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Enabling poor rural people
to overcome poverty

President's report on a proposed grant under the global/regional grants window to a non-CGIAR-supported international centre

Trade4All Limited

Note to Executive Board representatives

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For: Approval

Contents

Abbreviations and acronyms	i
Recommendation for approval	1
Part I – Introduction	1
Part II – Recommendation	2

Annex

Trade4All Limited: Cash-on-the-Bag – Scaling up a secure, transparent trading business model for smallholders in East Africa

Abbreviations and acronyms

CoB	Cash-on-the-Bag
LLL	Linking Local Learners

Recommendation for approval

The Executive Board is invited to approve the recommendation for a grant under the global/regional grants window to a non-CGIAR-supported international centre as contained in paragraph 7.

President's report on a proposed grant under the global/regional grants window to a non-CGIAR-supported international centre

I submit the following report and recommendation on a proposed grant for agricultural research and training to a non-Consultative Group on International Agricultural Research (CGIAR)-supported international centre in the amount of US\$1.44 million.

Part I – Introduction

1. This report recommends the provision of IFAD support to the research and training programme of the non-CGIAR-supported international centre Trade4All Limited.
2. The document of the grant for approval by the Executive Board is contained in the annex to this report:

Trade4All Limited: Cash-on-the-Bag – Scaling up a secure, transparent trading business model for smallholders in East Africa
3. The objectives and content of this applied research programme are in line with the evolving strategic objectives of IFAD and the Fund's policy for grant financing.
4. The overarching strategic goal that drives the Revised IFAD Policy for Grant Financing, which was approved by the Executive Board in December 2009, is to promote successful and/or innovative approaches and technologies, together with enabling policies and institutions, that will support agricultural and rural development, empowering poor rural women and men in developing countries to achieve higher incomes and improved food security.
5. The policy aims to achieve the following outputs: (a) innovative activities promoted and innovative technologies and approaches developed in support of IFAD's target group; (b) awareness, advocacy and policy dialogue on issues of importance to poor rural people promoted by, and on behalf of, this target group; (c) capacity of partner institutions strengthened to deliver a range of services in support of poor rural people; and (d) lesson learning, knowledge management and dissemination of information on issues related to rural poverty reduction promoted among stakeholders within and across regions.
6. The proposed programme is in line with the goal and outputs of the revised IFAD grant policy. It is linked to three outcomes of the grant policy: innovative activities promoted; capacity of partner institutions strengthened; and knowledge management and dissemination promoted among stakeholders within and across regions.

Part II – Recommendation

7. I recommend that the Executive Board approve the proposed grant in terms of the following resolution:

RESOLVED: that the Fund, in order to finance, in part, the Cash-on-the-Bag – Scaling up a secure, transparent trading business model for smallholders in East Africa, shall provide a grant not exceeding one million four hundred and forty thousand United States dollars (US\$1,440,000) to Trade4All Limited, for a three-year programme upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Kanayo F. Nwanze
President

Trade4All Limited: Cash-on-the-Bag – Scaling up a secure, transparent trading business model for smallholders in East Africa

