COMMODITY AGGREGATOR TRADERS – AGENTS OF CHANGE IN RURAL COMMODITY MARKETS

The Innovation for Agribusiness (InovAgro) Project is in its final year of implementation in 2021. Along three phases, spanning 11 years, the Project has facilitated the development of agriculture market systems by innovating, testing, and adapting market systems business models which increase the inclusion of, and benefit to, female and male smallholder farmers (SHF)[1] in 11 districts in the three provinces of Northern Mozambique (Cabo Delgado, Nampula and Zambézia).

This case study captures InovAgro's experience in promoting a more efficient and transparent system of agricultural output marketing. InovAgro's output marketing vision is: *to create deep, viable and sustainable output marketing channels that give opportunities for SHFs to sell their produce and increase their household income.*

The problem

Female and male smallholder farmers (SHF) in Northern Mozambique face serious challenges marketing their crops for the best prices and with the lowest transaction costs. Highly fragmented value chains characterized by multiple market actors with short term profit maximizing incentives lead to information asymmetries and distrust between the SHF and the traders and aggregators who buy from them. The trading environment is characterized by many smallholder farmers (primary sellers) who are largely illiterate, uninformed about prices, physically far from the marketing points, under financial pressure to sell at harvest; and by foreign traders who are distrusted and maintain short-term relationships. As a result, SHF do not know how their production is used and the quality requirements in the end markets. The big buyers currently do not pay any incentives for SHF to engage in upgrading the quality of their production.

Initial attempts by InovAgro in its early years to develop out grower schemes to link SHF directly to the end market buyers did not yield the desired results of lasting win-win relationships. Circumventing the middlemen in the output marketing chain ignored the real value-added role that middlemen play in aggregation of outputs from smallholder farmers and price setting. But the relationship between middlemen and SHF in the aggregation process was fraught with challenges for long term, win-win relationships.

The solution

To address these issues, InovAgro sought to find an approach to incentivize SHF and traders to upgrade their relationships and establish longer term, more transparent win-win relationships. In its work in the field, InovAgro discovered a network of town-based Mozambican businesspeople who were involved in commodity trading (as well as other business lines), hereafter referred to as "commodity aggregator traders" (CATs). CATs were found to be highly motivated and willing partners, with an interest in growing their businesses. As residents with ongoing relationships with the communities, but who also competed with foreign aggregators (known as Bangladeshis), they had an incentive to develop longer term relationships with their suppliers built on trust and mutual benefits.

[1] Whenever the term SHF is used, it includes both female and male farmers.

InovAgro supported the CATs to expand their businesses deeper into rural areas, which improved access to markets by SHF. InovAgro incentivized the CATs to increase their presence near SHF by demonstrating the value proposition for expanding buying points and helping them to create more transparent relationships through using more trustworthy equipment (such as digital scales, price boards, and sorting canvas). This constituted the "Buying Point Model". The cost of this assistance was minimal but helped to introduce these new technologies; the CATs covered 80% of the investment needed for each new buying post created during piloting, so already had major ownership of the model. CATs faced additional challenges to increasing their volumes of business including access to finance to purchase more production, and a distorted enabling environment which increased their transactions costs.

"When I started using canvas for assessing quality, I realized that I would reject two out of eight bags from the more dishonest farmers. I am going to buy canvas and digital scales for all my 25 buying points"- Chipangue, CAT in Ribaue

Figure 1: CAT Anita Catija at her buying point (Left); Typical CAT storage (Right)

A second element was supporting the CATs to develop more viable markets with the big commodity buyers and processors, mostly based in provincial capitals and port cities. In the beginning, the CATs would sell through the Bangladeshis or look for markets after procuring produce. This distorted their pricing models as they would buy for unknown end markets. InovAgro facilitated linkages to the big buyers, who provided guaranteed markets, information on desired quality and product characteristics, in some instances advances and empty bags.

Figure 2: InovAgro Facilitated Meeting between CATs and big buyer CN Caju

Figure 3: InovAgro Facilitated meeting between CATs and the MeTL Group

The results

Between 2015 and 2021, InovAgro engaged with 33 CATs who invested in testing and expanding the model, validating the value proposition of opening up buying points close to SHF. The buying point model was sustainable and increased the profitability of the CATs, leading them to expand the model. As the numbers of CATs expanded and they had improved their access to finance, they increased their buying points, and their volumes and values of purchases continued to increase (see figure 1). The COVID-19 travel and group meeting restrictions in 2020 forced many CATs to rethink their models and some adapted their purchasing systems to include mobile buying units which could expand their outreach to SHF even deeper into rural areas. But the model clearly has taken root, as the 33 cats opened 515 buying points in 2021[2].

