

# **ESOKO - A Review of its Operation with Grain Bulk Centres (GBCs) in Malawi** August 2011

Study for Market Linkages Initiative, funded by



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The logo for 'wellspring' is written in a lowercase, orange, sans-serif font. The letter 'l' is stylized as a vertical line with a small circle at the top, resembling a well or a spring.

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## 1. Executive summary

Esoko, the new Market information system (MIS) in Malawi was introduced on a pilot basis through 11 Grain Bulking Centres (GBCs) from March 2011.

This study was commissioned by Market Linkages Initiative (MLI) to review progress made in Esoko's first 5 months of operation by the GBCs, their customers and other stakeholders. MLI, a USAID funded project, supports the GBCs with annual subscription fees and short message services (SMS) charges for Esoko.

In particular, the benefits, challenges, future uses and potential costs of Esoko were examined in the study.

The main **benefits** identified in the study were:

- significant cost savings for GBCs
- improved time management and communication
- ease of planning, budgeting and decision making
- improved negotiation powers for farmers
- improved farmer loyalty
- access to new markets
- growth of partnerships or associations
- the Return on Investment (ROI) for GBCs, using Chitsosa Trading as a case study, is positive

Some of the **challenges** in Esoko development were identified as:

- poor network coverage in parts of the country limits access to and from clients
- low literacy levels among farmers
- high cost of phones and computers

Potential **future uses** of Esoko were identified as:

- provision of extension services
- transport and agricultural input information

- improved data collection and dissemination

### **Costs** of using Esoko

Most GBCs would be willing to pay for Esoko on the condition that:

- They are assured of its long term sustainability
- Costs are not excessive and do not outweigh the benefits
- Esoko communication becomes more user friendly

## 2. Introduction

Esoko is based on the concept of market networking. In the context of this study, the market involved is that of grain distribution in Malawi.

Through interviews with the GBC personnel, it has been established that Esoko is a cost effective means of communication. Esoko has helped GBCs to significantly increase their buying volumes from farmer suppliers and to improve efficiency and profitability. The system has also given farmers on Esoko increased bargaining power through up-to-date agriculture commodity price information.

From an analysis of the operation of one of the larger GBCs, Chitsosa Trading, the ROI at GBC level based on the entire MLI budget for introducing Esoko technology into their businesses is impressive at 61% over six months (the main buying season).

The ROI to GBCs based on estimated Esoko Malawi fees going forward as a commercial business has been calculated using the detailed historical accounts and strategy we have from Chitsosa Trading. Through forecasting the next five years and looking at Net Present Value (NPV) on their increased operating profits and using a discount factor (risk) at 27% we reach a positive figure of MK53.4million. Using this to estimate discounted ROI in Esoko over the coming five years, the ROI is 74%.

## 3. Scope of Work

Based on on-site work with targeted GBCs, the assignment was to provide generic analysis of the potential ROI for Esoko in grain bulking operations. This report presents scenarios at different levels using information gathered from GBCs and using actual outcomes from pilot Esoko applications. It also focuses on the opportunities and constraints facing GBCs in the application of Esoko to their operations and summarises the achievements and areas of improvements of GBCs in applying Esoko technology.

## 4. Methodology

A range of approaches were used to collect the data. There were site visits to five GBCs and one of the Village Aggregation Centres (VACs) from four of the five GBCs. The target GBCs were

- Zwii Enterprise in Mulanje District
- Mwandama in Zomba District
- Farmers World in Lilongwe District
- Chitsosa Trading in Dowa District
- MC Agronomy in Mchinji District

The following approaches were used in data collection:

### 4.1. Desktop Review:

This included literature review of brochures, grain marketing information, Esoko documents and other online resources. This provides a broad overview of key issues for the assignment. Information collected from MLI also provided good background to this study.

### 4.2. Interviews:

Interviews were conducted at different levels in the GBCs. In most of the GBCs, the Managing Director was interviewed and the key Esoko operator. Interviews were also conducted with smallholder farmers in the VACs. As follow ups to these face to face interviews, conducted selected telephone interviews were held.

### 4.3. Observation:

The observations were made on grading, and selling and buying process at both GBCs and VACs.

### 4.4. Process Mapping:

Mapping of the primary business activities was made and there was evaluation of major costs and revenues associated with GBC operations.

### 4.5. Workshop

Representatives from nine GBCs attended a workshop in Lilongwe to validate the field findings.

## 5. Analysis of GBCs Business Operations

### 5.1. Overview of GBC Businesses

- The top management of all the GBCs were committed to the development of Esoko.
- Four of the five GBCs have an externally trained Esoko Operator, responsible for managing Esoko information in and out.
- They all have plans to diversify to more profitable crops. They see opportunities in other crops such as sorghum.
- All the GBCs have trained some of their smallholder farmers in using Esoko in their respective VACs.
- All the GBCs enjoy improved working relationships with smallholder farmers.
- All GBCs except Zwi Enterprise are planning to start buying unshelled groundnuts from farmers in the future to avoid aflatoxin which is high in shelled groundnuts.
- All the GBCs are using Commodity receipt books which help to collect smallholder farmers' information from the VACs.

## 6. Impact of Esoko

Below is a summary of the quantitative and qualitative impact of Esoko on the sample of GBCs and smallholder farmers included in the study. The figures were obtained through interview with the appropriate personnel in each company but no attempt was made to verify these figures.

### 6.1. Quantitative Impact

GBC Name	Description	Estimated Monthly Savings
Chitsosa Trading	Phone	MK36,400
	Fuel - notifying farmers on opening dates for markets	MK10,680
	Staff allowances - notifying farmers on opening dates for markets	MK1,300
Mwandama	Phone	MK14,000
	Transport – data collection across the project area	MK10,000
	Transport – to VACs	MK18,000
Zwi Enterprises	Phone	MK56,000
	Transport - notifying farmers on	MK6,000

GBC Name	Description	Estimated Monthly Savings
	opening dates for markets	
	Transport – to collect and share market information with VACs	MK12,000
MC Agronomy	Phone	MK72,800
	Transport - notifying farmers on opening dates for markets	MK1,000
	Posters - notifying farmers on opening dates for markets	MK750
	Transport – to collect and share market information with VACs	MK1,000

### Return on Investment Analysis

Chitsosa Trading has been used as a case study for ROI for Esoko as this company provided comprehensive and recent financial information.

#### Assumptions used in ROI computations

- We based all our computation on Chitsosa’s buying period of 6 months, April to September 2011.
- Net contributions were assumed to relate to savings e.g. cost and time as a result of Esoko.
- Investment costs relate to all the initial costs e.g. training and subscription by MLI and the GBCs incurred in the implementation of Esoko system.
- The total investment by MLI amongst the GBCs was apportioned equally.
- An exchange rate of MK152.29 to the US dollar throughout the period.
- The impact of Esoko on quantities bought by the GBC was significant in the first two months after the harvest and start of the buying season.
- Time value was equal to 2 supervision visits to the VACs per month for 6 months valued at the daily salary for the Operation Manager.
- 8% of total sales relate to operating expenses. This was based on historical financial statements for 2008, 2009 and 2010.

Return on investment (ROI) = Net contribution/Total investment

$$= 24,155,677 \div 39,615,742$$

$$= 61\%$$

The ROI is greater than

Inflation rate of 7.1% ([www.nationmw.net](http://www.nationmw.net))

Bank base lending rate of 17% ([www.msb.mw/interest.html](http://www.msb.mw/interest.html))

## Conclusion

Chitsosa's ROI indicates that the investment in Esoko system is commercially viable and provides a significant ROI.

## 6.2. Qualitative Impact

Before Implementing Esoko	After Implementing Esoko
<ul style="list-style-type: none"> <li>GBCs used to move throughout their supply area to provide relevant and topical information including: <ul style="list-style-type: none"> <li>Opening day of markets</li> <li>Commodities to be traded</li> <li>Buying prices, dates and place</li> <li>Field days</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>GBCs now send one message to all farmers at once. This has resulted in: <ul style="list-style-type: none"> <li>Time savings</li> <li>Cost savings e.g. wages and fuel</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Some GBCs used to experience low trading volumes and limited markets</li> </ul>	<ul style="list-style-type: none"> <li>Esoko has helped increase trading volumes and entry to new markets.</li> </ul>
<ul style="list-style-type: none"> <li>Some farmers used to delay harvesting their crops in the expectation of future higher prices.</li> </ul>	<ul style="list-style-type: none"> <li>Farmers are now able to read market trends and predict future prices with greater certainty before selling their crops.</li> </ul>
<ul style="list-style-type: none"> <li>Slow or no response to customer requests for products</li> </ul>	<ul style="list-style-type: none"> <li>Faster response and greater urgency to customer requests.</li> </ul>
<ul style="list-style-type: none"> <li>VACS used phones or physically walk to the GBC to arrange transport</li> </ul>	<ul style="list-style-type: none"> <li>SMS are now sent to the GBC when stocks are approaching maximum levels to arrange collection.</li> </ul>
<ul style="list-style-type: none"> <li>Most farmers lacked the bargaining power due to lack of reliable price information</li> </ul>	<ul style="list-style-type: none"> <li>Farmers have information about commodity prices well in advance before going to the market.</li> </ul>
<ul style="list-style-type: none"> <li>Meetings or workshops were the only mode of providing extension services</li> </ul>	<ul style="list-style-type: none"> <li>GBC are now able to offer extension services to all their Esoko customers on issues such as crop conditioning through SMS</li> </ul>
<ul style="list-style-type: none"> <li>Management of GBCs used to make regular visits to the field to supervise operations</li> </ul>	<ul style="list-style-type: none"> <li>Management has reduced the number of field visits as instructions are now relayed through SMS</li> </ul>
<ul style="list-style-type: none"> <li>Farmers mainly grew crops for consumption with surplus for sale.</li> </ul>	<ul style="list-style-type: none"> <li>Farmers are now growing a variety of crops with some for commercial purposes only</li> </ul>

