



PASIDP II

Agribusiness & Market Linkage Virtual Training

Cooperatives administrative (and Management) capacity limitation

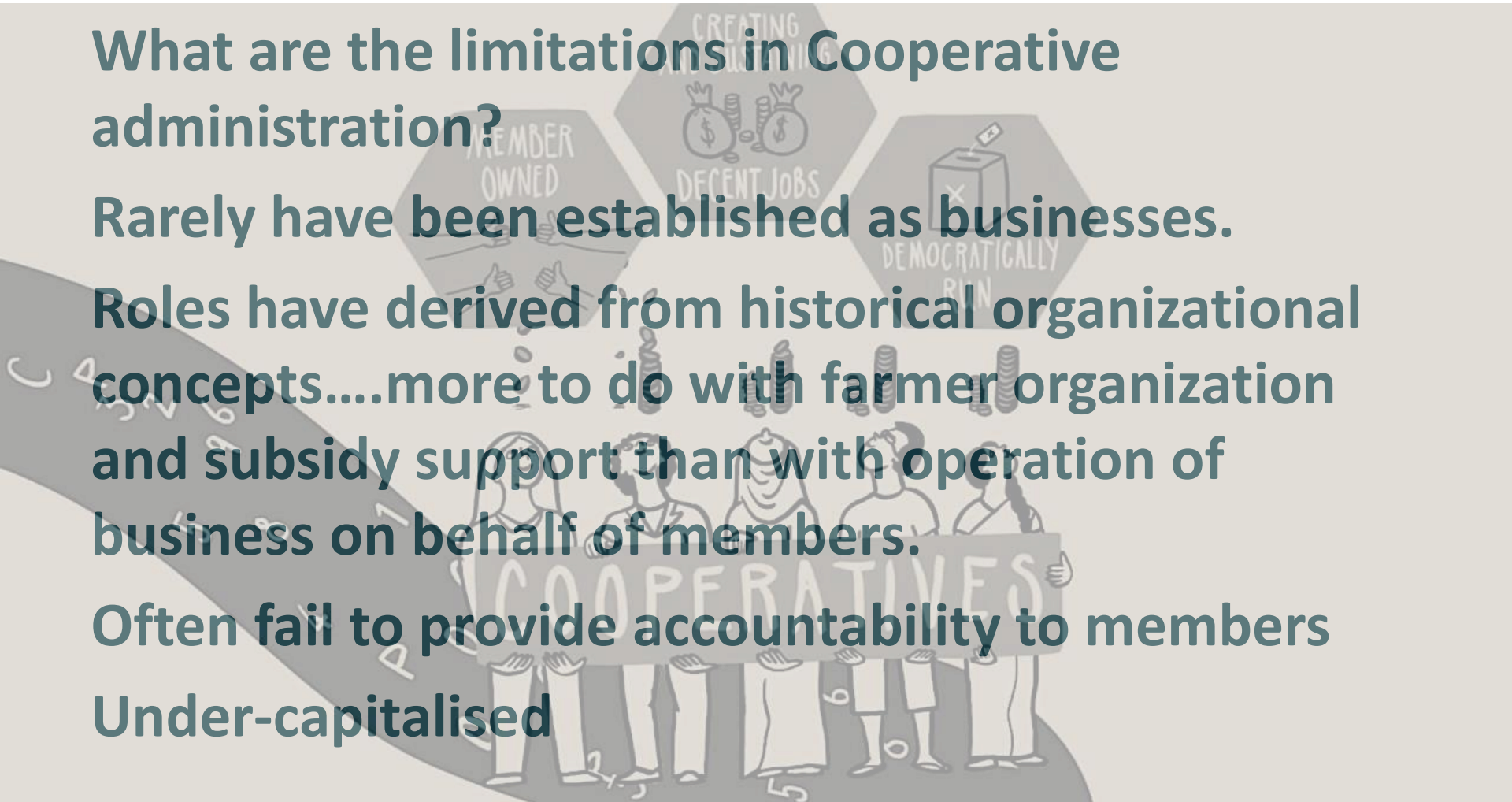
What are the limitations in Cooperative administration?

Rarely have been established as businesses.

Roles have derived from historical organizational concepts....more to do with farmer organization and subsidy support than with operation of business on behalf of members.

Often fail to provide accountability to members

Under-capitalised



Improving Cooperative Administration and Management

Start by encouraging Accountability.

- Ensure officials are properly elected
- Ensure that they regularly communicate with members

Agree on the purpose and functions of the cooperative.

- Ensure that members are in agreement with the purpose and functions
- Ensure that they are familiar with the technical and financial implications of the purpose and functions

