



# **Facilitating the Development of Directed Procurement Models with Agribusiness Companies**

**(Example in Bangladesh)**

A Tool for the  
Rice and Diversified Crops (RDC) Activity

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## **Appendices**

Appendix 1:	Directed Procurement Model Plan Question Guides (with commentary/notes)
Appendix 2:	Directed Procurement Model Plan Question Guides (questions only, for distribution to companies)
Appendix 3:	Directed Procurement Model Costing Spreadsheet
Appendix 4:	Example MOU with Company participating in SPE

## **List of Acronyms**

BDT	Bangladesh Taka
FtF	Feed the Future
MAA	Market Actor Agreements
RDC	Rice and Diversified Crops Activity
SPE	Strategic Planning Exercise
USAID	United States Agency for International Development

## 1. Introduction

In December 2016, the Rice and Diversified Crops (RDC) Activity, a five-year project funded by USAID Bangladesh, assessed the various procurement models used by agribusiness firms in Bangladesh. Based on the findings of this assessment, RDC created a ***Directed Procurement Model Facilitation Tool*** to provide guidance and insight for RDC staff facilitators supporting agribusiness firms to develop or upgrade their supply chains and purchases from small-scale producers. The Directed Procurement Facilitation Tool has two parts: (i) a comprehensive excel spreadsheet to calculate the operational costs for a procurement model; and (ii) an associated set of questions on the procurement model to use in conjunction with the spreadsheet during strategic planning exercises with agribusiness companies (*also referred to as Lead Firms<sup>1</sup>*).

This manual describes how the facilitation tool can be used to assist Lead Firms identify and develop “directed procurement models” (*procurement hubs, collection points, contract farming*) appropriate to their needs. A brief summary of procurement models and the facilitation process for supporting their development is presented in Section 1. Section 2 presents the Procurement Model Costing Spreadsheet and related Question Guides. Section 3 presents facilitation tips and guidance for RDC staff on how to use the tool to prepare and facilitate strategic planning exercises (SPEs) with targeted firms. The complete set of Question Guides (*one version with just the questions and one with both the questions and commentary for facilitators*) are attached in Appendix 1 and 2. Appendix 3 presents details of the procurement model costing spreadsheet, and Appendix 4 presents an example MOU that can be used between RDC and participating companies.

### 1.1 Overview of Procurement Models

The primary types of agribusiness procurement models can be seen along a spectrum based on factors that determine the most appropriate procurement system for the Lead Firm buyer. The most important factors are the: degree of specialization of the crop or product being sourced; target end markets; level of control and coordination necessary to meet buyer specifications; and gross margin on the firm’s end product. Based on these factors, there are four primary types of procurement: (i) market, (ii) relational, (iii) directed, and (iv) integrated. See Figure 1 below.

- *Market procurement*: most crops are sold through the open market where relationships between buyers and sellers are strictly transactional – selling and buying what is produced based on price, with few incentives for buyers to invest in or upgrade farmers.
- *Relational procurement*: relational procurement include greater linkages between buyers and sellers. These relationships are built over time with Lead Firm buyers discriminating among suppliers and providing better arrangements to those they trust. The relationships may still be informal but are more coordinated than open market procurement.
- *Directed procurement*: in order to improve product quality, consistency or traceability, some Lead Firm buyers direct the production and procurement process. Through a variety of formal/informal arrangements (*procurement hubs, collection points, contract farming*) buyers provide various degrees of technical and financial support to producers and