Before Implementing Esoko	After Implementing Esoko
<ul style="list-style-type: none"> <li>There was little competition between traders for commodities.</li> </ul>	<ul style="list-style-type: none"> <li>Esoko has helped to increase competition amongst traders and GBCs resulting in better prices for farmers.</li> </ul>
<ul style="list-style-type: none"> <li>There was irregular and little direct interaction with farmers</li> </ul>	<ul style="list-style-type: none"> <li>Regular interactions with farmers has helped to establish stronger relationships between farmers and GBCs</li> </ul>
<ul style="list-style-type: none"> <li>There was poor networking amongst farmers in accessing better markets for their produce.</li> </ul>	<ul style="list-style-type: none"> <li>Farmers are now organizing themselves with an aim of accessing distance markets offering better prices. Hiring transport as a group is also reducing costs.</li> </ul>
<ul style="list-style-type: none"> <li>It was difficult to target farmers with the same information at the same time.</li> </ul>	<ul style="list-style-type: none"> <li>The same information is disseminated to several farmers at once. The probability of information not reaching the intended recipient is now low.</li> </ul>
<ul style="list-style-type: none"> <li>There was no opportunity for price information</li> </ul>	<ul style="list-style-type: none"> <li>Farmers gain from higher prices through the Esoko price information.</li> </ul>
<ul style="list-style-type: none"> <li>Planning and decision making could be time consuming and based on incomplete information.</li> </ul>	<ul style="list-style-type: none"> <li>Esoko has made planning, budgeting and decision making more accurate and faster.</li> </ul>
<ul style="list-style-type: none"> <li>There was no transparency on revenue gained from sale of farm produce especially for male headed households.</li> </ul>	<ul style="list-style-type: none"> <li>Family income is more transparent due to availability of price information.</li> </ul>
<ul style="list-style-type: none"> <li>There was limited opportunity for improvement in communication skills</li> </ul>	<ul style="list-style-type: none"> <li>Esoko has helped to sharpen GBCs communication skills</li> </ul>
<ul style="list-style-type: none"> <li>There was limited scope for commercial partnerships</li> </ul>	<ul style="list-style-type: none"> <li>Esoko has helped to establish partnership e.g. with buyers through ACE.</li> </ul>
<ul style="list-style-type: none"> <li>Insurance expenses were high</li> </ul>	<ul style="list-style-type: none"> <li>Esoko has helped to reduce insurance expenses for employees exposed to high risks e.g. very mobile employees.</li> </ul>

### 6.2.1. Methods to build on the top five benefits using Esoko

The table below contains the top five benefits of Esoko as identified during the GBC workshop in Lilongwe and ways to build on them.

#	Categories of benefits	Details of Benefits	Methods to build on the strengths
1	Operational savings	<ul style="list-style-type: none"> <li>Reduction in costs e.g. communication, transport and stationery.</li> </ul>	<ul style="list-style-type: none"> <li>Increase supply by covering all regions of the country in order to lower costs through economies of scale.</li> </ul>
2	Marketing	<ul style="list-style-type: none"> <li>Helps to establish trading partnerships</li> </ul>	<ul style="list-style-type: none"> <li>Establish various forums or meetings for sharing success stories</li> </ul>

#	Categories of benefits	Details of Benefits	Methods to build on the strengths
			<ul style="list-style-type: none"> <li>Regular interactions with farmers to build up the relationships further</li> </ul>
3	Internal management	<ul style="list-style-type: none"> <li>It helps in profit maximization</li> </ul>	<ul style="list-style-type: none"> <li>Use profit earned as a result of Esoko to grow the business.</li> </ul>
4	Farmer impact and communication	<ul style="list-style-type: none"> <li>It has contributed to the growth of farmer associations or groups</li> </ul>	<ul style="list-style-type: none"> <li>Conduct trainings to build capacity e.g. on group dynamics and business management</li> <li>Offer incentives e.g. loans, phones and revolving fund to farmers.</li> <li>Promote linkages to markets.</li> <li>Negotiate with network providers for lower SMS charges in terms of farmers.</li> <li>Improve GBC management</li> </ul>
		<ul style="list-style-type: none"> <li>It has contributed to improved time management</li> </ul>	<ul style="list-style-type: none"> <li>Capacity building e.g. through management training</li> <li>Supervision and monitoring</li> <li>Promote good infrastructure (phones, computers and internet)</li> </ul>

### 6.3. GBCs Business Challenges

All the GBCs interviewed experience some operational issues that the introduction of Esoko has helped to identify:

- Improved business management and planning skills
- The need for improved processes and procedures for internal operations of the business
- Improved financial recording and working capital where expansion is planned

- Opportunities for market expansion e.g. Chitsosa GBC has developed an export market for groundnuts where demand is greater than supply thereby providing Chitsosa with an opportunity to expand.

### **6.3.1. Challenges for Esoko Use**

#### **1. Communication related issues**

- Some of the VACs have serious network problems. In Mulanje, 50% of VACs managed by Zwii Enterprises have poor network signals (see Annex 2).
- Mobile Phones: During the interview with smallholder farmers, it was established that many farmers do not have cell phones. In some areas, ownership is as low as 20%. This places a greater challenge for most farmers to access Esoko information. However, we established that farmers in many cases share the market information
- Unfamiliarity with the system: The system uses some unfamiliar and international symbols and codes
- Receiving incomplete messages and bugs in the system
- SMS bid Charges: Smallholder farmers located along Malawi-Mozambique boarder in Mulanje complained that they have been charged when sending an SMS bids. This has discouraged some from using Esoko services.

#### **2. Limited Grains on Esoko Platform**

- The Esoko platform currently is limited to grains such as maize, ground nuts, soya, beans and pigeon peas. There is the opportunity to expand the product range to incorporate other crops.

#### **3. High illiteracy levels**

- Due to high illiteracy levels, some farmers experience problems in reading and interpreting Esoko SMS. It was also established that some of the smallholder farmers get confused with prices from the different markets. The format of the SMS can be simplified and written in Chichewa to make comprehension easier for farmers.

#### **4. Benefits of Esoko Post-Harvest period**

- Farmers could see limited benefits of Esoko outside of the harvest season. There are some education needs here.

### **6.3.2. Ways to overcome the top three challenges of using Esoko**

The top challenges identified during the workshop in using Esoko are:

#	Categories of challenges	Details of top challenges	Solutions to address challenges
1	Farmer impact and communication	<ul style="list-style-type: none"> <li>Poor network coverage in some areas or VACs</li> </ul>	<ul style="list-style-type: none"> <li>Boost network</li> <li>Establish partnership with various stakeholders e.g. donors, service providers and government and seek their support to improve infrastructures</li> <li>Encourage farmers to use the network</li> </ul>
2	Marketing	<ul style="list-style-type: none"> <li>High illiteracy levels which makes reading and interpretation of messages difficult. Prices from different markets confuse farmers.</li> </ul>	<ul style="list-style-type: none"> <li>Conduct training to build the capacity of farmers. High training costs are the main challenge for the GBCs.</li> <li>Simplify price alerts into long hand format in Chichewa</li> </ul>
3	Internal management	<ul style="list-style-type: none"> <li>Poor ICT infrastructure e.g. lack of phones, computers and poor network</li> </ul>	<ul style="list-style-type: none"> <li>Maximize utilization of available resources</li> <li>Improve staff training on Esoko</li> <li>Donors and other stakeholders to provide subsidized assets and access to low interest Loans for computers and phones for managers</li> </ul>

## 7. Some Development Issues for Esoko

- Training: some farmers need more training on the existing and future Esoko applications
- Information: farmers would like better information ahead of the growing season to indicate which produce might give them improved returns

- Usability: improve usability and accessibility of Esoko administration web pages for the GBCs
- Phone ownership: a need to facilitate an initiative where farmers can obtain mobile phones

## 8. Willingness to pay for Esoko services

All workshop participants responded “Yes But” when they were asked if they would be willing to pay for Esoko. The following were some of the reasons for the conditional responses:

- Lack of certainty on the long term sustainability of Esoko
- Cost details are not yet known as Esoko subscriptions and other costs have been covered by MLI initially and the local agent/licencee cannot extend services to GBCs whilst there are no credit controls or limits built into the Esoko system (currently no billing functionality at all)
- Esoko communication could be more user friendly. Messages and codes are sometimes difficult to understand. Some GBCs said they would not pay for it unless this was changed. Esoko Networks claim they can work on this for Malawi although timings are not clear as yet.
- Cost of the service to GBCs should be based on usage
- Would only pay if Esoko is shown to be cost effective for their business
- Would only pay if the cost is less than half the total savings. Most participants were willing to pay between MK15,000 and MK24,000 per month

## 9. Appendix

The appendix has the following contents:

- a) **Point number 9.1 – 9.3:** Outcome of the workshop for the GBCs
- b) **Point number 9.4:** Net present value: point number 9.4
- c) **Point number 9.5:** Individual GBCs report

Participants of the workshop worked in groups to come up with a list of benefits and challenges of using Esoko and individually ranked them in order of importance.