Cooperatives administrative (and Management) capacity limitation

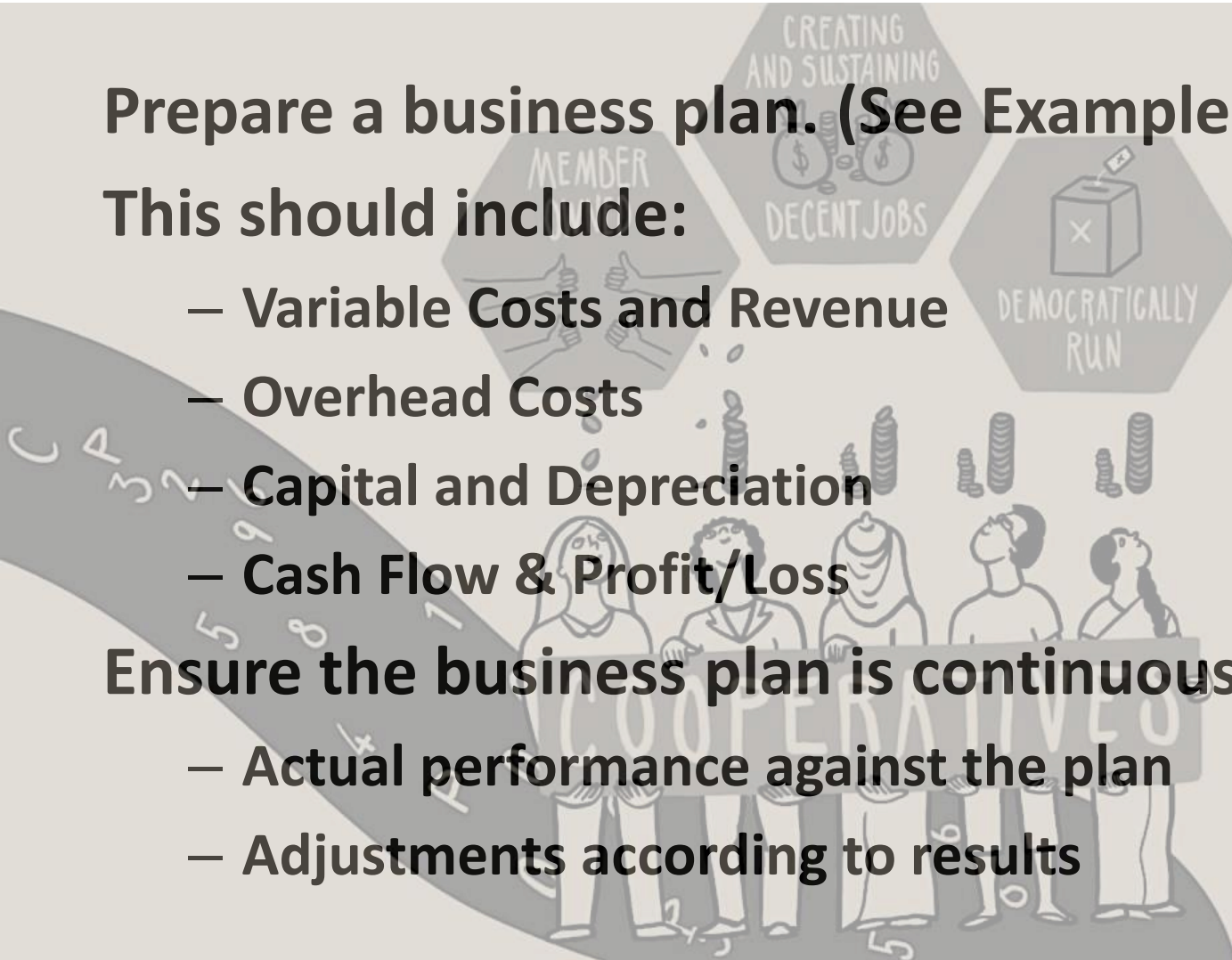
Prepare a business plan. (See Example)

This should include:

- Variable Costs and Revenue
- Overhead Costs
- Capital and Depreciation
- Cash Flow & Profit/Loss

Ensure the business plan is continuously updated.

- Actual performance against the plan
- Adjustments according to results



Crop Selection

How to select market demanded high value crops.

Crop selection tools

- WHICH CROPS



Seasonal or Perennial?



Crop Selection

Crop selection process

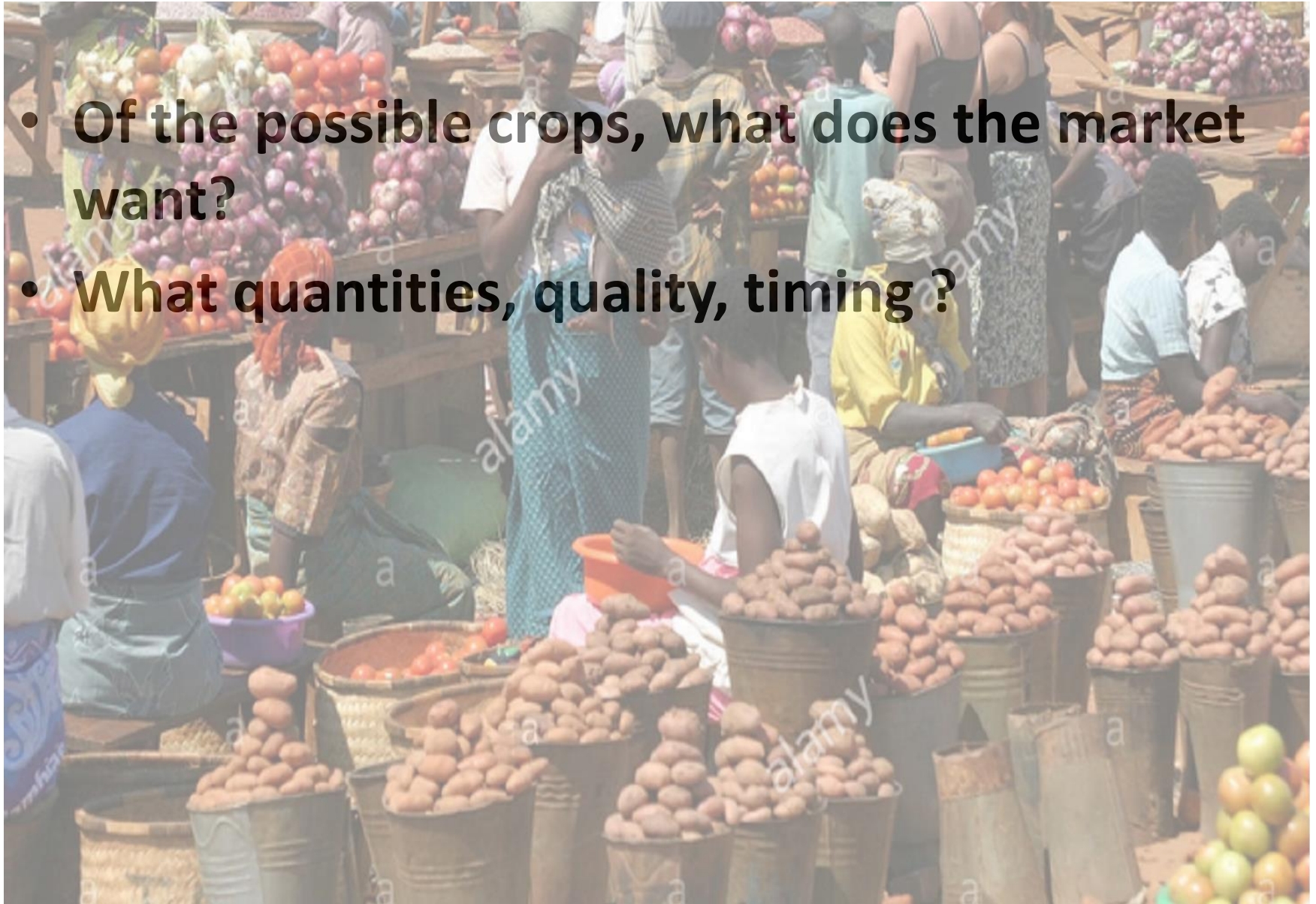
- What can be grown? Technically? Consider soils, climate, altitude
- What do farmers feel comfortable growing?