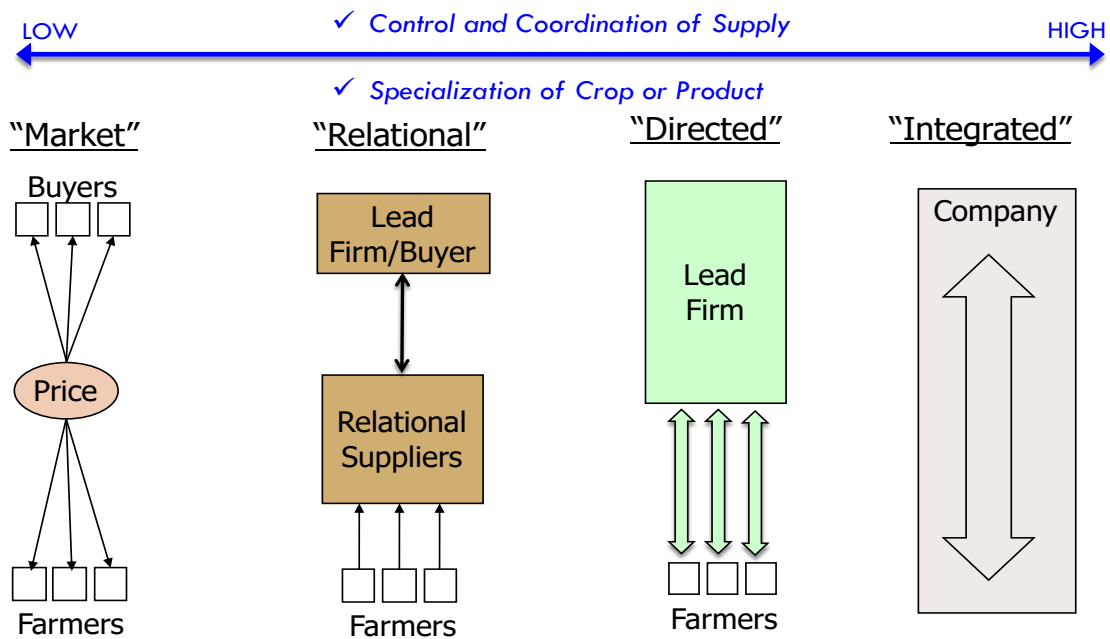
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<sup>1</sup> Small, medium, or large firms that have forward or backward commercial linkages with a significant number of enterprises (including farmers). Also known as an “Inclusive Businesses” they include processors, exporters, traders, input companies, service providers, etc. that play a critical role in moving their industry, and other market system participants forward.

intermediaries. When higher margins exist (*i.e.*, difference between price paid to farmers and gross margin on a firm's end product) buyers have greater ability to invest in their suppliers to ensure that products meet market specifications.