### 9.1. Esoko benefits generated from the workshop

A Operational Savings		Votes
1	Reduction of costs e.g. communication and travelling	6
2	Esoko is quick, efficient and effective as messages reach several people at once.	4
3	Targets for purchases and sales are easily met	1
4	Improved customer loyalty to the GBC as farmers on Esoko platform are happy to receive price alerts	0
5	Farmers on Esoko have gained prestige compared to those not on Esoko. This has helped to improve GBCs' image.	0
B Internal management		Votes
1	It helps GBCs to maximise profits	3
2	It has helped to improve communication	2
3	It helps in inventory and supply chain management e.g. scout, where data can be collected on purchases or inventory and acres of maize planted	2
4	It has improved budgeting process.	1
5	Promotes transparency in commodity trading due to availability of reliable price information to all household members	0
6	It helps to sharpen communication skills of the GBCs' employees	0
7	Esoko helps in planning. It is easy to estimate commodity prices.	0
8	Decision making is easy with adequate information.	0
9	It helps in monitoring of activities within the GBCs' catchment areas	0

<b>C</b>	<b>Marketing</b>	<b>Votes</b>
1	Promotes establishment of partnerships e.g. ACE linking buyers to sellers	5
2	Links GBCs to the VAC through messages	3
3	It helps in spreading price information	1
4	It is used as a marketing or advertising tool	1
5	It helps to sell and buy in bulk. For example, Farmers World Ltd has already sold 307 metric tonnes of farm produce through ACE this year.	0
6	Improves the image or recognition of the GBC	0
<b>D</b>	<b>Farmer impact and communication</b>	<b>Votes</b>
1	It has promoted the establishment of farmer associations or groups	5
2	Improves time management	5
3	Enhances farmer bargaining powers due to availability of reliable price information	2
4	It helped to change farmer marketing behaviours. For example, most farmers are now able to sell in kilogrammes unlike in the past where they used buckets as units of measurement and also traded on barter or exchange of goods.	2
5	It helps farmers to access new markets through offer alerts.	1
6	Farmers on Esoko have gained self-esteem	1
7	Cost savings e.g. KASFA used to have 3 field trips at MK800 per week. It is now spending MK150 per day for 3 days per week.	1
8	Makes GBC appear stand for the farmers compared to vendors who interact with farmers during the buying season only.	1
9	It has shortened the supply chain by getting rid of some middlemen	0
10	It has improved the social life of farmers by helping minimising the spread of HIV /AIDS especially for very mobile farmers and GBCs' employees.	0

## 9.2. Esoko's challenges generated from the workshop

<b>A</b>	<b>Operational Savings</b>	<b>Votes</b>
1	Low literacy levels. Most farmers don't understand or interpret Esoko messages properly. For example, they fail to differentiate retail from wholesale prices.	4

2	Poor network coverage	3
3	Costs of phones are high. Only 20% of farmers were estimated to have phones.	3
4	Technological problems in sending SMS	1
<b>B</b>	<b>Internal management</b>	<b>Votes</b>
1	Poor and inadequate infrastructure	3
2	It is a new technology and not fully understood by many farmers	3
3	Costly to respond to SMS. Farmers use their own airtime	2
4	GBCs have the pressure explaining how to use Esoko to farmers.	1
5	It is difficult to get farmer details for profiling them on Esoko.	
<b>C</b>	<b>Marketing</b>	<b>Votes</b>
1	High illiteracy levels	5
2	Misinterpretation of SMS by smallholder farmers. Messages are not in the local language and codes which are difficult to understand	2
2	It is expensive e.g. to train farmers on Esoko and also who have to use internet, phones and network.	2
3	Price negotiation problems. Farmers get price alerts from Esoko that are different from the ones offered by the GBCs since they think SMS come from the GBCs who trained them on Esoko	1
<b>D</b>	<b>Farmer impact and communications</b>	<b>Votes</b>
1	Network problems. Some VACs have problems to receive SMS.	4
2	High illiteracy levels. Most farmers are not able to read and write	3
3	High poverty levels amongst farmers to own a phone	2
4	Technology challenges. Most farmers do not know how to operate phones.	2
5	Some farmers think that GBCs are the sources of SMS. They don't trust those GBCs offering lower prices than the price alerts.	0
6	Farmers are charged international rates when sending SMS.	0

### 9.3. Envisaged potential uses of Esoko

- To provide transport information e.g. name of transporters and their charges and tracking goods in transits
- To provide prices of agricultural inputs to farmers
- To provide extension services e.g. weather information, advice time for planting, crop conditioning and storage
- In sensitization campaigns e.g. as part of disaster or risk management during floods
- To access international markets. Esoko is being used in more than 13 countries.
- Advertising
- It could act as a forum for the different stakeholders e.g. private sector, traditional leaders, suppliers of goods and services, government officers from the different departments e.g. education, agriculture, health and transport, and non governmental organizations.
- Collection of data e.g. using “Scout”
- A platform for sharing information and knowledge amongst farmers

## 9.4. Net Present Value

	Year	Year	Year	Year	Year	Year	
Cash out flow	0	1	2	3	4	5	Total
Warehouse expansion	(24,000,000)	0	(8,000,000)		-	(64,000,000)	(96,000,000)
Training	0	(228,435)	(262,700)	(302,105)	(347,421)	(399,534)	(1,540,196)
SMS charges	0	(56,762)	(65,276)	(75,067)	(86,327)	(99,276)	(382,708)
Subscriptions	0	(228,435)	(262,700)	(302,105)	(347,421)	(399,534)	(1,540,196)
Operating expenses	(4,600,000)	(5,290,000)	(6,083,500)	(6,996,025)	(8,045,429)	(9,252,243)	(40,267,197)
<b>Total</b>	<b>(28,600,000)</b>	<b>(5,803,632)</b>	<b>(14,674,176)</b>	<b>(7,675,303)</b>	<b>(8,826,598)</b>	<b>(74,150,588)</b>	<b>(139,730,296)</b>
<b>Cash in flow (savings)</b>							
Phone	210,900	242,535	278,915	320,753	368,865	424,195	1,846,163
Staff allowances	8,000	9,200	10,580	12,167	13,992	16,091	70,030
Fuel	84,800	97,520	112,148	128,970	148,316	170,563	742,317
Time value	24,000	27,600	31,740	36,501	41,976	48,273	210,090
Operating profit	26,051,667	29,959,417	34,453,329	39,621,329	45,564,528	52,399,207	228,049,476
<b>Total</b>	<b>26,379,367</b>	<b>30,336,272</b>	<b>34,886,712</b>	<b>40,119,719</b>	<b>46,137,677</b>	<b>53,058,329</b>	<b>230,918,076</b>
<b>Net savings (cash flow inflow)</b>	<b>(2,220,633)</b>	<b>24,532,640</b>	<b>20,212,536</b>	<b>32,444,417</b>	<b>37,311,079</b>	<b>(21,092,259)</b>	91,187,780
Discount factor of 27%	1	0.7874	0.6200	0.4882	0.3844	0.3027	
<b>Present value</b>	<b>(2,220,633.33)</b>	<b>19,317,039.48</b>	<b>12,531,797.48</b>	<b>15,839,038.20</b>	<b>14,342,436.16</b>	<b>(6,384,170.72)</b>	<b>53,425,507</b>
<b>Net present value</b>	<b>53,425,507.27</b>						
<b>Discounted investment</b>	<b>(28,600,000.00)</b>	<b>(4,569,788.61)</b>	<b>(9,098,007.48)</b>	<b>(3,747,005.66)</b>	<b>(3,392,957.88)</b>	<b>(22,443,779.50)</b>	<b>(71,851,539.13)</b>

**Assumptions:** (a) Annual growth rate of 15%, (b). Current performance to remain constant, (c). Discount factor of 27% (17% base lending rate and 10% risk)

**ROI (DCF 27%) = NPV/Discounted Investment; = 53,425,507.27÷71,852,539.13= 74**

## 9.5. Individual GBCs Field Reports

### 9.5.1. Chitsosa Trading Report

#### 1. Introduction

Chitsosa Trading is a family business. It is located at Madisi along the M1 Road. George Chitsosa's father who died in 1999 established the business. It used to be a farming business with estates in Mangochi and Mchinji. When George Chitsosa took over its management in 1999 he turned it into an agricultural commodity trader. The business has experienced rapid expansion despite several economic problems in the country.

Transport is another line of business under Chitsosa Trading. There are two fuel tankers which are used to ferry fuel from Tanzania into the country. The transport business is currently not profitable due to foreign currency problems.

The business plan is to diversify into processing. Mr Chitsosa has already allocated MK50million for the purchase of the processing plant. Land for the factory has been procured at Mponela.

#### Institutional arrangement and networks

The business has a total of 3000 farmers. 600 farmers receive farm inputs from the business as loan. Selection of beneficiaries for the loan is based on the business's plans and ability of the farmer to repay the loan. The majority of the farmers come from Traditional Authority Chakhadza and Kayembe of Dowa Districts. The business has a strong relationship with farmers because of its competitive prices, loans the business offers and the transparent way of buying goods through use of authorised weigh scales. The business has a good working relationship with Opportunity International Bank (OIBM) where it accesses short term loans. It is in middle of negotiations with Opportunity International Bank of Malawi to start assisting farmer clubs with input loans. There are about 42 registered clubs with the business. The business received 16 club membership application forms on the day of our visit. Farmers determine membership for the club.

Benefits of club membership are:-

- Access to loans for farmers which individually would not be possible
- Helps to minimise default on loan repayments. Clubs will be responsible for repaying the loan and not individuals. Farmers who have failed to produce and earn enough will be covered by other members of the club.
- Help to increase farmers’ production. This will consequently result into increased supply for Chitsosa.
- Information flow.
- Access to large contracts as they are able to supply goods in large quantities.

## 2. Methodology

Information was gathered through the following methods;

- **Desktop review.** This included literature review of brochures and online resources
- **Meeting with key stakeholders.** This included people from Market Linkages Initiative, Grain Bulking Centre Director and key staff, Village Aggregation Centre manager and farmers on registered and using Esoko.
- **Observation:** This included observing grading process, farmers selling their produce etc.

The following are the names of key stakeholders we obtained information from:

	Date of the meeting	Person	Organisation	Aim of the meeting
1	18 July 2011	Racheal Sibande	Market Linkages initiative (MLI)	Consultancy objective, scope and project or GBC briefing
		Rob	Market Linkages Initiative (MLI)	Consultancy objective, scope and GBC briefing
		Moffat Chitsosa	Chitsosa Trading –GBC	Data collection

	Date of the meeting	Person	Organisation	Aim of the meeting
2	19 July 2011			
		Mary Kabango	Chitsosa Trading –GBC	Data collection
		Zikiel Daimon	Chitsosa Trading –GBC	Data collection
3	20 July 2011	George Chitsosa	Chitsosa Trading- GBC Director	Data collection
		Homestone Mbirisigonera	Farmer on Esoko	Data collection
		Goliath Zongeni	Farmer on Esoko	Data collection

### 3. Human Resources

The business has a total of 120 employees. The majority of employees are labourers and branch managers.