Crop Selection

Crop selection process

- Of the possible crops, what does the market want?
- What quantities, quality, timing?



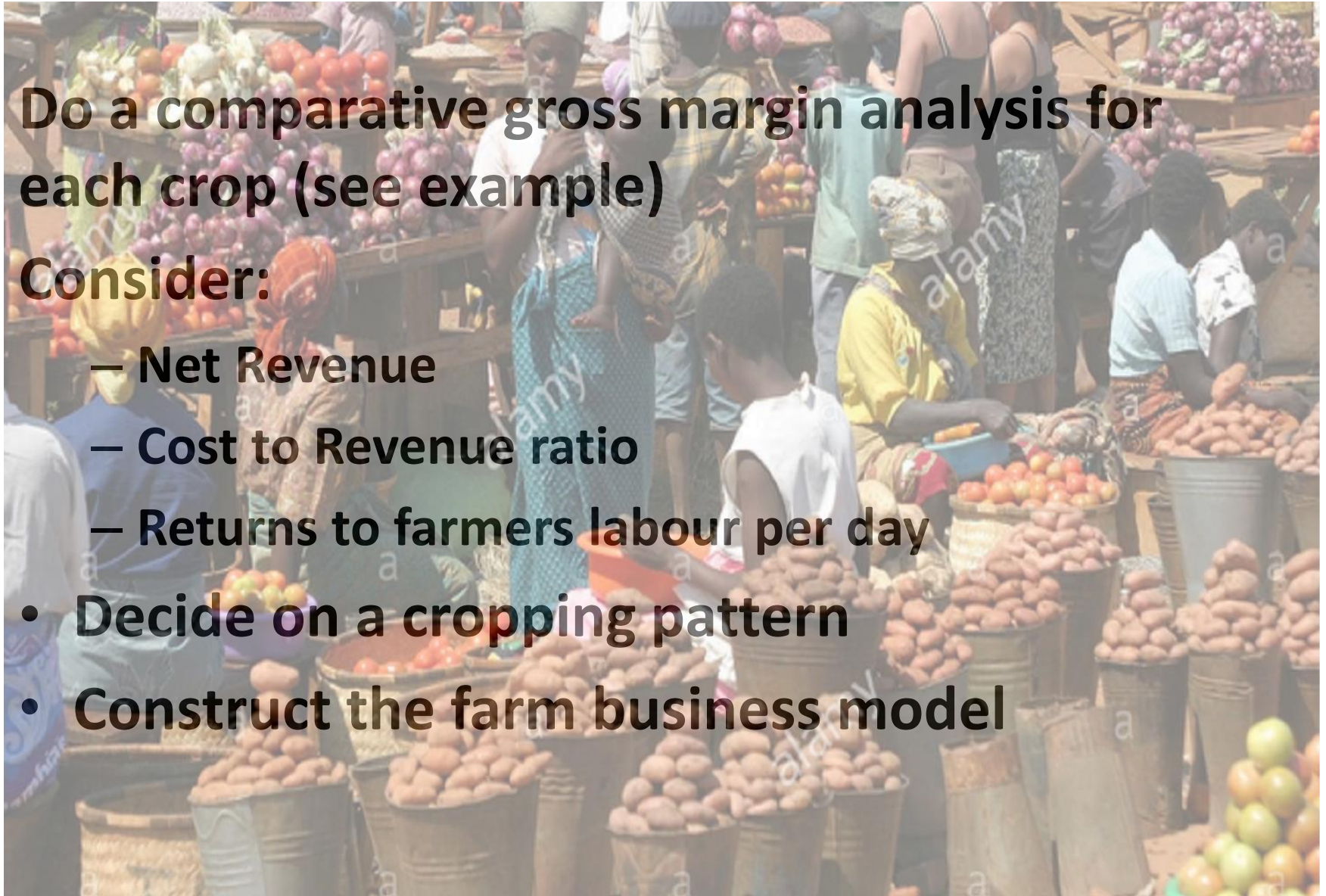
Crop Selection

Crop selection process

Do a comparative gross margin analysis for each crop (see example)

Consider:

- Net Revenue
- Cost to Revenue ratio
- Returns to farmers labour per day
- **Decide on a cropping pattern**
- **Construct the farm business model**



Contract farming

The name is a mis-conception.

A “formal contract” between farmers and buyers is rarely of benefit to farmers, as they are essentially un-enforceable.

What is needed is clear **AGREEMENT** between farmers and buyers. Over time, this develops **TRUST** between farmers and buyers.

It may be necessary for small farmers to cooperate to form clusters to produce the necessary volumes for the agreement and/or to sequence production to ensure required quantities are available at the agreed time.

Contract farming

The agreement should specify:

- The product
- Quantities, quality and timing of delivery
- Who pays for transport, packaging other post harvest costs
- Quality assurance, such as Global GAP
- Provision of transparent and timely information (open book)
- Price setting PROCEDURE (more on this later)
- Payment timing

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Contract farming (Example)

You have +/- 120 tonnes (60k x2kg cartons) of litchees to market.

Our proposal (De Groot) is as below.

- To market the fruit between UK and Netherlands.
- Estimated picking – 5th November,
- Shipping by sea via Capetown – direct to UK/NL
- 20ft containers preferred.
- We have agreed advances of \$1 for Cal M, \$1.50 for Cal L, \$2 for Cal XL and XXL – payable on shipping docs/packing lists.

Contract farming (Example)

DG to liaise with your shipping agent directly and will cover costs of sea-freight etc.

Final accounts/payments within 21 days of arrival.

We will transfer the amount to cover the cost of cartons/other packaging materials. This amount will be deducted from the advance value mentioned above on a carton by carton basis.

We will need pro forma invoices for the paperwork trail here for the transfers, finals will be paid on account sales.

I will get the box end labelling details to you as soon as possible

GGap – as soon as you have the audit booked please let us have the details so that we can add the information for our system and thereafter clients.

De Groot Fresh Produce UK Ltd



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Value Addition

- Value addition at the farm level provides higher incomes and jobs.
- The simplest form of value addition is **AGGREGATION**. A truckload of produce is a more valuable product than a single bag.
- This may require **CLUSTERING** of farmers to produce the required volumes and **SEQUENCING** of crop production and **HARVEST** to meet the market requirements.