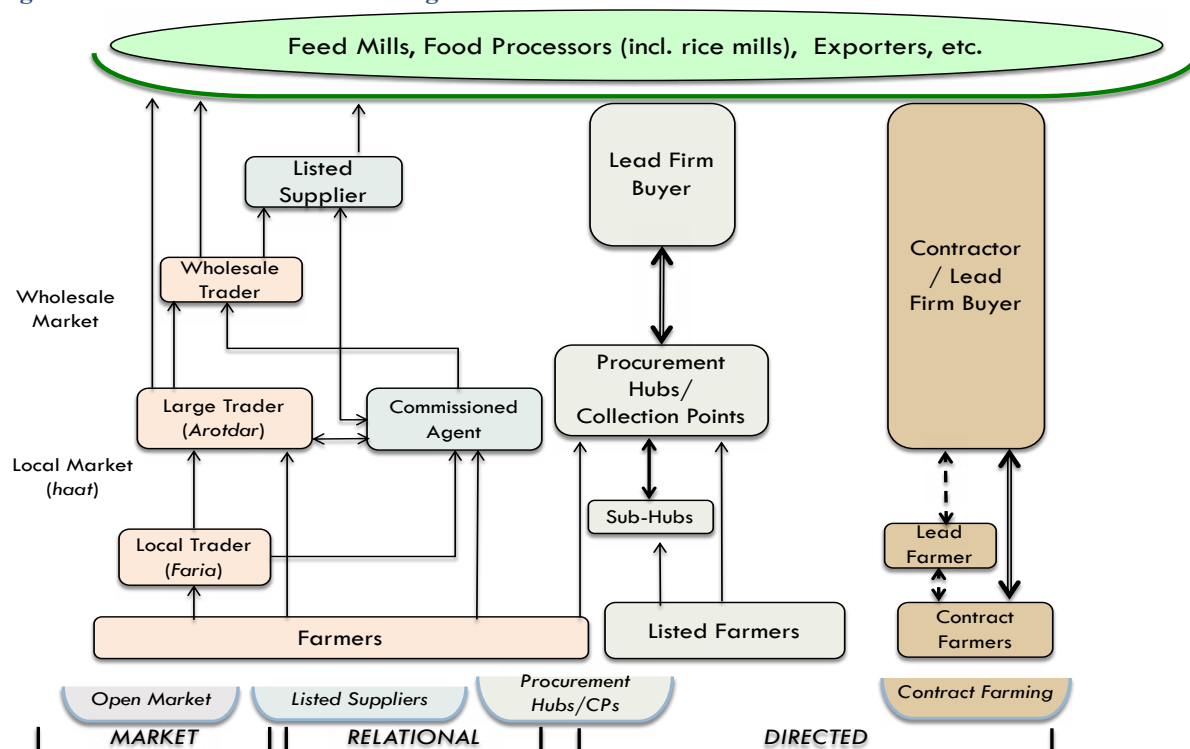
- *Integrated procurement*: Some firms may decide to fully manage part or all of their production (*using their own land, labor, inputs, collection, etc.*). In this way they have the greatest control over production and quality. Examples of Integrated models can be found in agribusiness companies with demanding end markets that pay a premium price.

**Figure 1. Procurement Types**



Since they exist along a spectrum, procurement models do not always fit under one specific category and may overlap between types. In addition, agricultural Lead Firms do not usually use only one procurement model - they often have a mix of channels and methods to source production to meet their needs. Figure 2 below presents a summary diagram of the main procurement models/supply chains used by Lead Firms in Bangladesh.

**Figure 2. Procurement Models in Bangladesh**



*When feasible and commercially viable for Lead Firm buyers*, directed procurement models offer the most promise for meeting the quality and quantity requirements of Lead Firms while supporting the capacity-building and development of farmers in their supply chain. For these reasons the RDC facilitation tool is focused primarily on supporting directed procurement models. It should be emphasized however that directed models are not always needed by, nor economically feasible for Lead Firm buyers, and should only be chosen when they make economic sense. Otherwise they will not be sustainable.

## 1.2 Process for Facilitation of Directed Procurement Models

RDC staff collaborate with private sector market actors to develop targeted value chains and market systems in Bangladesh. Through technical and cost share assistance, RDC supports the initiatives of Lead Firms to improve their competitiveness and provide needed products, services, market access and support to farmers. The *Directed Procurement Model Facilitation Tool* is an important tool in helping firms to rationalize and then (*if appropriate*) develop directed procurement models. The following narrative outlines the steps to be followed in facilitating the development of these models by interested firms:

*Step 1. Rationalize Directed Procurement Model:* use the initial question guide from the Facilitation Tool to help firms think through the key factors that will determine whether a directed procurement model (*procurement hub, collection point, contract farming*) seems appropriate for their needs and could be economically viable. This is a “general” assessment that will be confirmed, adapted and elaborated in detail in Step 2.

*Step 2. Analyze/Adapt Model:* using the Directed Procurement Model Facilitation Tool (*i.e., costing spreadsheet and question guides*) support firms to analyze and cost out their proposed directed procurement model and adapt it based on results.