1. Director and owner-Mr. George Chitsosa
2. Operations Manager- Mr Zikiel Daimon and Mr. Edwin Msengo
3. Supervisor- Mr Positani
4. Book keeper- Mr Moffat Chitsosa
5. Secretary- Mary Kabango
6. Branch Manager- 50
7. Labourer- 60

\*The business has a part time accountant who is responsible for preparing financial statements.

## 4. Sources of supplies

The business obtains its supplies from individual farmers, traders and associations or cooperatives. Major crops for the business in year are Groundnuts and Soya beans. Other crops include pigeon peas, cow peas and maize. The company is not trading in maize because of low margins.

The business also buys farm produce in bulks e.g. 200bags to 1000 bags from other traders such as Dalitso Trading and Cheka Cooperative. 40% of farm produce is sourced from traders at a premium. For example, groundnuts are bought from traders at price range of MK125 to Mk130 per kg. These prices are usually negotiated either through phone or face to face discussion.

The business estimates to procure 48,000 bags of 50 kgs of groundnuts. The initial plan was to buy 55,000 bags at a price of MK100 per kg.

Below are sources of the various crops;

- **Groundnuts**- Mchinji, Ntchisi, Lilongwe, Dedza, Kasungu, Dowa, Salima
- **Soya Beans**- Ntchisi, Dedza, Dowa, Mchinji, Lilongwe from Nkhoma
- **Pigeon peas**- Chikwawa, Nsanje, Zomba and Blantyre
- **Maize**- Kasungu, Lilongwe, Dowa, Ntchisi, Mchinji and Dedza
- **Cow peas**- Dowa, Lilongwe, Kasungu, Dedza, Mchinji.

Groundnuts is bought between June and September and sold from December to February. This is case because the business wants to take advantage of favourable prices during the lean period.

## 5. Customers

The business has two types of customers;

- Local customers e.g. Chitedze, Export Trading, Rab Processors and CP Feeds.
- International customers e.g. Mwasopo Trading is a reliable customer from Tanzania. The business has a total of 5 customers in Tanzania.

The business enters into advance contracts with customers from Tanzania. The business will export groundnuts at a price of MK180 per kg if the customer collects the goods and MK200 per

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kg if Chitsosa delivers them. The total demand from Tanzanian customers is 5000metric tonnes. Chitsosa Trading does not have capacity to meet the demand due to lack of working capital. The company has secured a loan of MK150million but requires MK500million to meet the demand.

The gross margin per kg for groundnuts is:-

Details	If the customer collects the goods	If the company delivers to Tanzania
Selling price per kg	MK180	MK200
Purchase price per kg	Mk122	MK122
<b>Gross margin per kg</b>	<b>MK68</b>	<b>MK78</b>

The business sold 925metric tonnes of soya beans in the year. 100metric tonnes were sold to Export Trading at a cost of MK125 while the rest was sold to CP feeds at a price of MK130. The business had contracts CP Feeds and Export Trading. The purchase price for soya ranged from MK70per kg to MK125kg per kg.

Estimated gross margin for soya bean is therefore:-

Details	Customer	Quantity (kgs)	Price	Total sales value
Sales	Export Trading	100,000	125	12,500,000
	CP Feeds	825,000	130	107,250,000
<b>Total sales</b>				<b>119,750,000</b>
*Cost of sales		925,000	90	83,250,000
<b>Gross margin</b>				<b>36,500,000</b>

\* costs of sales do not include cost of empty but new bags.

## 6. Competitors

Some of the business competitors are Farmers World Ltd, Mulli Brothers, Export Trading, Rab Processors, individual traders or vendors and Burundians etc.

## 7. Pricing

Chitsosa offers competitive prices compared to most traders. For example, it buys groundnuts at a price of MK122 per kg while most of its competitors' prices range from Mk118 to MK120 per kg. Chitsosa is able to offer competitive prices because of the contract he gets from Tanzanian customers and his ability to keep stock and dispose it when prices are favourable. Purchase prices depend on geographical location of the market. For example, the price of groundnuts per kg at Chisepo was MK120 per kg while at Madisi was MK122per kg at the time of our visit. Prices are not set according to grade. This is the case because most farmers are not able to grade them and the business would want to train farmers first. The business plans to implement a grading policy on farmers next buying season.

## 8. Marketing

The following are channels of marketing:-

- Print media- This includes banners, posters and branded 50kg bags.
  - Multimedia- The business uses radio
  - Other advertising or promotional activities include raffle draws, field days, Esoko etc.
- Personal selling is done by employees. Farmers' clubs or associations also form a forum for sharing information.

## 9. Grading

The company buys ungraded products which are later graded. Grading is according to type or variety and size. Two main varieties are Chalimba and CG7 for groundnuts.

## 10. Processing, quality control and stock management

The business buys already shelled groundnuts. Groundnut bought from farmers is dried for at least a day before being packed in 50kg bags. New bags are used for packing to avoid contamination. Bags are treated before using them. Groundnut packed in bags is stacked in the warehouse. At the time of our visit, the business had 4,650bags of Chalimbana groundnuts and 6,726 of CG 7. Stock cards are used to keep track of stocks. Fumigation for groundnuts is done in October. Bags stored in the warehouse are checked every two months for moisture content where those stacked at the bottom are later exchanged and put at the top.

## 11.0 Financial management

The business uses the following financial documents for record keeping:-

- Commodity receipt books which are used to record goods from the VAC
  - Delivery notes which are used to record quantities of goods delivered to clients
  - Goods Received notes which are collected once goods have been delivered to clients
  - Good Summary forms which are used to record goods procured and collected by trucks.
- A truck driver signs on the form each time goods are transported from the VAC to warehouse. One copy of the form is given to the driver while the branch manager

maintains one. The driver surrenders the form to the secretary or operations manager at the warehouse upon delivery of goods.

- Stock cards are used to record and keep track of inventory in the warehouse.

Computers are also used maintaining financial records. Financial statements are prepared at the end of each financial year. The financial year end for the Chitsosa Trading is 31 December.

### **11.1 Assets**

#### **A. Trucks**

The business has two trucks with a capacity of 15tonnes. These are used for transporting farm produce from VAC or markets to the warehouse

#### **B. Scales**

The business has the following scales

- Avery- This has the capacity to weigh goods up to 1000kg
- 2 balancing scales
- Sasco scales

#### **C. Pallets**

There are about 1,500 pallets for stacking bags valued at a cost price of MK2, 800

#### **D. Warehouse**

The business installed a warehouse at a total cost of MK39million. MK15million was grant from USAID/MLI. There are two warehouses one with a capacity of 1000 metric tonnes while other has a capacity of 3000 metric tonnes. The warehouse is well ventilated and has lockable doors and with electrical fittings done but waiting for power connection.

- E. MINI GAC-** The business has 5 moisture meters at the main warehouse and 4 with VAC. These are used for measuring moisture content or aflatoxin content.

### **11.2 Loans**

The business secured a loan of MK150million from Opportunity International Bank of Malawi (OIBM). Warehouses and commodities were used as security for the loan.

### 11.3 Financial Analysis

Financial Statement for 2010 was not made available at the time of our visit. However, we used financial statements for 2008 and 2009 to analyse the financial performance of the business.

Financial ratios	2009	2008
Gross margins	30%	31%
Net profit margin	14%	16%
Asset turnover	262%	306%
Current ratio	819	1008
Acid Test ratio	412	651
ROCE	59%	74%
Gearing ratio	2652	1816
Interest cover	10	13

Financial ratios indicate that the business performed well in 2008 compared to 2009. Expenses increased in 2009 by:-

- Interest 69%
- Depreciation 202% due to motor vehicles additions
- Insurance and licences 669% due to motor vehicle additions
- Trading expenses 109%

## 11.4 Operating costs

The major operating costs of the business are:

- **Salaries-** the business has a total number of 120 employees. The director and his close relatives who work on a part time basis are not salaried.

#	Position	Qty	Month	Days in months	Daily cost	Total Daily cost	Total per month
1	Branch Managers	50	30,000	20	1,500	75,000	30,000
2	Labourers- permanent	35		20	750	26,250	525,000
	Labourers- casual	25		20	700	17,500	350,000
3	Secretary	1	35,000	20	1,750	1,750	35,000
4	Operation Manager	1	40,000	20	2,000	2,000	40,000
	<b>Total</b>					<b>122,500</b>	<b>980,000</b>
	Sundays	60		4	1000	60,000	240,000
	<b>Total cost per month</b>						<b>1,220,000</b>

- **Transport (Fuel)**  
The business spends approximately MK70, 000 per day on fuel to collect goods from the VAC.

## 13. Alternative uses of the warehouses

The business plans to use the warehouse for stocking and selling agricultural inputs to farmers during the off season for buying farm produce. Agricultural inputs will include seeds and fertilizers.

## 14. Operational problems for the business

The business experiences the following operational problems:-

- Price fluctuations
- Farmers' failure to grade their produce
- Lack of adequate funds to meet demand from customers especially those from Tanzania. The business is failing to meet the demand of 5000metric tonnes of groundnut due to limited working capital.

- Failure by some branch managers to properly account for the funds
- Farmers soaking groundnuts in water to increase weight
- Farmers mixing sand with groundnuts to increase weight
- Stiff competition in the market which resulted into the entity adjusting its buying price from the MK100 per kg to Mk122. The business initially planned to buy 55,000 bags of groundnuts at MK100 per kg this year.

## 15. Esoko System

Chitsosa Trading was registered on Esoko platform in March 2011. A total of 145 farmers for the business are on Esoko. 1,700 of its farmers have submitted application for Esoko however, a few have mobile phones. In additions to this, Chitsosa Trading is limited to register a maximum of 200 farmers. Farmers are trained on how to use Esoko during field days. 1000 farmers attended the last field day on 12 July 2011.