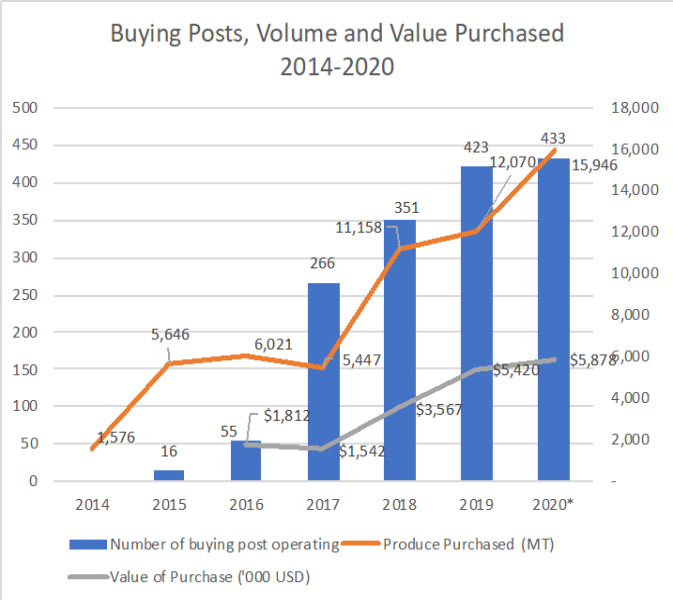

Figure 2: Buying points, volumes and values of traded

Over the six years, three of the CATs ceased operations for various reasons, while 12 graduated from InovAgro support and continued to expand their business models. Some CATs expanded to buying into non-InovAgro supported districts. After general acceptance of the Buying Point Model, InovAgro adapted its support from assisting with the purchase of new technologies, to focus more on supporting CATs with soft skills. In 2020, InovAgro engaged with local business consultants to provide training and mentoring to CATs to improve their internal business management, business planning, warehouse management and to establish or grow CATs business relationships with end buyers and financial institutions. Since end of 2019, the CATs are taking sole responsibility of the actual expansion of their networks of buying posts. Following the introduction of the new technologies (especially digital scales) by the CATS, nearly all buyers have started adopting them.

"Through business management training gained from partnering the InovAgro Project, I now know how to manage my financial books which I was not concerned about. Previously I would not even know the amount of produce bought in a season, ***Fatima Bolacha, CAT, Ribaue District, Nampula***

To assist the CATs to grow, InovAgro facilitated access to commercial trade finance for CATs from financial institutions and the larger end-buyers. This resulted in 10 CATs receiving loans from financial institutions for the first time, averaging $20,000 to purchase product. InovAgro also facilitated new relationships or strengthened existing relationships of 11 CATs relationships with end-buyers leading to increased access to market, trade advances and other support services.

[2] At the time of drafting, purchases from the 2021 season were not yet completed.

To address regulatory constraints to marketing, InovAgro worked with the three Provincial Departments for Industry and Commerce (DPIC) to help them introduce the *Cadernetas de Comercialização* (Cadernetas), a regulatory innovation to reduce trader bureaucratic transit barriers which added transactions costs, while also incentivising the CATs to register, leading to increased formalization of the traders and trade data collection by district government. In 2020 all the InovAgro supported CATs were registered, bought and enjoyed the benefits from the Cadernetas.

> *"I have adopted the Cardeneta de Comercialização in 2019 which allows me to make only one payment to SDAEs per district to get a license for a full calendar year. It allows me to operate in any location within a district boundary. Before this policy, I was required to pay licenses for each commodity (maize, groundnuts, pigeon peas, sesame, etc..). In addition, I was obliged to pay a license fee at each level where I wanted to establish a buying post (Administrative Post, Locality or Village). The system saves me a lot of time, money and is more convenient" - **Constatino Calisto, CAT from Alua, Erati District, Nampula**.*

Lessons Learned

The CAT buying post model is sustainable. CATs invested their own funds at a ratio of 3:1 in relation to InovAgro's inputs and have continued to add new buying posts without InovAgro support. The value proposition is clear and there is evidence of crowding in by non-supported CATs.

***Knowledge is often valued more than money*.** Interviews with five CATs suggests that InovAgro's **learning/awareness creation interventions** were the most appreciated aspect of its support to the CATs.

Linkage sessions break down information asymmetries and enhance relationships. The reflection sessions grouping CATs, including end-buyers, the government and financial institutions were strongly appreciated and led to many new relationships.

Formalization of commodity trading businesses is win-win. CATs that have registered for the Cadernetas are reducing their transactions costs, while government agencies are collecting more revenue from licensing fees, and getting more accurate trade records, creating a more conducive business environment.

***CATs are not homogenous businesses and have varying potential for growth*.** CATs have different levels of financial resources, contacts and relationships, and history in the market. Some are more adept to grow than others. The optimal characteristics for a successful CAT include:

- Owners having multiple business lines/diversified entrepreneurs which could offer interconnected services to the business (some of the most successful CATs had in fact operated diverse businesses but decided to become specialized and focused solely on commodity trading);
- Owners have relationships with the end buyers, so that they already have markets for the product they are purchasing;
- The entrepreneurs have other business assets that they can leverage – warehouses, logistics, processing, services;
- The entrepreneurs have good local political social capital; they are well connected within their communities to the political/economic establishment; and
- The entrepreneurs set up defined personnel for the businesses.

Future perspectives

The CAT buying point model has proven to be viable and is helping local Mozambican businesses to expand their trading in agricultural commodities. The CATs are adapting their models regularly,

demonstrating resilience. The rapid uptake and expansion of the model is heavily based on the will and capacity of the CATs and a clear value proposition for them to invest.

There is still much scope for improvement in the relationships between the CATs and the SHF and the transfer of information from the CATS to the SHF on the demands of the end market. The temptation is always present for CATs to try to buy low and sell high. This is especially prevalent with CATs that do not have secure contracts with end buyers with known prices in advance. They manage their risk by buying low. But the best CATs are looking at the longer-term perspective and increasing their repeat business in an increasingly competitive environment. Competition from *Bangladeshis* and smaller informal traders ensures that CATs must continue to improve their systems and efficiencies; if they don't upgrade steadily, they will not survive in this competitive business arena.

The thrust for the future of the CAT model should be to aim for growth, formalization of records (digital record systems), having adequate infrastructure (warehouses) and transport. The CATs need to upgrade and digitalize their stock and warehouse management, optimizing their routes, and buying posts. This will improve their margins and improve their chances of developing business relations with big buyers and/or financial institutions.