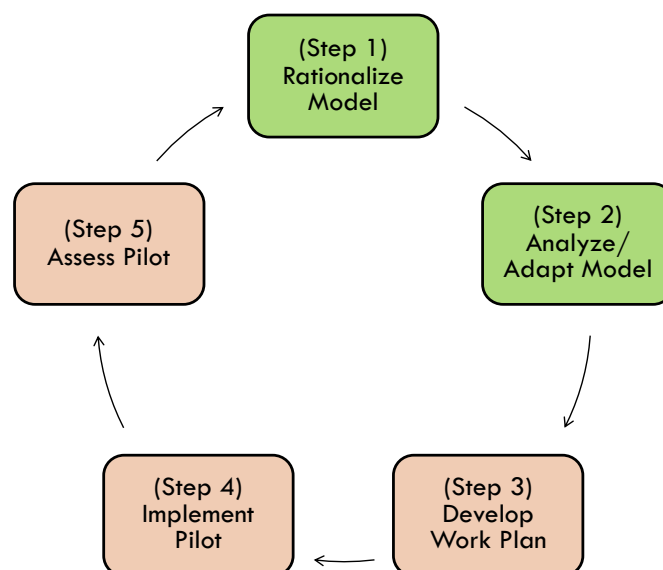
*Step 3. Develop Directed Procurement Model Work Plan:* if results of Step 2 are promising from both company and RDC perspectives, then support company to develop a work plan for piloting their proposed procurement model. Can also explore potential support from RDC.

*Step 4. Implement Pilot:* company implements pilot of their proposed directed procurement model and monitors results.

*Step 5. Assess Pilot:* company adapts, replicates, or terminates pilot of directed procurement model as appropriate.

In order to support companies to carry out Steps 1 and 2 (shown in green in Figure 3) RDC staff can facilitate a **Strategic Planning Exercise (SPE)** – to help firms design and develop the strategic and operational plans for their proposed directed procurement models. If RDC decides to move forward with a formal market actor agreement (MAA) with the Lead Firm, they may also support them to carry-out Steps 3, 4, and 5.

**Figure 3. Facilitation Process of Directed Procurement Models**

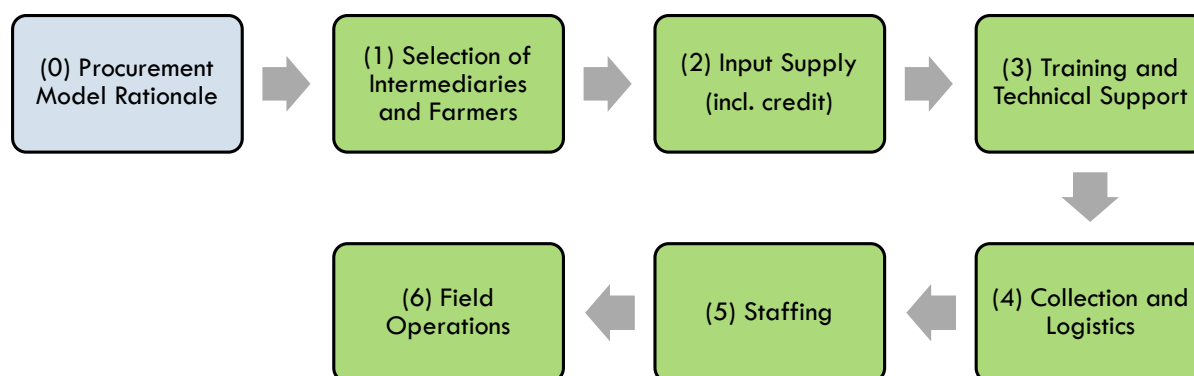


### 1.3 Directed Procurement Model Components

After a Lead Firm buyer validates the need and potential viability of a directed procurement model, they will need to make decisions regarding the policies, operations and costs of their proposed model. These can be analyzed and determined during a SPE (facilitated by RDC staff) by going through each of the procurement model “components” listed below (also see Figure 4):

- (1) Identification and selection of intermediaries and farmers
- (2) Input supply including credit (sources, distribution timing, conditions, etc.)
- (3) Training and technical support to farmers and intermediaries (content, delivery, etc.)
- (4) Collection and logistics (setting buying price, transportation, etc.)
- (5) Staffing (hiring or contracting appropriate company personnel)
- (6) Field operations (local offices, management forms, etc.).