### 15.1 Impact of Esoko on the business

Esoko has helped the business in the following ways:-

- I. Its farmers are able to know and make decisions well in advance before they go to markets. Less time is therefore spent on price negotiations.
- II. It has reduced transport costs for the business. The business used to go around all the Village Aggregation Centres to spread news about prices and dates when it will start buying farm produce
- III. It has helped to establish and strengthen relationships with farmers. The number of farmers has increased from 1,500 to 3,000 while number of Village Aggregation Centres (VAC) has increased from 30 to 50 since April 2011.
- IV. It has helped the business to improve operations at the same reducing some operational costs. For example:-
  - It helps in communicating with VAC managers. A truck is sent to collect goods from the VAC each time 200 bags have been bought.
  - It helps to disseminate extension services information e.g. crop conditioning, grading, cleaning etc.
  - It helps in advertising for field days

- It helps to inform farmers the dates for opening village markets

V. It has helped the business to 50 kg bags procured per day per VAC as shown below:-

- those that used to buy 5 bags per day of groundnuts per day are able to buy 12bags,
- those that used to buy 15 bags per day are able to buy 25bags
- those that used to buy 30 bags per day are able to buy 35bags

## 15.2 Cost benefit analysis of using Esoko

#	Description	Before Esoko	With Esoko	Comments
1	Phone	MK1,500	MK200 per day	<ul style="list-style-type: none"> <li>• Cost is per day</li> <li>• Messages are sent twice in a week with Esoko, Mondays and Fridays and costs approximately MK200 per message</li> </ul>
2	Price dissemination			5litres at Mk260 for 2 days
3	Fuel -notifying farmers on opening dates for markets	MK64,000	Above	Used 2 cars for 4 trips at 8000
4	Staff allowances- notifying farmers on opening dates for markets	MK8,000	As above	MK500 per person for 2 people per car for 2 cars for 4 trips

## 15.3 Impact of Esoko on farmers

- I. It helps farmers know markets which offer better prices in advance
- II. It helps farmers to have bargaining powers and protect them from exploitation from vendors offering low prices.
- III. It helps farmers to collectively hire transport and sell farm produce to markets offering better prices. This helps to increase farmers' profits.

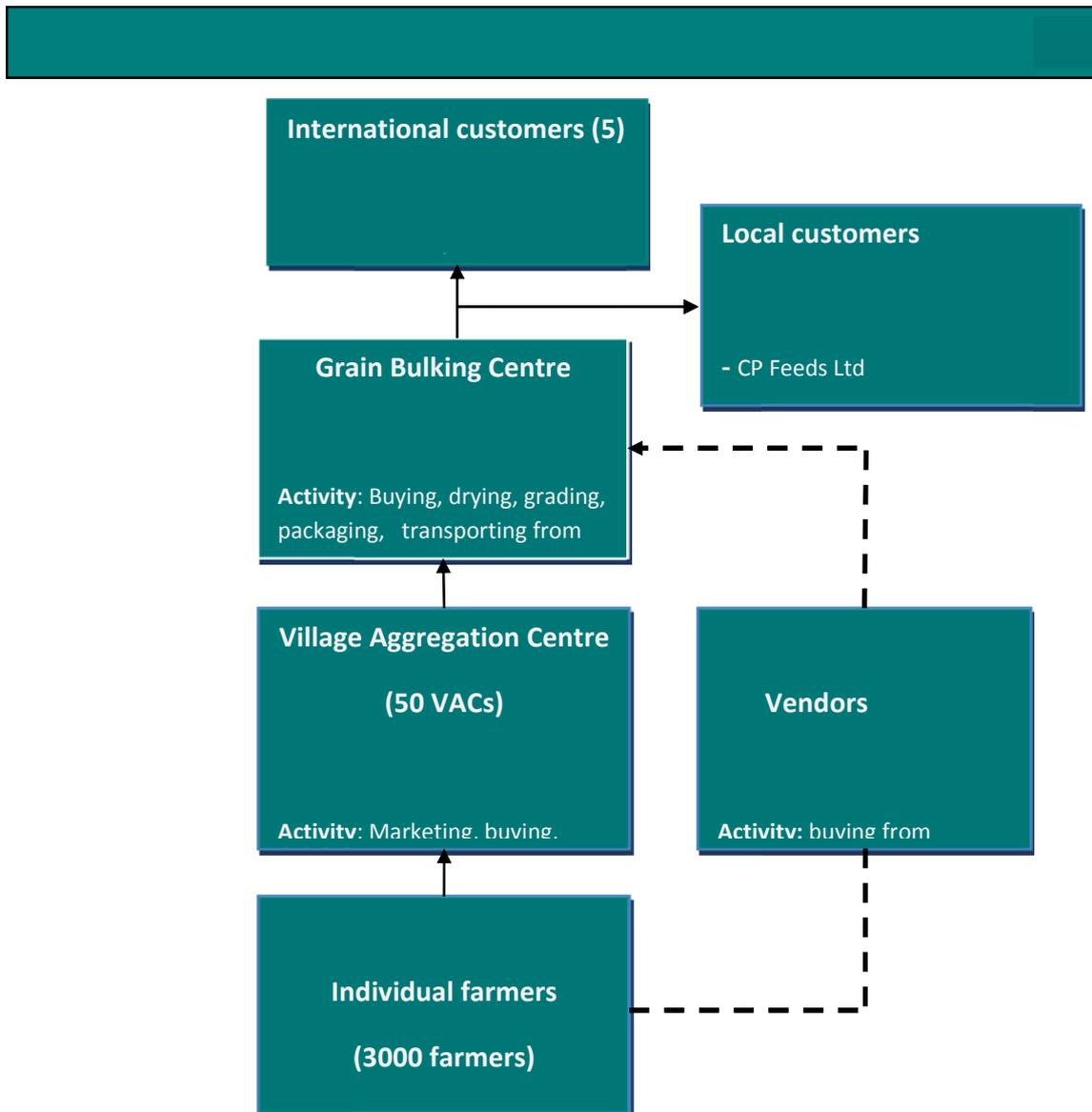
## 15.4 Challenges faced in using Esoko

- Poor networks in some Village Aggregation Centres e.g. Kasuntha
- Most farmers do not have mobile phones to be connected on Esoko.
- Some farmers have problems interpreting SMS. Some farmers get confused with prices for the different markets.
- Esoko is connected to international markets as such businesses are not able to access international markets.
- Some farmers receive incomplete messages
- Esoko is limited to grains yet most farmers in the central region grow more than one crop. Tobacco is not on the Esoko platform.
- Some farmers do not share information with others.

## 16.0 Mr. Chitsosa's future plan for Esoko

- He plans to buy phones for some of his farmers and recover the cost from their sales
- He is willing to subscribe for the service as long as it is shown to be cost effective
- He would like to empower his farmers through market information. This would help farmers increase their profitability and productivity.

## 17.0 Summary of the value chain



## 18.0 Financial Statements

### 18.1 Statement of Comprehensive Income

<b>Income</b>	<b>2009</b>	<b>2008</b>
Sales of farm produce	347,456,800	250,323,989
<b>Cost of sales</b>		
Opening stock	16,057,700	5,961,800
Add purchases	247,552,423	183,172,079
<b>Total</b>	<b>263,610,123</b>	<b>189,133,879</b>
Less closing stock	20,335,680	16,057,700
<b>Cost of sales</b>	<b>243,274,443</b>	<b>173,076,179</b>
<b>Gross margin</b>	<b>104,182,357</b>	<b>77,247,810</b>
<b>Less operating costs</b>		
Tyres and tubes	1,200,000	1,480,000
Repairs and spares	1,285,510	950,910
Insurance and licences	5,549,644	721,500
Toll fees	1,501,760	0
Wages and Salaries	2,500,000	2,000,000

Trading expenses	1,790,000	856,750
Postage and Telephone	256,240	218,610
Stationery	15,367	17,500
Water and electricity	56,910	51,669
Accounting fees	50,000	45,000
Drawings	3,260,500	2,900,000
Depreciation	8,488,109	2,806,716
<b>Total expenses</b>	<b>25,954,040</b>	<b>12,048,655</b>
<b>Profit before tax</b>	<b>78,228,317</b>	<b>60,574,363</b>
Bank charges and interest	7,741,260	4,624,792
<b>Profit after interest but before tax</b>	<b>70,487,057</b>	<b>55,949,571</b>
<b>Tax @30%</b>	<b>21,146,117</b>	<b>16,784,871</b>
<b>Net profit</b>	<b>49,340,940</b>	<b>39,164,700</b>

## 18.2 Statement of Financial Position

<b>Fixed Assets</b>	<b>2009</b>	<b>2008</b>
Fixed assets	91,675,596	36,363,705
<b>Current Assets</b>		
Cash in the bank	11,615,144	5,898,736
Debtors	8,991,000	23,401,900
Stock	20,335,680	16,057,700
<b>Total</b>	<b>40,941,824</b>	<b>45,358,336</b>
<b>Current liabilities</b>		
Creditors	50,000	45,000
<b>Net current Assets</b>	<b>40,891,824</b>	<b>45,313,336</b>
<b>Total Assets</b>	<b>132,567,420</b>	<b>81,677,041</b>
<b>Finance by</b>		
Capital	1,500,000	1,500,000
Retained earnings	60,574,363	19,602,678
Profit	70,493,057	60,574,363
<b>Total</b>	<b>132,567,420</b>	<b>81,677,041</b>

## 9.5.2. MC Agronomy Report.

### 1.0 Background

MC Agronomy is a business involved in grain trading. The business is located in Mchinji district just after Lilongwe-Mchinji roadblock. MC Agronomy buys commodities from smallholder farmers and sells them to processors and exporters. The business buys most of the commodities from areas around Namitete and now they have extended to Lakeshore areas in Nkhatakota district. The business started on a small scale. After realising that the demand was high, the business began buying grains. The Director of the business Mr Latif Nyambi has scaled down the farming business and now concentrates on buying grains and selling to several companies such as Rab Processors, NASFAM and Farmers World. The increase in business volumes created a challenge in terms of storage. With 50% cost sharing grant from Market Link Initiatives, Mr Nyambi is constructing a large warehouse which will be ready for use by the end of July 2011. The business trades in Maize, G/Nuts, and sorghum, Rice, and soya beans.

