

Risky Business; The Need for a Transaction Security Service

By Paul Nyende¹

Paul Nyende explains the risks and challenges in the brokering business and the ways that AgriNet aims to overcome these through the Transaction Security Services, which it is now operating.



Paul Nyende with the Bulumbi Farmers' Network, checking soya beans

Transaction Security Services

At AgriNet we have developed Transaction Security Services (TSS) to help to counter 'risky business'. TSS is simply the assuredness to buyer and seller that their transaction is safe and secure and guaranteed by AgriNet as the service provider.

TSS is a new business concept and with this there are unique risks and challenges. The key challenge for any new service is to get the clients to appreciate the service that we are giving them. The problem is that people don't see the job of "linking buyer and seller" as a real service that needs to be paid for and this is the reason that it is hard for buyers or even farmers to appreciate paying commission for it. People think that linking only means the price of a telephone call or transport to an area. The operational costs of the business are not looked into or appreciated although they involve setting up and managing a marketing network with a business directory of clients, developing trust and managing these relationships. Balancing that cost of service delivery brokerage is critical, so that the farmer or the buyers do not see us as having exploited them.

We will ensure a fair and transparent service through our contract procedures. When the buyer, farmers' group leader, Transaction Security Agent etc. sign this contract, they will know that they are committing themselves and they will think carefully about all the conditions stipulated in the contract. That will require them to understand the implications, if something goes wrong.

Strength and Speed of the Network

Our strategy for building the networks is for the network managers to build from the bottom up, recruiting and training quality members in their networks. The managers must invest time in mentoring and training their members so that their networks have the capacity to provide a fast and competent service, strong enough to respond fast to source quality produce for buyers. If we have too few network members there is too much time lag between a request and delivery and the deal falls apart.

Risks of Farmer Cheating

Sourcing produce comes with its own risks. Quality can be compromised in various ways, for example: stones can be added to the product to increase the weight; varieties can be mixed; produce can be badly sorted etc. To minimize these risks it is vital to have a trained network member to check there has been no adulteration of the products. These members, the Transaction Security Agents, should be able to communicate fast, take decisions and respond quickly to such problems; they must be impartial in the deal and expect farmers to stick to the contract.

Risks at the Warehouse

A signed contract will overcome the games that can be played at the warehouse. Even when the produce is collected in the store a lot of games can happen. Here are two examples: farmers can change their minds on the price-then we go to the buyer and things fall apart as the buyer is not willing to increase his price; or at the last minute the farmers may decide to sell it to a different buyer, even when they have made a contract to sell it to another one.

Risks with Middle Costs

Each deal will have different middle costs. Some of these costs cannot be estimated exactly. For example, if a truck breaks down

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on the way to delivery and the crop has to be kept for an extra day or two, costs may be incurred from an extra storage day or losses, if it is a perishable product. We can minimize our risks by specifying in the contract who pays for what if things go wrong.

Risks with Buyers

There are risks involved when dealing with buyers. For example they can work together with other buyers to stop buying a certain product from a particular area. Then the prices go down, but farmers can't afford not to sell so they sell at low prices. Even when there are signed contracts we have had experience when the buyers don't honour these. They disappear, they switch off their phones, we can't communicate with them and they are gone. This is why some buyers do not keep going back to the same area to buy because they have played some tricks; fake money and bouncing cheques are other common games.

The Need for Secure Transactions

These risks to fair-trading, point to the need for a service offering secure transactions. AgriNet is developing such a service, building trust with buyers that we can deliver the quantities and qualities they need in a timely way. Signing our contract will mean that some buyers will become more serious and realise that they are in trouble if they mess around. Others will be scared off and will not deal in this way. Some people fear signing papers.

We have to build trust in the total quality of our service. We need to ensure standards, with mechanisms for disciplining, not just for network members but also for farmers who cheat and buyers who don't pay. Then we can gradually clean up the system and build up business relationships.

Cash-on-the-Bag; Building Trust

Trade regularly falters because farmers won't hand on their crop without payment first, and buyers won't pay until they have checked the produce in their factory. We are going to provide a cash-on-the-bag payment to stimulate a trust relationship between buyers and our network. We will use a cash-on-the-bag fund to bridge the time of payment between buyers and farmers. The cash-on-the-bag loan will enable us to pay cash to producers when they bring their crop, because

the buyers will not put that money through in advance. Once we have done a number of trials we can then establish trust. The fund is building trust, showing buyers that we can supply the produce they require and showing farmers that we can be trusted to pay at this time and place. The fund will also help us to take care of the middle costs, which might lead to deals falling apart and therefore causing mistrust. For example a buyer might say I want to pick up the produce but I don't have transport – so we can organise the truck or supply bags or help with whatever the buyer cannot organise in time. So the fund is there to develop trust and manage those issues that are likely to make the deal fall apart if it is not done well.

Building the Capacity of AgriNet

In terms of training and building the capacity of the network, the focus is going to be around quality management with financial discipline at all levels. Consistent quality is key, in our products and throughout the network members and everything we do. This is what distinguishes us from the rest of the people and without this we will lose trust. It is the discipline of sharing transparency that will help the service to stand the test of time.

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