



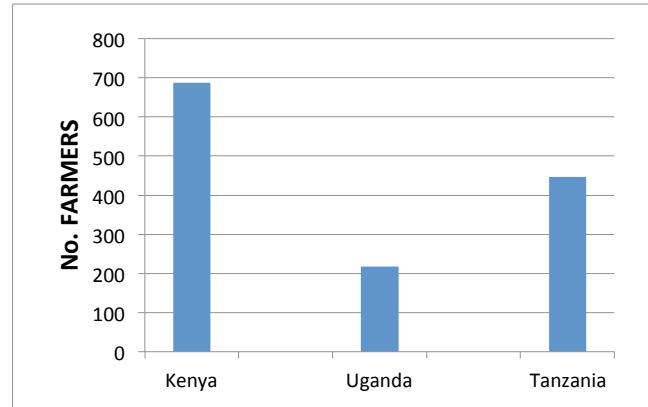
**BRIEF 43:
Impact of COB
Deals on
Smallholders.**

This brief presents a short summary of the impact of COB deals on smallholders and why they like COB deals. Over one thousand smallholders have benefited from COB deals. The value of trade so far has exceeded \$170,000 US dollars. The dollar income to smallholders from this trade has been \$155,000. COB deals increased smallholder prices by some 15% adding \$15,000 more dollars to their income. Price increases were made possible by adding value and increasing the efficiency of value chain operations to around 20% of total deal value. With this kind of impact it is hardly surprising that smallholders like COB deals. However, their interest in COB it is not just about fair and better prices. They also like COB deals because: There are no price or payment games. They can get mobile money not cash. They get opportunities to add value. They get access to larger scale buyers. They get continued service across seasons. They can deal with a local entrepreneurs. They have their produce traced to cut out cheating. COB deals provide win-win solutions not just to smallholders and scaled processors but also to marketing itself.

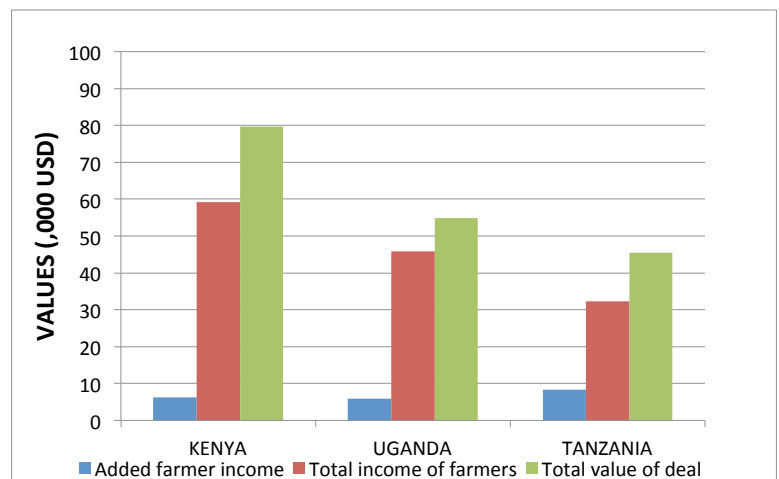
Key Performance Indicators of Impact

Trader networks in Kenya, Uganda and Tanzania have conducted fifty-one deals using the COB business model covering most staple cereals, grains and root crops, oil seed crops, cotton, livestock and fish, and a wide variety of vegetables. Over one thousand smallholders have benefited from the COB deals of these trader networks. (See Graph 1). The total value of trade so far has exceeded one hundred and seventy thousand US dollars. The US dollar income to smallholders from this trade has been nearly \$80,000 in Kenya, \$45,000 in Uganda and over \$30,000 in Tanzania. The value of the price increases trader networks have been able to give smallholders exceeds \$5,000 in each country. (See Graph 2).

Graph 1. Number of smallholders benefiting from COB

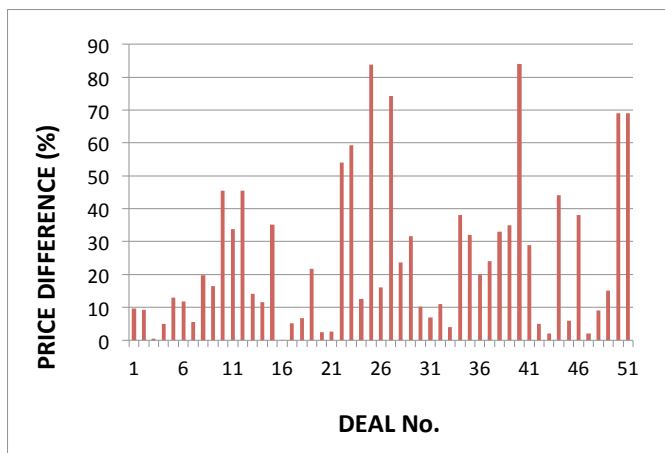


Graph 2. Deal values and smallholder income

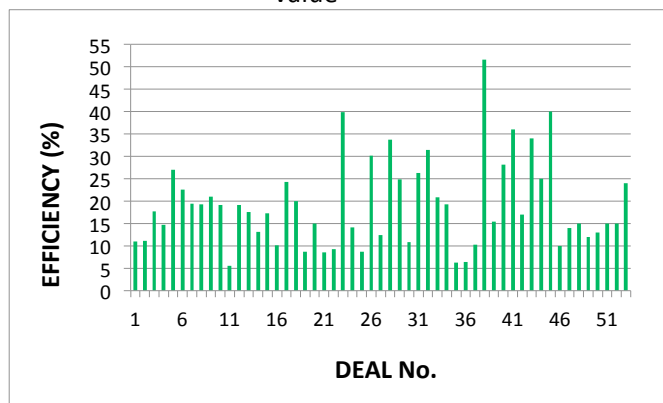


While the percentage price increase smallholders got over other middlemen vary greatly (2%-84%) the median value of 15% is promising. (See Graph 3). These price increases have been achieved through increasing the efficiency of value chain operations. Results show cost of marketing usually lies between 10% and 20% of the total deal value though the variation is great. (See Graph 4). Efficiency savings not only allow for a price rise to smallholders but also a commission to the trader networks making the COB business model commercially viable.