MC Agronomy has two managers who oversee the daily operations of the business: Mr Gift Mphande- Operations Manager and Mr Mjidu Mapepa- Finance Manager. They are assisted by field officer/buyers.

## MC Agronomy Employees

Name	Position	Duties
Mr Latif Nyambi	Director/owner	Oversee the general business operations and management.
Mr Gift Mphande	Operations Manager	<p>Coordinate the buyers</p> <p>Ensure that buyers have enough cash to buy grains</p> <p>Monitoring the GBC building project</p> <p>Monitor the buyers buying process</p>
Mr Mjidu Mapepa	Finance Manager	<p>Conduct weekly price estimates</p> <p>Assess the prices of the competitors</p>
<p><b>Buyers:</b> The team of buyers leaves every morning for VACs where they are assigned to buy grains. The buyers are given cash and they normally communicate back to the Operations Manager on the behaviour of the market.</p>		

## 2.0 Suppliers

The major suppliers of Mc Agronomy are smallholder farmers. Most of the commodities traded by Mc Agronomy are bought through VACs. The largest VAC in membership and business

volumes is Kabutu. This VAC is located some 15 km away from MC Agronomy GBC. Most of farmers in Kabutu VAC trust MC as they believe they do not interfere with the scales like the other vendors.

Smallholder farmers in Namitete come together through farmers club and sell their grain to MC in bulk. This has proven to be of benefit to the smallholder farmers as this increase their bargaining powers. The Farmers clubs are coordinated by the Agriculture Extension workers under Ministry of Agriculture.

There is no contract farming with farmers however farmers sell their grains to MC Agronomy as they offer competitive prices. It is worth noting that 90% of the Rice is bought from the lakeshore in Nkhotakota. MC Agronomy buys the Rice on behalf of NASFAM. They have a 4 month contract in place (NASFAM absorbs the withholding tax). NASFAM has provided farmers with inputs as such most farmers will sell to MC as they are NASFAM buyers (even though there is no contract in place)

## **3.0 Operations**

### **3.1 Operations before Esoko**

Before Esoko was introduced to MC Agronomy, it took the business 2 days to communicate to smallholder farmers about start of buying period. The buyers were paid K200 to go out to the villages surrounding their VACs to promote MC, communicate about buying price, date and place. The communication was through word of mouth and posters and sometimes the communications were made through the local chief.

### **3.2 Operations after Esoko**

The introduction of Esoko has made the operations of the business easier. When it is time to start buying grains from smallholder farmers, the business just sends information through Esoko. This in turn reduces the cost of communicating to the farmers using word of mouth and posters. The SMS texts are communicated to specific VACs at a time- All the VACS are profiled.

With Esoko MC Agronomy is able to get prices of grains from 13 markets. The business also is able to get commodity offers from ACE. This has opened up market for the business. Normally MC sends four Esoko messages a week.

There has been an increase in number of farmers registering on Esoko. High registrations are recorded during farmers Field day.

Name of VAC	Number of farmers registered on Esoko	Potential farmers
Kabutu	30	388
Kapange	20	400
Msapha	30	Not available
Silombe	40	Not available
Nkokha	20	Not available
Chazuka	20	300
Sinube	12	Not available
Njiwa	34	Not available
Total	206	

## 4.0 Distribution

From VACs where most of the grain is bought, the grains are transported using either 3 or 15 tonne track. The vehicles are owned by the business. Most of the grains are transported directly to MC Agronomy's customers (e.g. Farmers World and NASFAM). Very little grain is currently stored. Only sorghum and small quantities of maize are currently held in the temporary storage facility. The new storage facility will be completed at the end of the month. Rice from Nkhotakota is bought through the same means and transported directly to NASFAM.

## 5.0 Marketing and Sales

MC Agronomy is able to get prices of grains from 13 markets. Through Esoko, the business gets commodity offers from ACE. This has opened up markets for the business.

MC has managed to train smallholder farmers in accessing and interpreting marketing information using Esoko SMS alerts. At least 20 smallholder farmers from each of the 8 VACs

were trained. This makes it easy to market using SMS. Normally MC sends four Esoko messages a week to farmers. The smallholder farmers have been very responsive to Esoko messages. According to the finance manager, most times farmers give feedback to him through phone calls and SMS after they receive Esoko messages. The response rate depends on the season.

Period	Response rate
Post harvest Period	Low
Harvest Period	High <b>Case of Kabutu VAC*:</b> 30 SMSs were sent to smallholder farmer at Kabutu, these were their Responses. <ul style="list-style-type: none"> <li>• 10 called back the GBC</li> <li>• 19 sent SMS texts to GBC</li> <li>• 1 sent call back message</li> </ul>

\*It is worth noting that most farmers at Kabutu VAC have Airtel numbers and few have TNM.

### 5.1 Market Price differentials

Smallholder farmers react differently to price differentials among buyers. MC acknowledged that maize price is a major issue especially for farmers when deciding where to sell their produce.

The business is still able to purchase Rice even at relatively lower price than the competitors. This happens mainly in Nkhotakota where the relationship with NASFAM gives them a relative advantage.

### 5.2 Grain Prices

	Maize	G/nuts (shelled)	Soya
cost price	Mk25	Mk110	Mk110
selling price	Mk29	Mk130	Mk130

### 5.3 Commodity receipts

The business keeps proper records however there is a need to filter some information on the receipts. There are recommendations to review the receipts so that they capture only the key information.

## 6.0 Communications

MC Agronomy director communicates with several stakeholders. Below is the chart that summaries MC communications activities.

Stakeholder	Communication Method	What is communicated
VAC	Esoko SMS alerts	Market prices of several crops, any market information from MC Agronomy
Finance and operations managers	Phone calls, ordinary SMSs	Volumes purchased, changes of the market prices, competitor prices
Smallholder Farmers	Esoko SMS alerts, farmers Filed day	Market prices of several crops, any market information from MC Agronomy, information about Esoko
Customers i.e. Rab processors, NASFAM	Phone calls, ordinary SMSs	Payments progress, buying price
Drivers	Phone calls, Ordinary SMSs	Sends progress report, details of breakdowns
Agriculture Extension workers	Phone Calls, Ordinary SMSs	Availability of grains from farmers clubs
Buyers	Phone calls, ordinary SMSs	Competitor prices, volumes purchased

When smallholder farmers change their numbers, they normally report to MC and their data in the system is edited. Farmers saw the benefits of promptly advising the GBC of changes. In

Namitete the business has registered 40% of the total numbers of smallholder farmers on Esoko. In Nkhotakota Esoko has just been introduced hence there has not been any registration.

### 6.1 Communication cost

Expenditure in telephone communication is one of the highest variable cost for the business. During peak period the cost is as doubles.

	Peak Period	Lean Period
Daily Airtime costs	MK4600	MK2000

### 7.0 Benefits of Esoko

Benefits of Esoko according to MC Agronomy are significant. Through Esoko, the business has increased its buying and sales volume and reduced general operating costs. Below is the list of benefits that MC is enjoying:

- Reduction in business transport cost
- Reduction in communication costs
- Access to a new market with ACE – Can participate directly on the web platform
- Improved communication with farmers (e.g. farmers informed if VACs are not buying on a particular day)
- It has enabled the business to easily identify buyers
- Easy to match buyers and sellers
- With knowledge of prices, one can buy from other areas where the prices are low if it is cost effective
- Increase in trading volumes
- Reduced wage bill- the cost of temporary employees who were recruited to go around and spread market information
- Now able to offer mobile market (e.g. can send an sms text a day in advance to say they are buying at one market from 9am-1pm and another from 2pm-4pm)

- Faster response to customer orders

**7.1 Benefits of Esoko: A case of Mitundu market-** There was a period when the price of maize was at K20/kg in Namitete. Through Esoko, Mc Agronomy received messages that the price of maize is being bought at K10/kg in Mitundu. Mc Agronomy immediately went to Mitundu and started buying maize at the price of K12/kg. This forced other buyers to raise their prices. The price went up gradually on the market to K18/kg. MC Agronomy bought enough maize and delivered directly to the processor saving on transport costs as Mitundu is closer to Lilongwe.

## 7.2 Benefits of Esoko to Smallholder Farmers

Most the prices of commodities have gone up. Because farmers now value the price information that comes through Esoko, they share the price information from MLI and MC with other farmers. Farmers are getting better commodity prices. For instance, Soya prices have increased with over 200%. Below is a chart showing price comparisons between 2010 and 2011.

### Price comparison

Grain	Price 2010 (MK)*	Price 2011 (MK)*
	<i>Before Esoko</i>	<i>After Esoko</i>
Maize	13/15	25
Groundnut (shelled)	60/80	118
Soya	35	110

\*Note: This does not take into consideration increases in global commodity prices.

- Before Esoko, Farmers from Kabutu VAC were transporting their commodities to Namitete as they thought they could get better prices. Now knowledge of market price at Namitete means that they can negotiate with traders at VAC and sell to them saving on time and transport costs. Also, farmers now can hold on to their produce and sell when price improves (if their circumstance permits).

- The farmers were mainly growing crops to eat and sell any surplus. With MC Agronomy and better price deals through Esoko, the smallholder farmers now grow some crops mainly for sale.

### Costs pre Esoko

- Ox wagon costs MK 1,000 to take about 15 bags. Now sell at VAC so reduction in transport costs. Can take 2/3 bags at a time to VAC using bicycle or by foot.
- In past bought sacks to take grain to market – costs MK80 per sack. This season only bought 2/3 as sell at VAC so can recycle sacks.