Value Addition

Another simple form of value addition is STORAGE. Produce can gain value if it is stored and released to the market at a time of higher demand. This is a different product to produce which is simply sold at the time of harvest.

Storage requires investment in the appropriate facilities; losses can occur if storage is not secure.

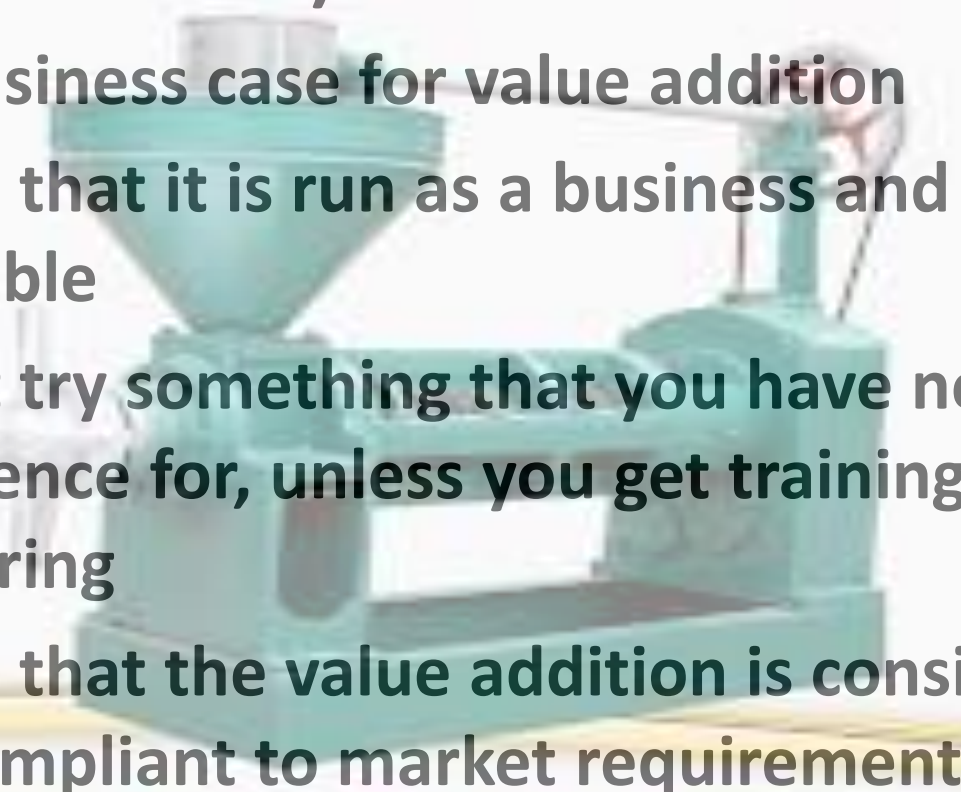
Storage can be anything from simple grain barns to sophisticated cold storage.

Value Addition

- **Other forms of Value addition at the farm level can include:**
 - **Simple transformation**
 - Cold pressing oil-seeds
 - Simple milling of cereals
 - Drying of fruit
 - **Grading**
 - **Packaging**



Value Addition

- **Ensure (calculate)**
 - **The business case for value addition**
 - **Ensure that it is run as a business and is profitable**
 - **Do not try something that you have no skill or experience for, unless you get training and mentoring**
 - **Ensure that the value addition is consistent with and compliant to market requirements**
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Price setting

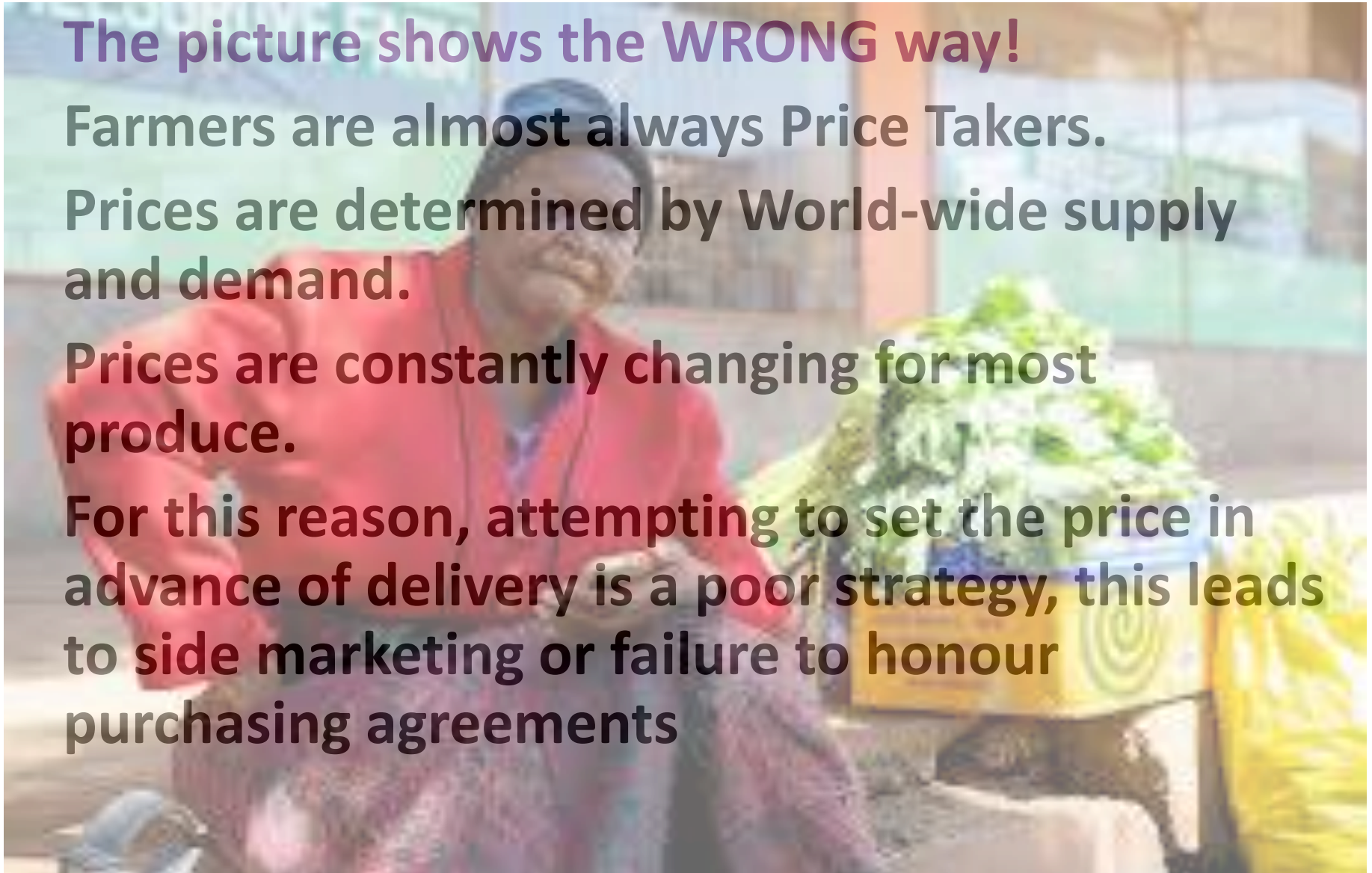
The picture shows the **WRONG** way!