**Figure 4. Procurement Model Strategic/ Operational Plan Components**

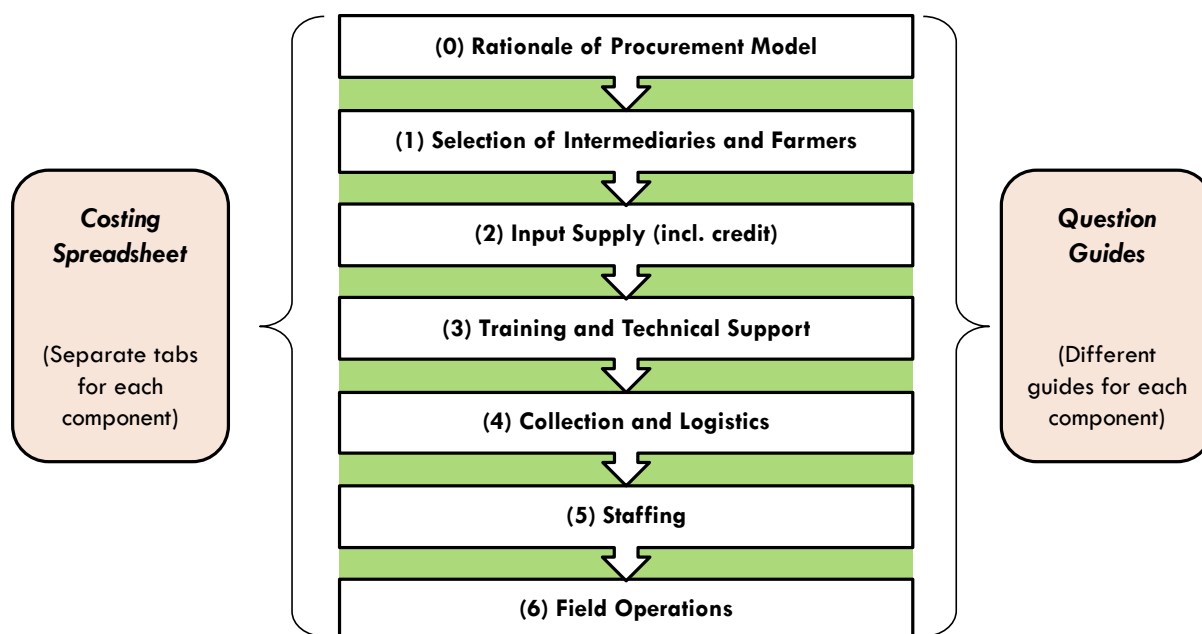


The Directed Procurement Model Facilitation Tool is structured to address each of these components.

## 2. The Directed Procurement Model Facilitation Tool

The Directed Procurement Model Facilitation Tool is designed to be used with agribusiness companies during a SPE and consists of a Costing Spreadsheet and associated Question Guides. See Figure 5.

**Figure 5. Directed Procurement Model Facilitation Tool and the Key Strategic/ Operational Components**



Skillful use of the Facilitation Tool will enable RDC staff to:

- Present the critical questions and decisions that an agribusiness company needs to make before engaging in a directed procurement model.
- Guide companies through the *thinking* that needs to take place, the *decisions* that need to be made, and the *tasks* that need to be carried out to help ensure the successful preparation and implementation of the directed procurement model.
- Adopt the correct role of “facilitator” by allowing the companies to develop, define and take ownership for designing their own directed procurement model. During the SPE “the process is as important as the end product.”

A brief description of both the Directed Procurement Model Costing Spreadsheet and Question Guides is presented below.

