictable, no matter how close they are. The alternative of moving around with cash is also very risky. Confirming payment arrangements before the deal starts can help minimise payment problems. Make sure it is clear how the right amount of money will be at the right place for paying farmers at the right time. Where possible encourage the use of mobile money. If you are seeking financing from a bank make sure you are clear about the conditions for getting the loan. Make sure the finance will be available on time. If you are getting an advance from the buyer or farmers are giving you produce on 'trust' these agreements should be properly documented. Lastly, and most importantly, make sure you have emergency plans were payments are concerned. When a buyer starts to play games at the delivery point make sure you have an emergency store nearby so you can drive away with the produce. When a buyer delays payment make sure you have arrangements in place with a invoicing or debt collection service to retrieve your money.

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