



**BRIEF 39.**  
**Building Trust and Trade: Practical Tips for Market Linkage Service Providers**

*Services linking smallholders to markets must build trust between all players in the value chain and grow trade volumes to succeed commercially. Building trust requires not just transparency but also proper controls. Trust only comes with control. If there is no control, there can be no trust. Market linkage services must offer price discovery to buyers and sellers alike. Control measures are needed to track both the transfers of money and movement of produce. Building trade volumes is vital to low margin business like market linkage services. Such services must secure repeat business to reach commercially viable levels of operation. Market linkage services must pass on savings to farmers while remaining competitive with buyers. They must resolve outstanding issues with buyers and sellers after each deal. They must track the performance of all players in the value chain. This brief provides practical tips on building trust and trade based on two years of learning in developing market linkage services in Kenya, Uganda and Tanzania.*

**Operate Service Transparently**

Today, value chain players make their profit by keeping each other in the dark on prices. Buyer agents never tell farmers the price the buyer is giving them. Middlemen never tell farmers what they will sell for. Indeed, most buyer agents simply send many middlemen to buy from farmers at the lowest price they can get. Bigger buyers who hope that prices will go up over time want to buy at the lowest price. Differential trading power between big buyers, agents, middlemen and farmers secures the largest share of market value for the powerful. The current trading practice of hiding information and squeezing farmers on prices also hinders growth. Too many deals fail because farmers will not hand over their crop unless they are paid up

front and buyers will not pay until they see the crop in their depot. This lack of trust, born out of repeated bad experiences, opens the door to exploitation: Smallholders are so desperate for cash that they accept any price for their crop that puts cash in their hands. Low prices and failed trade act as disincentives for smallholders to produce more and trade more. Marketing based on speculation will always drive prices down for the smallholder. However, marketing based on commission for service can, if transparent and efficient, pass on a fair price to smallholders. The following practical tips can help to bring transparency into market access services.

1) Ensure price discovery. Provide both farmers and buyers with complete details on prices. Show them how much you are paying the farmers and how much the buyer is paying you. Show them the breakdown of all the middle costs. Most importantly show them how much commission you are charging for your service. Help your buyers and sellers compare what you can pay to farmers with local market prices. Show them how to look up local market prices on mobile phones, newspapers, and where possible online trading sites or commodity exchanges.

2) Track money transfers. Make sure that every time money changes hands as the produce moves from farm to factory a signed receipt goes in the opposite direction. Never lose control of either the produce or the payments. Should you ever find yourself not in control of either of these you are in trouble. Farmers should sign cash receipts when they are paid. Buyers should sign their Local Purchase Orders, delivery notes and receipts when paid against your invoice. All payments for middle costs, like transport, should have invoices and payment receipts. Never let yourself be confused by anybody. If someone will not sign the appropriate document do not proceed with the transaction. If a buyer defaults on payments make sure you have all the legal documents to prove your delivery of service. In case of bribes first of all beware of impersonators. Be sure the person you are talking with is indeed entitled to do so. Inform the person requesting a bribe that your policy is to report the incident to buyers and sellers as

well as the appropriate authority. You should collect all evidence you can.

3) Track produce movement. Tracking starts with making sure each bag of produce is sealed and tagged properly. As a minimum tags should identify not just the farmer but also the person responsible for checking the produce for quality and weight. When the transport arrives make sure you have evidence that both the vehicle and the driver are indeed from the company that has been contracted. Note vehicle numbers and names of drivers. Get the driver to sign for the produce loaded. As an added security measure a trusted person can travel with the transporter to the delivery point. Proof of delivery is a must. Make sure you get the delivery note signed and stamped by the buyer. If the buyer finds problems with quality, inspect the identified bags and take their tags for follow up. If possible make photos on your mobile of the unaccepted bags along with their tags. Using national standards can help to reduce disputes about quality. The rejected bags should be taken away and sold separately. It is not advisable to sell these bags to the buyer at a lower price.

#### **Secure Repeat Business**

A marketing service that is financed with commissions can only pass on a fair price to smallholders if the service is more efficient than the existing wasteful marketing chain. Furthermore it is only possible if the commission is low. Low margin businesses can only survive if they trade in high volumes. One way to increase trade volumes is to secure repeat business with both buyers and sellers. Securing repeat deals has a number of desirable outcomes for farmers and buyers. If you want smallholders to remain your clients you have to get them the best price you can. Giving farmers the best price possible puts pressure on the market that drives up farmer prices. If you want buyers to remain your clients you have to reduce middle costs to give them the best price you can. Reducing middle costs puts pressure on the market chain to improve efficiency. The following practical tips can help to secure repeat business for market access services.

1) Pass on savings to farmers. After the deal is complete pass on any savings made on middle costs or price increases to farmers. Go back to the farmers and show them the actual expenses as they happened in the deal. Explain to them the savings and pass this on to them in the form of a 'bonus' payment. If there are no savings or indeed if you have made a loss, show how you covered that loss by reducing your commission. Share the actual costs with the buyer so they see that you are treating the farmer fairly. Use the experience to identify ways to cut down on the middle costs and thus improve the efficiency of the market chain.

2) Resolve any outstanding issues fast. After the deal is completed go back to the buyers and sellers and share experiences and ideas on how to improve the deal. Make sure you resolve any remaining issues that either the farmers or the buyers may have. Come up with ways to avoid any problems in future deals. Treat any complaints immediately. Learn from the experience and make appropriate changes to improve the quality of your market linkage service.

3) Keep performance records. Every deal provides an opportunity for you to identify who you want to do business with again. Make sure you give a unique number to each deal. Identify each player in the market chain, not just buyers and sellers. Transporters, warehouse operators, quality controllers and those making payments should all be tracked on their performance. Scoring the performance of each actor in the chain will help you focus your attention on those you want to do repeat business with. Perhaps, just as important it will help you avoid those who default.

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