### 2.1 Directed Procurement Model Costing Spreadsheet

The Directed Procurement Model Costing Spreadsheet is an Excel spreadsheet (file) that contains individual worksheets that correspond to the components listed above. These components are shown in bold in Table 1 below, along with associated line items to be costed. See Appendix 3 for a detailed presentation of the spreadsheet.



**Table 1. Procurement Model Costing Spreadsheet – Individual Tabs and Line Items**

Sheet No.	Line Item	Sheet No.	Line Item
<b>1.0</b>	<b>Local Intermediary and Farmer Selection</b>	4.5	Weighing Scales
		4.6	Moisture Meters
<b>2.0</b>	<b>Input Supply</b>	4.7	Local intermediary collection point (PH) construction or rental
2.1	Seeds	4.8	Transportation costs from collection point to company warehouse
2.2	Fertilizer	4.9	Financing costs for procurement (interest expense)
2.3	Crop Protection	4.10	Other
2.4	Other (irrigation, land preparation, harvest, etc.)		
2.5	Transportation costs to farmers	<b>5.0</b>	<b>Staffing</b>
<b>2a.</b>	<b>Seed Production Costs (if applicable)</b>	5.1	Pre-season Preparation Activities
		5.2	Planting and Monitoring Activities
<b>3.0</b>	<b>Training and Technical Support</b>	5.3	Procurement Activities
3.1	Training Materials Development	5.4	Other Activities [TBD]
3.2	TOT for Training Teams		
3.3	Farmer-level training and coaching sessions	<b>6.0</b>	<b>Field Operations Costs</b>
3.4	Local intermediary-level training and meetings	6.1	Rent
3.5	Demonstration Plots	6.2	Utilities
3.6	Field Days	6.3	Communication costs
3.7	Trial Plots	6.4	Refreshments
		6.5	Motorcycles (depreciated)
<b>4.0</b>	<b>Collection and Logistics</b>	6.6	Printing & Stationaries [see Sheet No. 6a]
4.1	Purchase of Crops	6.7	Office Equipment (depreciated)
4.2	Commission for local intermediaries	6.8	Furniture (depreciated)
4.3	Local Storage costs		
4.4	Gunny Bags		

The components and line items in the Costing Spreadsheet are only illustrative - the company will need to adapt them to their particular context and ignore, add, or edit as needed. All of the costing information should come from the company (*during the SPE session facilitated by RDC staff or through additional information collection as needed*). It is most important that the companies' projections be as realistic as possible to ensure sustainability.

## 2.2 Directed Procurement Model Question Guides

Used in conjunction with the Costing Spreadsheet, related Question Guides facilitate analysis and decision-making for a company's Directed Procurement Model. Similar to the Costing Spreadsheet, the Question Guides are structured according to the key components of a procurement model. The specific question guides, listed under each component, are listed in Table 2 below.

**Table 2. Questions Guides by Component of a Directed Procurement Model**

<p><b>(0) Directed Procurement Model Selection and Rationale</b></p> <ul style="list-style-type: none"> <li>Initial Question Guide: Deciding to Establish a Directed Procurement Model (<i>procurement hub, collection point, contract farming</i>)</li> </ul>
<p><b>(1) Selection of Intermediaries and Farmers</b></p> <ul style="list-style-type: none"> <li>Question Guide 1: Selecting and Engaging Intermediaries for Directed Procurement Models</li> <li>Question Guide 1.1: Selecting Farmers</li> </ul>