I. Background

1. Lack of a secure and transparent transaction environment is one of the most persistent and prevalent reasons for the failure of agricultural supply chains in Africa and the persistent low prices to smallholders. The current trader “buy-low-sell-high” business model results in the lowest prices to smallholders. Smallholders respond to these low prices by cheating, including bagging wet produce with stones and debris. Buyers respond by discounting costs for rejection and cleaning. Such “coping” behaviour only pushes farm gate prices further downwards. Smallholders, in urgent need of cash, have no option but to take what’s offered, regardless of the market price.
2. The Cash-on-the-Bag (CoB) model addresses this problem by providing advance payments to smallholders at collection points in a context of transparent and secure transactions. This results in higher prices to smallholders for higher volume and for quality produce delivered on time to the buyer. This new business model is being offered to existing traders and the middlemen/agents they work with to source produce from smallholders. It promotes win-win agriculture value chains for smallholders, traders and buyers by: (i) improving the efficiency of the value chain; (ii) improving the quality of the product; (iii) reducing the risks of transactions; and (iv) introducing fair prices for all.
3. The CoB business model is based on a service commission to traders that is linked to the farm gate price. Thus it is in the interests of the trader to ensure that smallholders get the highest possible prices. The CoB model in effect resolves the cash flow problem in agricultural value chains in rural East Africa, where commercial lenders are not prepared to extend credit to players in risky value chains. The model enables traders to get access to working capital finance to pay farmers up front for their produce. Once it is demonstrated that the CoB model reduces risk to commercially viable levels, it will enable traders to obtain access to finance from commercial banks and social investors.
4. The CoB model was tested in the CoB – Phase I project¹ with 160 traders and middlemen in Kenya, the United Republic of Tanzania and Uganda. Traders in these countries like the model, because it enables them to: (i) increase their trade volume; (ii) operate more efficiently; (iii) gain smallholder and buyer loyalty; and (iv) access finance with less risk. Experience gained under phase I during the past year shows that the business model works. While price increases to smallholders varied greatly (2-84 per cent), the median value was 15 per cent. These price increases were achieved by increasing the efficiency of value-chain operations. Results show that the cost of marketing is from 10 to 20 per cent of the total deal value. This includes transport, which is the biggest cost factor. Early results suggest that the CoB payment mechanism can function at average deal values of US\$3,200 that are paid back within four weeks.
5. The purpose of this grant is to build the capacity of traders and middlemen to achieve scale. Trader networks will have access to a special CoB fund, managed by the grant recipient using US\$200,000 from grant funds. The fund’s purpose is to enable trader networks to continue learning how to provide smallholders with CoB

¹ Funded by an IFAD small grant to Pride Africa (1278-PA).

payments for their produce, using the payment systems to be developed in this grant. Thus the fund will be used for capacity-building.²

II. Rationale and relevance to IFAD

6. This programme embodies IFAD's thematic engagement in the "integration of poor rural people within value chains" and, at the programme level, steps up efforts in "promoting win-win agricultural value chains for smallholders." This contributes to IFAD's strategic objective of "access for poor rural women and men to services to reduce poverty, improve nutrition, raise incomes and build resilience in a changing environment." The programme is clearly related to both strategic priorities of the East and Southern Africa regional grant programme: market access and knowledge management.
7. Two major challenges to commercial scaling up have been identified: (i) those associated with cash payments to smallholders and defaults from buyers; and (ii) those associated with the absence of secure locations for the collection, quality control and bulking of produce near the farm gate. Consequently, the frequency of CoB deals is still below the commercially viable target of 20 deals per month for a trader with 10 village agents. CoB is a new business model and initially raises suspicion among buyers/sellers. It requires repeated successful experiences before becoming accepted for common use.
8. The experience of phase I suggests that, to increase the frequency of deals (and the number of smallholders benefiting from the service), it will be necessary to increase (i) the funds available for CoB deals; and (ii) the number and capacity of traders and their agents providing CoB deals to smallholders.
9. The proposed grant recipient, Trade4All Limited, will manage CoB funds to enable traders to learn how to pay smallholders up front for their produce – as well as a bonus later in the case of savings on the deal. Trade4All Limited has a strong incentive to manage and monitor the use of the fund very carefully, both to learn and to gather the evidence private investors need to make the business decision to invest – and thus continue the CoB business beyond the end of the grant period.

III. The proposed programme

10. The overall goal of the programme is to contribute to establishment of a secure, transparent and trustworthy environment for agricultural trade in East Africa. The programme's objective is to scale up, to the commercial level, a secure, transparent trading system involving up-front payments to smallholders in Kenya, the United Republic of Tanzania and Uganda.
11. The target group comprises economically active smallholders in rural areas of the three countries. The programme also targets traders/middlemen, who will gain income and employment by taking up the new model.
12. The three-year programme will comprise five main components:
 - Further developing the CoB payment mechanism;
 - Building the capacity of traders;
 - Managing knowledge;
 - Piloting collection points; and
 - Scaling up, through collaboration with IFAD-supported programmes.
13. Smallholders isolated from market infrastructure sell to middlemen at the farm gate or on the roadside. There are no trade schedules, little advance notice, no fixed

² Note that a similar, smaller fund was established for training purposes under the phase-I small grant 1278 to Pride Africa and has now been closed.

quality criteria, no scales, no organized packing and stocking, and no protected holding areas available for trade in the villages. This results in very high wastage at the roadside and poor quality of the products transported out. This, in turn, means persistent low incomes for smallholders and insufficient incentive for them to grow crops for the market. Such isolated areas all over East Africa are not producing anywhere near what they could. The grant must demonstrate the operational mechanisms by which improved village collection points will allow for secure bulking and quality control at the village level, and that such village collection points can operate commercially.