Farmers are almost always Price Takers.

Prices are determined by World-wide supply and demand.

Prices are constantly changing for most produce.

For this reason, attempting to set the price in advance of delivery is a poor strategy, this leads to side marketing or failure to honour purchasing agreements



Price setting

Farmers compete (meet the market) through lowering their costs of producing a unit of output.

Productivity is the key. How many birr does it take to produce 100 birr of output/sales? The lower the better!

Before approaching the market, the farmer needs to compare the prevailing price with his/her ESTIMATED cost of production, to see if they are competitive.



Price setting

The simplest and most transparent form of price setting is an Auction. This is a system where prices (bids) are intermediated through a trained auctioneer, in public. The farmer has the option to accept or reject the price offered. Another transparent form of pricing is through an Index-based system (e.g. cotton). But this only works for heavily traded commodities with clear and accepted quality parameters.

Price setting

Before approaching the market, the farmer needs to compare the prevailing price with his/her ESTIMATED cost of production, to see if they are competitive.

Need to calculate estimated Gross Margins plus applicable Overhead (Fixed) costs



Price setting

When approaching the market, try and work out a transparent procedure or formula for setting the price on the day of transaction/delivery.

Use the Open Book system of verifiable prices and costs. e.g. price in locality X can be determined by market price in Market Y, less transport, taxes, mark-up, commission, losses etc.

Encourage buyers to provide such information. This develops TRUST

Source: The Economic Intelligence Unit, Ministry of Finance and Programme Implementation.

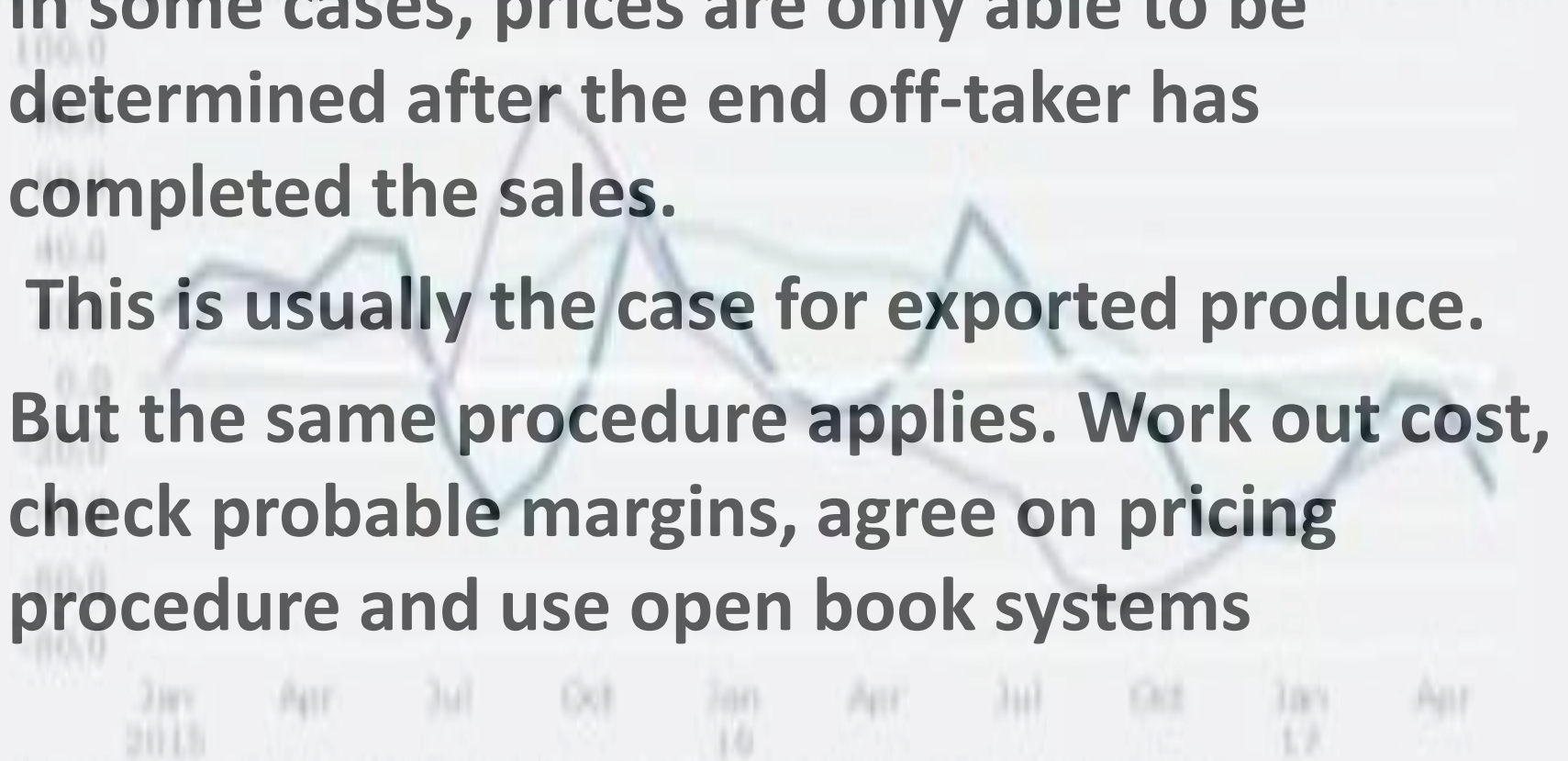
Price setting

In some cases, prices are only able to be determined after the end off-taker has completed the sales.