<p><b>(2) Input Supply (incl. credit)</b></p> <ul style="list-style-type: none"> <li>• Question Guide 2: Ensuring Farmer Access to Appropriate Inputs, Including Seed</li> <li>• Question Guide 2.1: Developing a Seed Program</li> <li>• Question Guide 2.2: Providing Credit to Farmers</li> </ul>
<p><b>(3) Training and Technical Support</b></p> <ul style="list-style-type: none"> <li>• Question Guide 3: Providing Technical Assistance to Farmers and Intermediaries</li> <li>• Question Guide 3.1: Developing Demonstration Plots</li> <li>• Question Guide 3.2: Developing Trial Plots</li> </ul>
<p><b>(4) Collection and Logistics</b></p> <ul style="list-style-type: none"> <li>• Question Guide 4: Procuring from Farmers</li> <li>• Question Guide 4.1: Determining Price for Farmer Produce</li> </ul>
<p><b>(5) Staffing</b></p> <ul style="list-style-type: none"> <li>• Question Guide 5: Hiring Staff for the Directed Procurement Model</li> <li>• Question Guide 5.1: Communicating with Farmers and Intermediaries</li> </ul>
<p><b>(6) Field Operations</b></p> <ul style="list-style-type: none"> <li>• Question Guide 6: Developing Management Information Systems</li> </ul>

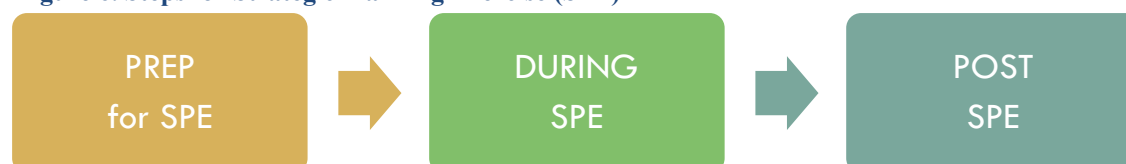
A complete set of the Questions Guides with comprehensive notes and commentary for facilitators can be found in Appendix 1. The commentary includes lessons learned from companies and development practitioners experienced in directed procurement models that can be shared with firms as needed to help them avoid common mistakes. Appendix 2 contains blank Question Guides suitable for distribution to Lead Firms.

### 3. Directed Procurement Model Facilitation Tips

A typical procurement model SPE will require RDC facilitators and company staff to spend several days working together (*either consecutive days or spread over a few weeks*). The time will depend on the level of preparedness of the company and their staff that are present. It is preferable that the owners or principal decision makers from the companies be present, or at least check in from time to time to provide their feedback. The company should also have a representative present that is in a position to answer procurement and cost related questions. The RDC staff must keep in mind that it is the company’s plan and that the company staff must answer all the questions, not the RDC staff.

There are three stages to facilitating a SPE with companies: (i) activities to prepare for the SPE sessions (PREP), (ii) activities during the SPE (DURING), and (iii) activities after the SPE sessions (POST). See Figure 6 below.

**Figure 6. Steps for Strategic Planning Exercise (SPE)**



The following facilitation tips and activities should be kept in mind during each stage of the SPE.

#### 3.1 PREP: Preparation for the SPE

The RDC staff facilitators should thoroughly review each Question Guide to become familiar with the intent of each question, *as well as the commentary which provides important lessons*

*learned that can be shared with the company as needed.* The facilitators should also familiarize themselves with the costing spreadsheet by conducting a mock exercise of entering data into the spreadsheet cells (per the questions) to ensure that things go smoothly during the actual planning session.

The facilitators should explain to the company that the results of the SPE may also allow both parties to explore additional forms of collaboration (*to pilot the directed pilot model, etc.*) but that there is no guarantee of support beyond the SPE. An MOU should be signed with the Lead Firm to ensure: a) their commitment to participate in the SPE and; b) that the roles and responsibilities of each party are understood (see Appendix 4 for a model MOU).

The facilitator can send the Question Guide (*with or without facilitator commentaries*) and Costing Spreadsheet to the company prior to the SPE to ensure that they have had a chance to gather and prepare relevant information.