14. Using funding provided by Trade4All Limited, new web/mobile applications and operations will be developed with traders, their agents and their clients, in support of secure cashless payment systems for up-front payments to smallholders for their produce and for reconciliation payments from buyers. It is expected that this will equip traders to scale up their business operations to commercial levels at much lower risk.
15. If the CoB model is proven to be commercially viable at scale, Trade4All Limited would seek to establish a social enterprise that would carry it forward after the end of the programme. No grant resources would be used for this purpose, as the set-up of such an enterprise is not part of the programme. The enterprise is defined as social because it has the objective of working towards increasing the incomes of people living and working in rural areas – as a social enterprise that makes its own profits conditional on the raised incomes of the rural people it serves. The development of this new business presents an opportunity to create an innovative structure that, although established in some other countries, has yet to take hold in East and Southern Africa. The structure has the potential to open the door to new types of investment through the protection it offers.

IV. Expected outputs and benefits

16. These are the following:
 - A payment mechanism for CoB payments to smallholders, within secure transaction operations on a commercial basis, including databases associated with actor registration, workflow and key performance indicators (KPIs);
 - Traders across Kenya, the United Republic of Tanzania and Uganda capable of providing CoB payment services to smallholders within secure transactions at commercially viable scale;
 - Lessons captured, synthesized in the form of policy briefs, good practices and impact stories, and shared on websites and through the Network for Enhanced Market Access by Smallholders in East and Southern Africa (NEMAS);
 - Village collection points proven to be commercially sound investments and to reduce the risk of smallholder CoB transactions;
 - New trader networks providing CoB services to smallholders in IFAD programmes in the three countries.

V. Implementation arrangements

17. Trade4All Limited (www.techfortrade.org) is a charity launched in early 2011 and registered in the United Kingdom. Its mission is to reduce poverty through trade, using technology as an enabling tool, by developing sustainable mobile-phone-based trading in products and services, linked to the emerging e-banking networks, to improve market access.
18. Trade4All Limited is developing a targeted social investment programme to offer selected small early-stage African businesses, working in relevant fields, both financial and capacity-building support. Its primary motivation in working with IFAD is that investment in the CoB programme complements its projects in Kenya

(MFarm Kenya), and to a lesser extent in Zambia, where the charity is co-funding a cross-border trading trial with International Development Enterprises (IDE) Zambia and the South African NGO SANGONeT. Trade4All Limited will establish an office in Nairobi to begin programme implementation promptly and will employ local staff.

19. Activities concerning trader capacity-building, knowledge management, collection-point management, scaling up, database management and performance tracking will be tendered using international competitive bidding. The development of the cashless payment platform and an independent monitoring and evaluation system will also be tendered.
20. Trade4All Limited will cofinance the CoB programme in the amount of US\$200,000, specifically to finance the CoB fund. In addition, it will work to establish an independent CoB investor fund and to secure social investment in support of continuation of CoB financing beyond the programme implementation period.
21. Most of the programme funds will be used to fund further testing and development of the CoB payment system, and to build the capacity of local farmers and traders to operate it. Funds will also be used to develop improved produce collection points in selected villages to enable secure bulking and storage. Collaboration with relevant country programme managers (CPMs), projects and programme coordinators will continue from phase I.