This is usually the case for exported produce. But the same procedure applies. Work out cost, check probable margins, agree on pricing procedure and use open book systems

Agricultural prices

Index (2015=100)



Source: The Economic Intelligence Unit, Ministry of Economic and Progressive Development.

Resilient Agricultural Business Linkage

What are the challenges of resilient Agri-business linkage?

Business Linkages must be **mutually beneficial**, all along the value chain.

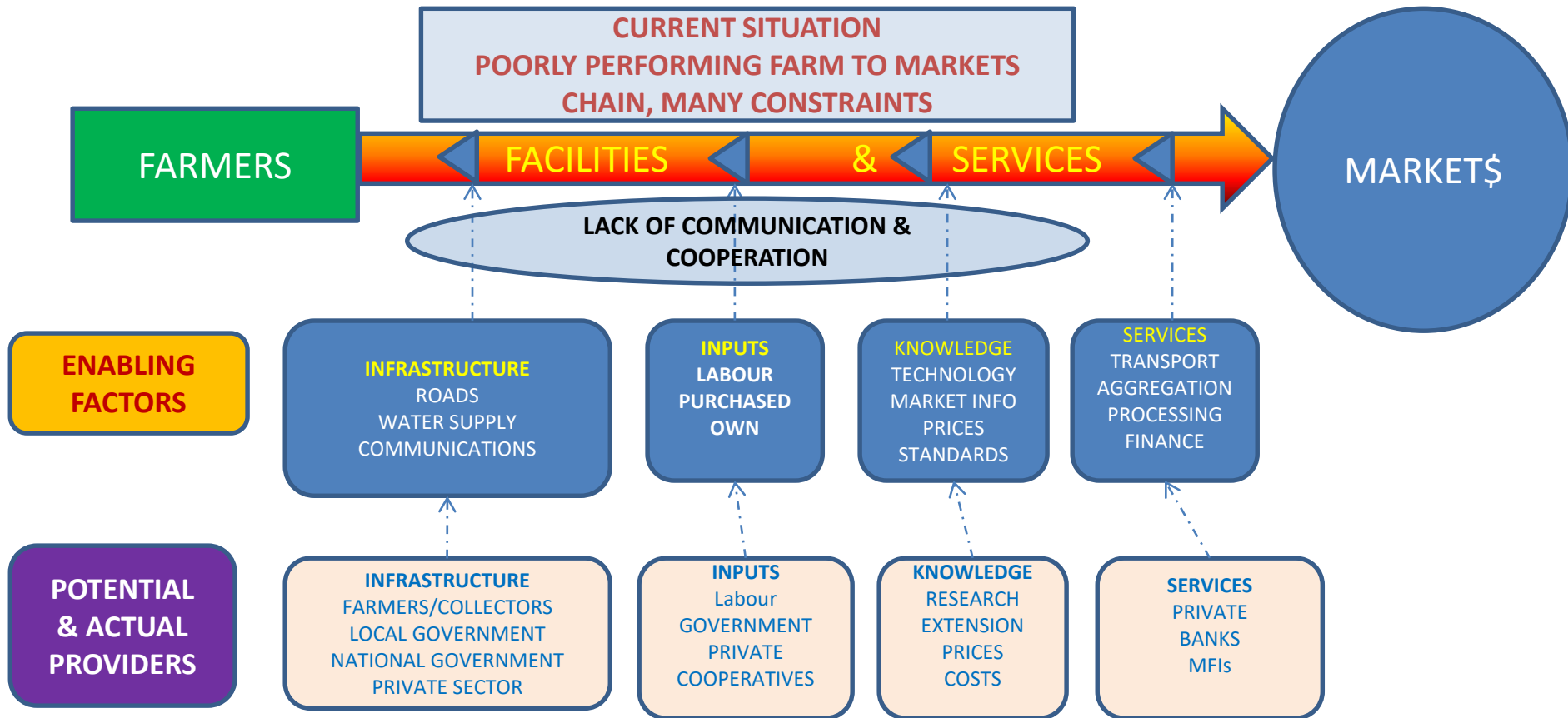
All private sector entities involved, from Farmers to Final Markets, must be **PROFITABLE**.

Public sector entities must be able to **SUSTAIN** their activities and engagement