### 7.3 Challenges of Esoko

- Most farmers do not have mobile phones- for instance, during the interviews at Kabutu VAC, only 6 of 19 smallholder farmers in attendance had mobile.
- Some farmers could not see the benefits of Esoko outside of the harvest season
- Currently only push not pull (we advised Latif that it would be rolled out next month)

### 8.0 Improvements to Esoko

- Smallholder farmers' only get maize price alerts – would like price information for buffalo beans, sweet potatoes, cassava, Irish potatoes, and tomatoes.
- Get a number of text messages on price information from different sources.
- Smallholder farmers would like more training on Esoko and how else they could use it.
- Smallholder farmers would like better information ahead of the growing season to know what produce is most likely to give them greater returns.

**Note:** MC would be willing to pay for Esoko services but the costs would have to be on par with the text message bundles being offered by mobile operators. On the other hand, when farmers were asked most said they would not be able to pay as individuals to use Esoko services. They however agreed that they may be able to pay for Esoko services if they were organised into clubs.

## 9.0 General Business Operations

The business buys most of the grain from the VACs. MC Agronomy has a team of 8 buyers for 8 VACs in Namitete. The business has grown over the years and in 2009 they opened another buying centre in Nkhotakota. In Nkhotakota they have 18 VACs and they mainly buy Rice. MC has its own 15 tonne and 3 tonne vehicles, this reduces the transport cost.

Last year MC failed to win the contract with Value Nutrition because the ground nuts were not graded. However, farmers are now aware that grading is very important. The buyers are being trained on how to use the new grading equipment. When new storage facility with grading area completed in July 2011, the business will start grading the commodities properly.

## 10.0 Future improvements to MC's business

When MC Director was asked as to which areas will be ideal for improvements in his business, the directors mention the following:-

- Commodity diversification
- Focus on produce that have higher profit margins and substantial demand on the market
- Going into processing business- value adding
- Build another warehouse of a similar size to the one under construction

## 11.0 Views on GTPA

Mr Latif Nyambi is of the view that GTPA has not done enough to support his business. His view is that GTPA should be focus on looking for local and international markets for its membership. He only cited one incident where he benefited from GTPA through linkage to National Food Reserve Agency.

### Quotes

*Latif "if I had money, I would have purchased the Esoko franchise"*

*Gift "People call him Esoko man, whenever he arrives at VACs, everybody welcomes him as Esoko Man" (Gift was referring to Mjidu who was trained in Esoko).*

### 9.5.3. Zwii Enterprises Report

#### Zwii Enterprise GBC Site Visit Report (26 July 2011)

**In attendance were:** Aurthur Chipungu (Zwii Enterprises); MacMillan Banda (Zwii Enterprise); Frank Mkumba (BCA); Delphine Thomson (BCA)

#### 1. Background

The business began its operation in 2008. In 2010, the business was registered with Malawi Revenue Authority (MRA) and the same year they got a grant from the Market Linkages Initiative. In March 2011 the business took out a loan to purchase a 5 tonne vehicle which it has now repaid.

Zwii has administrative office in Blantyre and its operational base is in Mulanje near Limbuli trading centre. In Mulanje the business was renting two houses which were used as warehouses up until July 2011 when it began using the newly constructed warehouse. Zwii Enterprise buys different types of commodities from smallholder farmers through 10 VACs and sells them to traders in Blantyre. The business trades in Maize, Rice and Pigeon peas.

Mr Arthur Chipungu is the Managing Director who oversees the general administrative duties of the business. The other employees of Zwii enterprises are as follow:

Name	Position	Duties
Mr Arthur Chipungu	Managing Director/owner	Oversee the general business operations and management.
Isabel Chipungu	Human Resource (HR)s Director	Responsible for HR and administration
Mphatos Kassam	Logistics Manager	Responsible for business development, marketing and sales
Macmillan Banda	Warehouse Manager	Monitors the buyers, the buying process and inventory at the warehouse. Responsible for training

Name	Position	Duties
		farmers in Esoko  Supervising warehouse construction work
Davie Mhango	Assistant Accountant	Responsible for Handling petty cash, banking, salary payment and accounts records keeping
To be confirmed with Arthur	Marketing Supervisor	Supports business development activities
To be confirmed with Arthur	Buyers-2	The two buyers are responsible for 2 VACs. The supervision of the other 8 VACs. Coordination of buying by the VACs.
Chatha Sara	Driver	Drives the business vehicles
Beni Moda	Assistant Driver	Assist the driver

## 2.0 Suppliers

Zwii Enterprise buys all its commodities from smallholder farmers through 10 VACs and sometimes through vendors. The business coordinates 10 VACs most of them located along Malawi-Mozambique boarder. Nearly 50% of the smallholder farmers that supply commodities to VACs are from Mozambique. In most of the areas where Zwii Enterprise has VACs, there are farmers clubs formed by Africare, an international NGO. The clubs also supply commodities to the business. The vendors on the other hand buy from smallholder farmers at and sell to GBCs at relatively higher price.

The business plans to start buying from the GBC when the warehouse is completed.

## 3.0 Customers

- NASFAM – They business has an agreement with MC Agronomy to sell rice to NASFAM via MC. This partnership was formed after meeting at an MLI event.
- Rab Processors
- Export Trading
- Transglobe

## 4.0 Operations

The main administrative office of the business is in Blantyre and the GBC in Mulanje, which means that there are a lot of e-mail and telephone communications. This places a challenge in the daily operations and is costly. Once the warehouse is completed, the business plans to move the office in Blantyre to Mulanje. The business coordinates all the 10 VACs located in Mulanje. However, limited availability of network is a major challenge in coordinating and managing the VACs.

### 4.1 Operations before Esoko

Zwii introduced Esoko in April 2011. Before Esoko was introduced the business was communicating market information and marketing their business to smallholder farmers through the Village Development Officers (VDOs) and Village Development Committees (VDCs). The farmers clubs established by Africare were through the lead farmers. This involved representatives from Zwii visiting the houses of these individuals. Zwii mainly was communicating to the farmers at the start of buying period informing them when they will start buying the commodities. This involved at least four trips before the actual buying started. The communication was through word of mouth and each trip to VAC costed K600. In a few VACs where the lead farmer and Village Development Officer have mobile phones, the preference was to communicate with them via the phone.

### 4.2 Operations after Esoko

The introduction of Esoko has improved the operations of the business. It has improved the business in the areas of communication with famers, business operations and overheads costs.

Area	What has improved
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Area	What has improved
Communication	The business has profiled farmers and categorised them by VACs. When Zwii starts to buy commodities an SMS is just pushed to the targeted VAC. All the VACS are profiled. Each of the VACs except Mpholiwa has registered about 15 farmers on Esoko.
Operations	The business does not need to travel to the majority of VACs to communicate with VDOs, VDCs and lead farmers. Only to those VACs with poor network connectivity.
Overhead costs	Overheads costs have fallen by 60% after Esoko was introduced
Administration	Zwii enterprise is now able to get prices of grains from 13 markets. This which influences the buying price

## 5.0 Cost Benefit Analysis of Esoko

#	Description	Before Esoko	With Esoko	Comments
1	Phone	MK4,000	MK 1,500 - 2,000	Estimated costs as there are no records to verify
2	Transport - notifying farmers on opening dates for markets	MK24,000	MK12,000	Now communicates to only 5 VACs with good network signals using Esoko , Mk600 per trip for 4 months/ 1 trip per month
3	Transport – to	MK48000	MK24000	Communicates to only 5 VACs with

#	Description	Before Esoko	With Esoko	Comments
	collect and share market information with VACs			good network signals using Esoko, Mk600 per trip for 4 months/ 2 trip per month

## 6.0 Network Coverage

The poor network signals make it difficult for farmers to access Esoko messages. Below are the VACs with their network status

Name of VAC	Network status
Milonde	Poor
Mimosa	Good
Gawani	Very Poor
Zumbila	Poor
Namaona	Good
Chibalo	Good
Mpholiwa	Very poor
Limbuli	Good
Muloza	Good
Soza	Poor

## 7.0 Distribution

In 2010 Zwii Enterprise bought a 5 tonne truck which is used in the distribution and collection of commodities. When the commodities are bought from VACs, they are transported to the warehouse. The commodities are then taken to where they are sold (exporters or processors).

However, some quantities of the commodities are stored in the warehouse so that they are sold when there is a rise in prices on the market.

## 8.0 Marketing and Sales

Zwii Enterprises trained farmers in interpreting the Esoko market information. This has enabled farmers to easily interpret Esoko SMS alerts. It is worth mentioning that Esoko messages are sent when there is a need to do so. In most cases, messages have been sent where

- The business wants to communicate when and where they will be buying commodities
- The price at which they will be buying
- There is a farmers field day

Smallholder farmers also receive messages from Esoko/MLI about the prices of commodities from 13 markets.

### Grain Prices

Details	Maize	Beans	Rice	Pigeon Peas
cost price	Mk20	Mk120	Mk60	Mk50
selling price	Mk26/28	Mk160/150	Mk66	Mk70
Margin	Mk6/8	Mk40/20	Mk6	Mk20

## 9.0 Commodity receipts

The business collects farmer's data which include their phone numbers and the VAC they belong through the commodity receipts. The initiative has been working and it has helped to increase numbers of farmers registered on Esoko.

## 10.0 Communication

Zwii Enterprises communicates with several stakeholders. Below is the chart that summaries MC communication activities.