VI. Indicative programme costs and financing

22. Total programme costs are estimated at US\$1.67 million – approximately US\$704,000 in year one, US\$544,000 in year two and US\$421,000 in year three. Financing is sought from IFAD for US\$1.44 million. Trade4All Limited will cofinance US\$200,000 and the RAPP Gruppe (France) US\$30,000. Trade4All Limited will contribute significant staff time over the programme implementation period. Grant administration costs, set at 8 per cent of the total grant value, less the CoB fund, amount to US\$91,000. No IFAD grant resources would be used to capitalize the CoB fund or to finance any of the transactions (payments to farmers or support to reconciliation payments from buyers).
23. The CoB fund will be separately identifiable from programme operations in the accounts. A separate bank account will be opened for the CoB fund, with internet access for monitoring from the United Kingdom. Delegated authorities for the account will be approved by IFAD on a no-objection basis. Funds remaining in the CoB fund at programme completion will be used for capacity-building activities. To minimize the risk associated with malpractice in the value chains in which the CoB fund is being tested, Trade4All Limited will be required to:
 - Report on CoB transactions, profits and losses (including write-offs);
 - Support secure cashless payment systems for up-front payments to smallholders for their produce and reconciliation payments from buyers;
 - Report all losses to relevant local authorities;
 - Include specific checks in the external auditor's terms of reference:
 - (a) Completeness of applicant's paperwork;
 - (b) Best efforts to verify reliability of recipient;
 - (c) Review of collection activities for irrecoverable sums.
24. Trade4All Limited's audited financial statements will not include the detailed operations of the CoB fund in Kenya, the United Republic of Tanzania and Uganda. Consequently, financial records should be structured so as to provide a complete, consolidated view based on documentation provided by third parties. Auditors for Trade4All Limited and IFAD will have right of inspection as appropriate.

Summary of budget and financing plan

(Thousands of United States dollars)

<i>Number</i>	<i>Type of expenditure</i>	<i>IFAD</i>	<i>Cofinancing</i>
1	Contracts	953	
2	Travel ^a	81	
3	Workshops ^b	104	
4	Hosting online learning websites	66	
5	Operating costs ^c	145	30
6	CoB fund		200
7	Management & administration	91	
	Total	1 440	230

^a Travel of consultants, including daily subsistence allowance.

^b Workshop costs, including materials and local participants' travel and accommodation.

^c Operating costs of construction of village collection points, communications, postage, stationery, printing/photocopying and office supplies.

Results-based logical framework

	Objectives-hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
Goal	To contribute to establishment of a secure, transparent and trustworthy environment for agricultural trade in East Africa.	Volumes of produce marketed by smallholders and prices received	Trading records and performance indicators, IFAD programme evaluations	
Objectives	To scale up a secure, transparent trading system with up-front payments to smallholders in Kenya, Uganda and Tanzania.	Ten trader networks complete 140 deals per quarter of aggregate value of USD 500,000.	Online CoB deal tracking databases	Local traders willing to test CoB business. Buyers default on payments exceeds target of 10%
Outputs	CoB payment mechanism functioning. Traders providing CoB services at commercial scale. Lessons learned synthesised and shared. Village collection points proven to be commercially sound investment CoB services expanded through IFAD programmes	Web/mobile applications pass operational tests. 10 trader networks operating at commercial scale of 14 deals/quarter offering CoB services to 2,800 smallholders per quarter giving price increases of 15-20% and market chain transaction efficiency at 20-25% of total value. 10 policy briefs, 20 good practices, 40 impact stories and 4 practice and impact videos shared on LLL and NEMAS website 3 new trader networks established in 3 IFAD programmes.	Contractor report on application test Trading records and KPIs on each CoB deal available on LLL website Data and reports of independent evaluator Surveyor, architect and contract reports Programme reports Evaluations by participating IFAD programmes	Mobile payment provider agents available at village collection points 3G signal and internet availability at village collection points Traders willing to share information over the internet Private and public land owners willing to sign 25 year leases IFAD programmes support introduction of CoB business model
Key Activities	Development of Web/mobile applications for management of "CoB" fund with secure transactions and trader performance tracking. Mentoring traders on CoB payments and transparent deal operations including field assessments and cross trader workshops Capture synthesis and sharing of good practices, impact stories and videos, and policy briefs from lessons learned Improve village collection points, training local entrepreneurs, business performance assessment and negotiation with private investors Consultation with IFAD, CPMs and programme coordinators and establishing CoB business model with local traders. Participation in NEMAS programme	Number of banking, accounting and audit operations for CoB fund Data generated with web/mobile applications for CoB payments and business KPIs Number of database managers trained on using payment application Number of Traders trained on CoB business model to commercially viable scale. Number of policy briefs, good practices, impact stories and videos documented and shared widely over the internet Number of collection points constructed Number of consultation visits with selected IFAD programmes and traders operating CoB business model Number of meetings of the NEMAS programme	LLL website IFAD website Programme reports IFAD programme reports NEMAS reports and website Independent evaluator reports	Web/Mobile payment/tracking applications operating Traders have adequate access to the internet and willing to share experiences IFAD programmes willing and able to collaborate