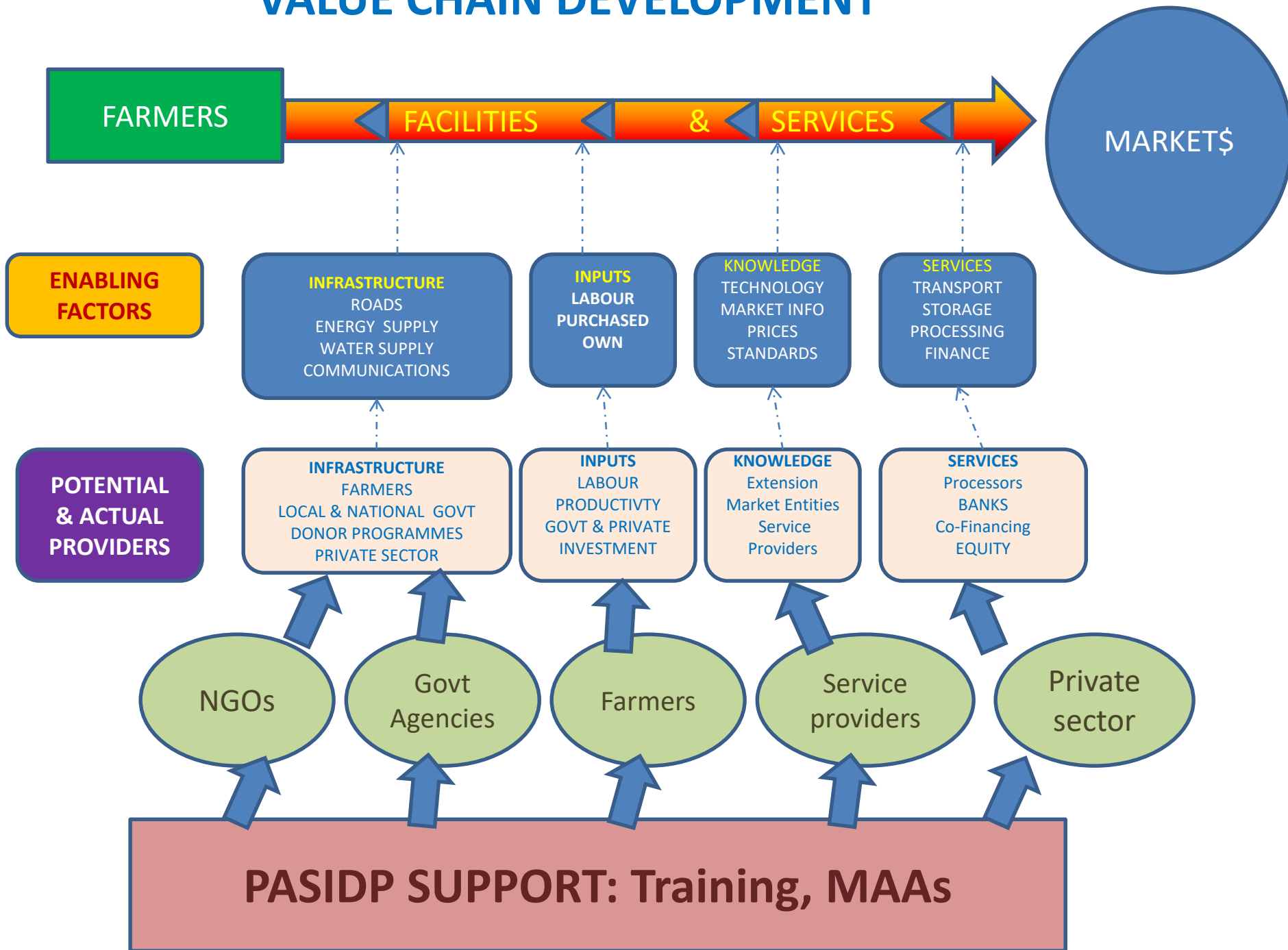
Investment by a Development Project such as PASIDP II must be able to deliver these outcomes

Rural Value Chain Development

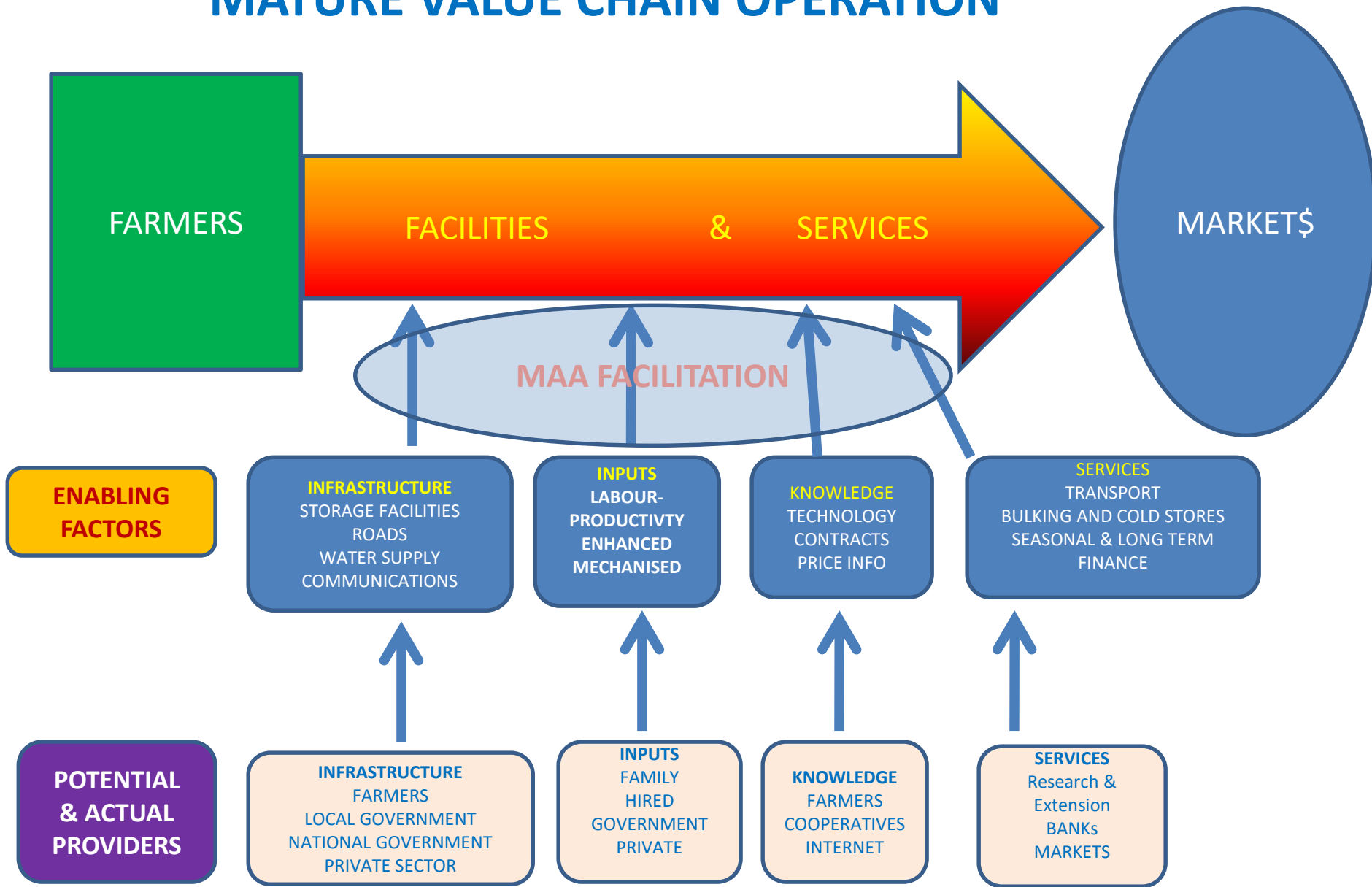
(Conceptual Framework)



VALUE CHAIN DEVELOPMENT



MATURE VALUE CHAIN OPERATION



VALUE CHAIN DEVELOPMENT & OPERATION

SOME IMPORTANT CONCEPTS

FOR INVESTMENTS:

*FINANCIAL VIABILITY & SUSTAINABILITY
AT ALL LEVELS*

FOR CONTRACTS & COMMERCIAL
AGREEMENTS

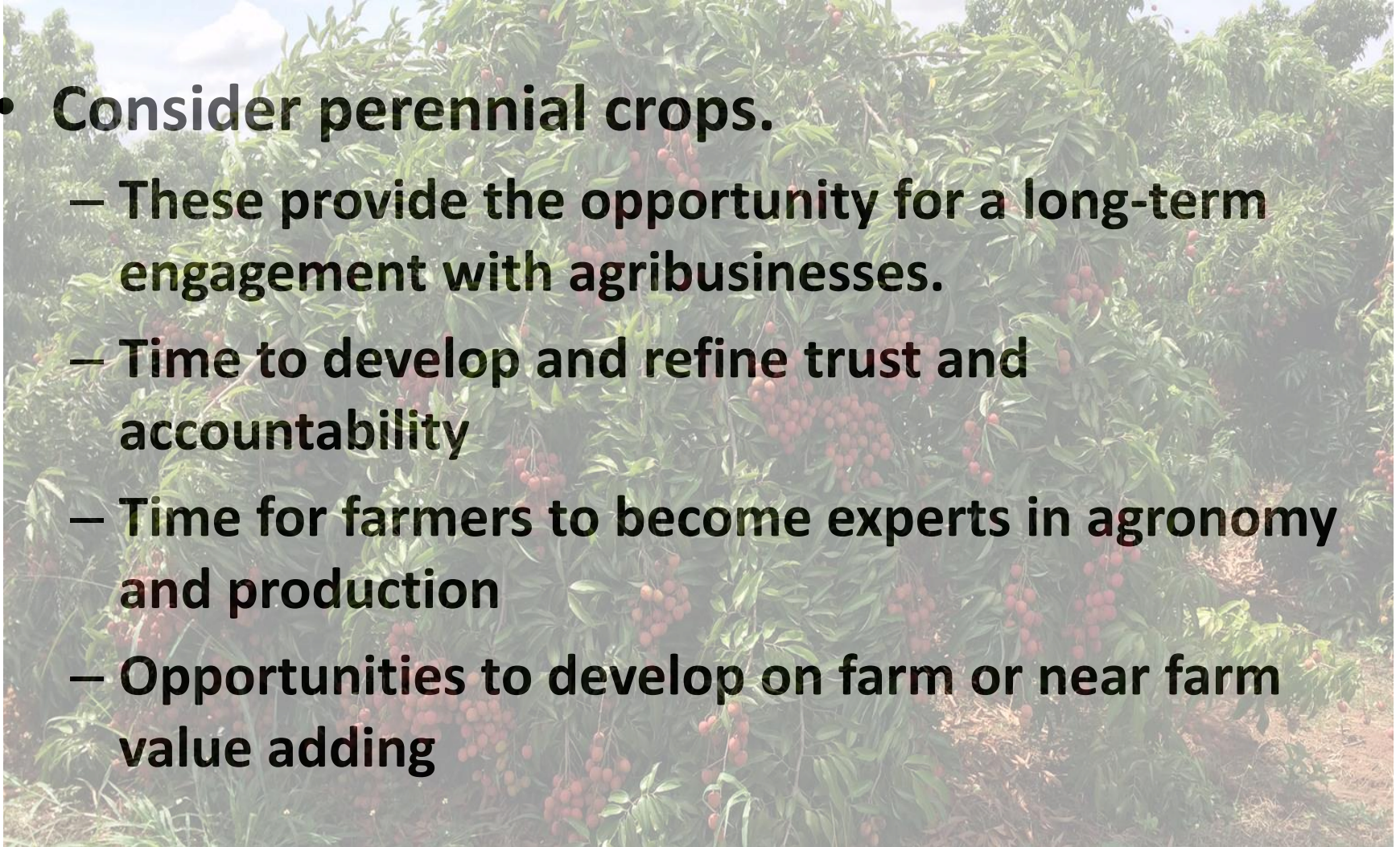
TRANSPARENCY/INFORMATION

TRUST/RELIABILITY

SELF ENFORCEMENT

Resilient Agricultural Business Linkage

- **Consider perennial crops.**
 - These provide the opportunity for a long-term engagement with agribusinesses.
 - Time to develop and refine trust and accountability
 - Time for farmers to become experts in agronomy and production
 - Opportunities to develop on farm or near farm value adding



Seed system and the role of agro-dealers

Other Countries Experiences: Positive.

South Africa, Zimbabwe, Malawi, Zambia, Kenya.

All have mainly private seed producers and agro-dealer distributors

Genetic materials are sourced from international and local breeders who own the plant breeders rights

The Government role limited to some basic research, registration & certification

Quality seed supplies are widely available, shortages are rare, and competition ensures that prices are reasonable.

Mainly commercial farmers are involved in seed multiplication under supervision of the seed companies.

Seed system and the role of agro-dealers

Other Countries Experiences: Mixed results. Botswana, Mozambique, Uganda, Ghana, Lesotho. These have mixed public and private seed producers and distributors.

The Government is involved in seed research, production and distribution, in parallel with private producers and distributors. The Government provides some subsidized seed, especially for cereals

Quality seed supplies are widely available, but shortages are common, especially for subsidized seed.

Seed system and the role of agro-dealers

Other Countries Experiences: Poor results.

Tanzania, Sudan.

These have seed sectors dominated by public seed producers and distributors.

Private suppliers are limited to a few crops

The Government is involved in seed research, production and distribution. The Government provides subsidized seed, especially for cereals, and this tends to crowd out private suppliers

Quality seed supplies are often not available, and shortages are common, especially for specialist seed such as for horticulture.

Seed system and the role of agro-dealers

Some points/ideas for discussion.

1. Seed, even of the highest standard and unit cost, is almost always a very small component of the overall cost of production. This point must be strongly conveyed to farmers.
1. The benefits of using high quality seed always greatly outweigh the additional costs.
2. Competition between private suppliers is the best means of ensuring supply at a reasonable price.
3. Genetic material does not have to be “national” or “local”. There is a huge amount of available genetic material from international plant breeders that can benefit farmers.
1. Consider possibility of PASIDP farmers and Nurseries becoming seed multipliers
2. The main role of Government should be to ensure high quality and standards through inspection and certification of seed.