Stakeholder	Communication Method	What is communicated
Buyers and VACs	Esoko SMS alerts, phone calls, ordinary SMSs	Market prices of several crops, any market information from Zwii, competitor prices, volumes purchased
Directors	E-mail, Phone calls, ordinary SMSs, word of mouth	Management issues
Smallholder Farmers, Lead Farmers, VDOs and VDCs	Esoko SMS alerts, Farmer Field Days, phone calls and word of mouth (where there are network issues)	Market prices of several crops, any market information, marketing Zwii and Zwii events
Customers e.g. Rab processors, NASFAM	Phone calls	Payments progress, buying price

## 11. Benefits of Esoko

For the period Zwii enterprises has been using Esoko, they have seen real benefits. Through Esoko, the business has increased its buying volumes and reduced general operating costs.

Below is the list of benefits that Zwii Enterprise and the farmers are enjoying by using Esoko services

- Reduction in business transport cost
- Farmers have trust in their business and have completely lost trust in vendors.
- It has increased farmers bargaining powers
- Reduction in communication costs- The telephone bills have gone down
- Improved communication with farmers
- Increase in trading volumes- before Esoko it would take a week to accumulate 100 to 200 bags now the business can achieve this in 1-2 days. Depending on availability the business can buy up to 700 bags a week.

- Now able to offer mobile market services. Able to buy from different markets on the same day
- Faster response to customer orders and this has increased the business credibility in the area of its operations
- Because farmers now value the price information that comes through Esoko, they share the price information from MLI and Zwii Enterprise with other farmers. Farmers are getting better commodity prices. For instance, Maize prices increased from K20 to K28 at Namaona VAC.

## 12 Challenges of Esoko

- Most of the VACs have poor network coverage as such the farmers are unable to access Esoko information.
- Most farmers do not have mobile phones
- The few farmers who have mobile phone have problems charging them, as most of them do not have electricity.
- Some farmers have been charged when sending an SMS bids, this has discouraged some farmers from using this Esoko service.

## 13. Improvements to Esoko

- Improve usability and accessibility of Esoko web page
- The interface when uploading contacts should not have column where you need to add e-mail addresses of the farmers. Smallholder farmers do not have e-mail addresses.
- A need to facilitate an initiative where farmers can get mobile phone on loan and pay back through GBCs
- A need for more training on Esoko among smallholder farmers and how they can effectively use the market information provided by Esoko

**Note:** Zwii Enterprise indicated that he will be willing to pay for Esoko services as long as the cost of subscription are fair.

## 14. Future improvements to GBC's business

When Managing Director for Zwi Enterprise was asked as to which areas will be ideal for improvements in his business, the directors mentioned the following:-

- Build another warehouse in other areas of the country, for example in Mitundu where other varieties of commodities can be bought.
- To increase the working capital
- Install the new grading machine and train staff to use it.
- Look for international markets
- Buy another vehicle for easy transportation of commodities
- Diversify range of commodities bought and sold
- Use warehouse to store grain throughout the year e.g. maize in off season to sell back to smallholder farmers

## 9.5.4. Farmers World Ltd

### 1.0 Introduction

Farmers World Limited (FWL) was incorporated in 1996 to deliver farming inputs to the rural smallholders in Malawi. The Company is Malawian registered with its head office in Kanengo, Lilongwe.

In 2001 Farmers World Limited was taken over by Agora management and became part of the newly formed Farmers World Group. The groups target market is the national agricultural community as a whole with a special interest in small farming households and businesses. This however, has not prevented the group from achieving long term contracts with large commercial multinational entities such as Illovo Malawi, southern region tea estates and large tobacco companies.

#### Institutional arrangement and networks

Farmers World Ltd is installing the warehouse in Mitundu with financial assistance from MLI under USAID. It has 5 village Aggregation Centres and 2500 farmers in Mitundu. Farmers World Group has 7 to 8 subsidiaries. Some of the subsidiaries are Agora, Demeter Agriculture Ltd, Malawi Fertilizer Company (MFC), and Farmers World Ltd. Farmers World Ltd has 80 shops while Agora has 24 countrywide. Additionally Farmers World open seasonal temporary buying points during harvest periods – this is one area where Esoko would be useful for them to communicate with farmers.

### 2.0 Methodology

Information was gathered through the following methods;

- **Desktop review.** This included literature review of brochures and online resources
- **Meeting with key stakeholders.** This included people from Market Linkages Initiative, Finance Director for farmers World Ltd.
- **Phone calls:** Mr Cobus Cilliers, head of retail business.

The following are the names of key stakeholders we obtained information from:

	Date of the meeting	Person	Organisation	Aim of the meeting
1	18 July 2011	Racheal Sibande	Market Linkages initiative (MLI)	Consultancy objective, scope and project or GBC briefing
		Rob Turner	Market Linkages Initiative (MLI)	Consultancy objective, scope and GBC briefing
2	28 July 2011	Mr Steve Bezuidenhout	Financial Controller, Farmers World	Data Collection

### 3.0 Human Resources

Farmers' World Ltd trained one employee on Esoko who later on left the organisation. Mr Cobus Cilliers who is the Administration and Retail Business Manager is currently responsible for Esoko operations. The organisation is however in the process of identifying a replacement and they are keen to make sure one person is responsible for the implementation across their group now they want to use Esoko more seriously. They see the biggest initial challenge as getting all the farmers into the system. This will need properly planning and resourcing so as they can collect farmer details at all of their depots, which will mean some basic training at that level.

### 4.0 Sources of supplies

The company has both temporary and permanent markets where it buys farm produce. 50% of the total supplies come from traders or middlemen and is supplied to the company's main shops or centres in Mzuzu and Lilongwe. 25% of total supply is sourced from rural traders while 25% from individual farmers. Larger companies like Mulli Brothers Ltd are also used as middlemen.

### 5.0 Customers

The company's customers include government and NGOs. It also exports goods to other countries e.g. to South Africa. It has a contract with Chibuku, a local brewery company to supply maize flour milled by its plant.

## 6.0 Marketing

The company has 8 marketing teams. A team has a manager and an assistant. Each team is allocated 9 markets and a pick up truck or car. The team is responsible for spreading the message when the markets will be opened, prices offered and commodities to be procured. The company I aware this system is not very efficient and believe this is an area where utilising Esoko would benefit them;

- for making producers aware of buying points, prices and timings,
- to help spread information internally within their depots, staff – including gathering competitor information to do targeted marketing to buyers on products, prices, new stocks, etc

## 7.0 Financial Analysis

### 7.1 Revenue

Farmers World's turnover is MK11billion a year<sup>1</sup>. The total estimated tax as a result of the new turnover tax law is MK240million. This is expected to impact the organisation negatively and they are reviewing all profit centres in light of Malawi's political and economic problems. It is assumed that an element of downscaling and restructuring the business to meet the new market dynamics will be undertaken, similar to most large companies in Malawi at present.

### 7.2 Assets

The following are some of the relevant assets to this study;

**A. Silos-** the company has constructed new silos at Kanengo with a capacity of 12000 metric tones

**B. Warehouse and grading house**

The business is installing a warehouse and grading house in Mitundu. The grant received from MLI is US\$50,000 and is yet to receive US\$120,000. Farmers World is expected to contribute 65% of the total project cost. The warehouse is 500square metres and has a capacity of 1000 metric tonnes.

**C. 104 depots/stores nationwide**

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<sup>1</sup> Source: Farmers World CFO

### **7.3 Loans**

The installed infrastructure will be used for the warehouse receipt system. The warehouse receipt system will allow farmers to deposit their commodities with Farmers World and use the warehouse receipt as collateral for bank loans. Farmers are expected to benefit from this system as prices tend to go up during lean periods.

### **8.0 Alternative uses of the warehouses**

The alternative use of the warehouse to storage is the warehouse receipt system.

### **9.0 Esoko System**

Farmers World has not implemented Esoko technology in any serious way yet. The organisation is keen to adopting the technology and assign people to be trained on Esoko. The CFO is keen that they start paying for the system in order that the management team take it more seriously and track progress of the rollout.

### **10.0 Envisaged potential benefits use of the Esoko on the business**

Despite not implementing Esoko, Farmers World Ltd envisages the following benefits of the system:

- weekly updates on performance of certain markets especially in the Northern and Central region for groundnuts while Pigeon peas in the Southern region
- to disseminate information e.g. extension information on crop conditioning and opening of markets.
- to target or reach very remote or rural areas. The company does not have the capacity to send people to rural areas at the moment.
- helpful in maintaining good customer relationships.

#### **10.1 Challenges or problems with Esoko**

- The Financial controller only received two SMS over a period of two months. This happened after three weeks of registering on Esoko platform. MS agreed to follow this up with the MLI team.
- The organisation only trained one person who left the organisation and no replacement was made.

## 11. Future plans of the organisation

- Farmers World plans to invest in a groundnut processing plant and increase its exports. It has exported 3000 metric tonnes to South Africa. The new plant will be used for sorting and also shelling groundnuts.
- The organisation will be buying unshelled groundnuts from farmers in the future to avoid aflatoxin which is high in shelled groundnuts. The plant will help to increase the value of groundnut by 80% to 90%.
- The organisation plans to train more staff and also have more farmers registered and put on the system. Registration to be done at its current shops.

## 12.0 Would Farmers World Ltd invest in Esoko or pay subscription?

Farmers World would be willing to invest in Esoko after knowing how the system operates and also after knowing other applications that the system could support.

**Steve Bezuidenhout, said *“most people do not pay much attention or focus on Esoko because it is free. The situation would have been different if they paid for it”***

They use a bulk SMS system at the moment supplied by Airtel. They don't get particularly good rates – CFO thinks ~5% discount to commercial market rate. SMS pricing did not seem to be a major issue to them, as it is with some of the smaller GBC's.

### Synergies for Esoko Licencee

The opportunity to resell and support Esoko and ACE contract notes from desks in some of the Farmers World Depots. CFO felt this might be too much conflict of interest but suggested we use the post office instead. Malawi Post Offices are busy trying to find new activities and income streams at present, so they might provide a smart solution to some of the Esoko challenges in terms of payments, basic support, distribution of materials and recovering farmer sign-up forms and profiling data done in paper copy back from the enumerators and field teams. MS/Wellspring will follow up with Post Office management through introduction from Farmers World.