Graph 3. Percentage price difference to smallholders



Graph 4. Value chain efficiency as total cost: total value



Why smallholders like COB deals

Over the year of COB deals we have been listening to smallholders' feedback on each deal. Giving smallholders a better price than the middleman that comes to their farm or trader in the market is obviously going to please them. But, as we shall see below, smallholders' value COB deals for reasons beyond price.

- *Fair price:* Middlemen operating a buy low sell high business model make their profits by giving smallholders the lowest prices possible. When smallholders need cash fast they will part with their crop at prices well below their costs of production. Because smallholders do not know how much the middleman gets when he sells the crop they assume middlemen, rightly or wrongly, are profiteering. So, to smallholders, just as important as a better price is a transparent price. Knowing how much the buyer is paying and all the middle costs involved

allows them to decide whether the price is fair or not. Knowing they are getting the best possible price in the current market conditions appeals. That, should there be any savings during the transaction, these are passed on to them as a bonus demonstrates an even greater sense of fairness with COB deals.

- *Price and payment games:* Smallholders encounter plenty of games being played around payments by middlemen and contracts. They hand produce over against promissory notes or contracts that may or may not be honoured. Some buyers might just pay late or reduce the payment. Contractors are notorious for reducing farmer payments against 'so-called' rejected produce. Whether justified or not smallholders left in the dark assume they are being tricked. Smallholders, especially those who are vulnerable, value COB deals that pay the agreed price and at the time the produce is collected from them.
- *Mobile Money:* Smallholders are used to being paid for their produce in cash. However, cash exposes them to risks of theft and 'diversion' when intermediaries are used. Those handling payments for groups have been known to hold back part of the money. Dispute over payments among group members can break-up groups. Payments to individual smallholders' mobile phones are reducing these risks. Smallholders paid on mobile phones in COB deals say it is safer than taking cash.
- *Value-add:* Smallholders cope with the low prices of middlemen not only by adulterating their crop with stones and debris but also by mixing good and bad quality produce together. The incentive is to drive up the weight by whatever means possible. Middlemen do not offer smallholders a premium for good quality produce. It is those traders or wholesalers that clean, sort and grade produce who cash in on the premiums. Processors who are forced to clean up simply discount their prices accordingly. Smallholders feel discouraged from putting more effort and money into getting high quality because the extra costs will not be reflected in a higher

price. Smallholders appreciate COB deals because they know the trader is motivated to assist them do as much value-add as possible because the trader's commission is linked to farmer price.

- *Better buyers:* Smallholders who cannot get their produce to the roadside or local market sell to the middleman who comes to their farm. Even at the roadside or local market they still only meet with small traders. Scaled processors in the towns are too far away to reach. They see better buyers and higher prices on their mobile phones but are unable to get their produce to them. Smallholders like COB deals because network managers can connect them to processors and wholesalers who give higher prices for quality produce. Network managers working directly with buyers and vendors avoid cartels, brokers and other middle costs that negatively affect the price smallholders can get.
- *Continued service:* Middlemen come when crops are in short supply but when have plenty of produce they do not come. Many middlemen come only when they need crop not when we need to sell. Middlemen are here one season and do not come back the next season. These are the experiences of many smallholders. Smallholders are confident in COB deals because they are repeated. Trader networks must invest in setting up COB deals. So repeating the deal throughout the season and between seasons provides the profits.
- *Local face:* The middlemen visiting most smallholders are not from their community. Many travel around from one place to another so smallholders rarely know them. It is the same with small traders who come to local markets or roadside. Smallholders cannot be sure they will come back even to pay. If there is a problem they switch off phones and cannot be found. This means smallholders cannot follow up on payments or problems. Smallholders have more confidence in COB deals because the agent managing the collection point is from their 'place'. The COB agent lives in their community and has a physical address where they can be contacted.

- *Trace produce:* Smallholders only have a few bags each to contribute to a five or ten-ton truck pick up. So, at collection points one person's bags are mixed in with others from their group and sometimes other groups so the truck can be fully loaded. To often some members of the group cheat on quality. This means everyone suffers when bags are rejected and payments reduced. Placing a label on each bag enables the buyer to know which farmers are cheating and deduct their payment accordingly. Smallholder groups like this feature of COB deals because those members who have not cheated are not penalised. They have also noticed that because cheats will be caught they soon stop cheating.

Win-Win market access solutions

COB deals provide win-win solutions not just to smallholders and scaled processors but also to marketing itself. Linking trader revenue to smallholder price incentivises trader and farmer to add as much value as possible to smallholder produce. Cutting out product adulteration and waste, delivering agreed volumes at agreed times incentivises the scaled processor to reduce hedging and increase purchase prices. With COB deals smallholders can win and scaled processors can win. This also has beneficial effects on marketing itself. It increases the efficiency of value chains so savings can be passed on to smallholders thus increasing their prices further. COB deals trigger the market to drive up prices as competition for produce accelerates. COB deals trigger smallholders to invest in more production. COB contrasts starkly with the alternative 'buy-low-sell-high' trading model that leaves smallholders with the lowest price possible. Smallholders cope with stones and poor quality that simply sets in a race to the bottom. Once smallholders and scaled processors experience COB the choice is obvious.

For more information contact:

clive.lightfoot@linkinglearners.net
uscheuermeier@yahoo.com