**Specific activities related to Preparation (before SPE) include:**

- ✓ Confirm company participants (availability, appropriateness, etc.)
- ✓ Identify SPE facilitation team members (availability, etc.)
- ✓ Confirm location, venue, dates, and time
- ✓ Confirm logistics and equipment (projector, flip chart, etc.)
- ✓ review SPE process and tools with SPE facilitation team members
- ✓ Assign/review roles for each SPE facilitation team member (facilitate discussions, input information into costing spreadsheet, etc.)

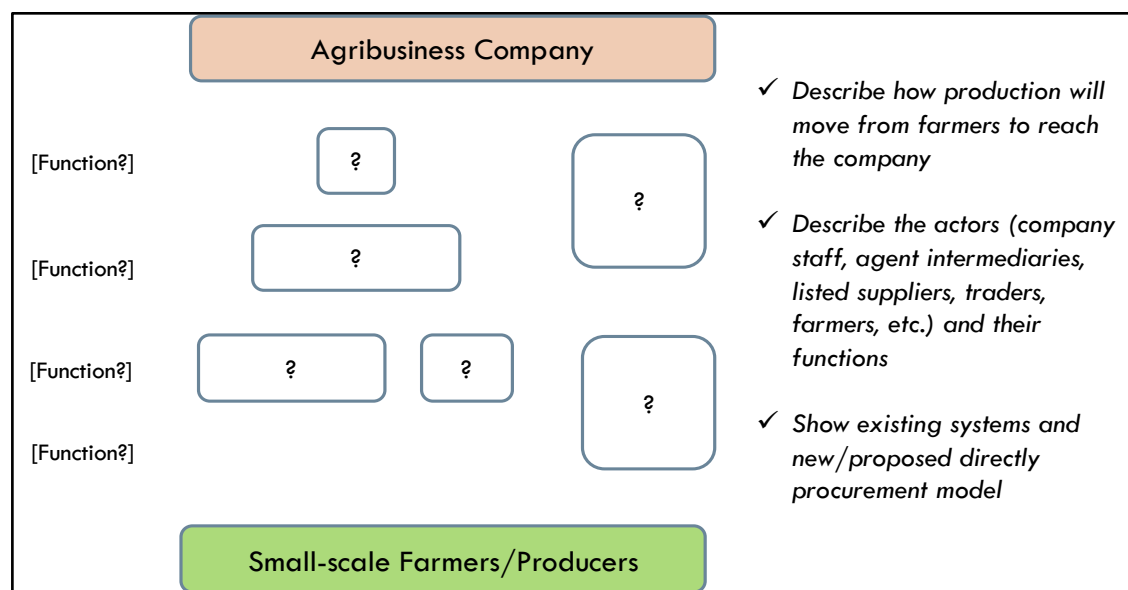
**3.2 DURING: Facilitation of the directed procurement model SPE sessions**

During the SPE the RDC staff facilitators should make sure that the company representatives answer the questions and provide the costing information themselves as it is the company that is ultimately responsible for implementing the procurement model. RDC staff can assist in documenting decisions and filling out the spreadsheet based on information and costs provided by the company. The costing information should reflect the willingness of the companies to invest and should not be based on expectation of financial support from RDC.

**Specific activities related to facilitating the SPE include:**

- ✓ Explain principles, process, and tools to be used
- ✓ Confirm expected outputs of SPE with company participants
- ✓ Start with *Initial Question Guide: Deciding to Establish a Directed Procurement Model*
- ✓ Discuss and develop initial procurement system map with company (see Figure 7)

**Figure 7. Initial Mapping Exercise (Directed Procurement Model) for Company to Complete**



- ✓ [concurrently] use costing spreadsheet and related question guides to support company to explore options, make decisions, and determine costs for each component;
- ✓ Document and validate information provided
- ✓ Review information provided for each component sequentially
- ✓ Summarize discussions and prepare notes of decisions for each SPE component
- ✓ Identify outstanding issues or questions that company needs to address
- ✓ Identify and communicate required follow-up tasks and next steps

### 3.3 POST: Documentation and follow-up

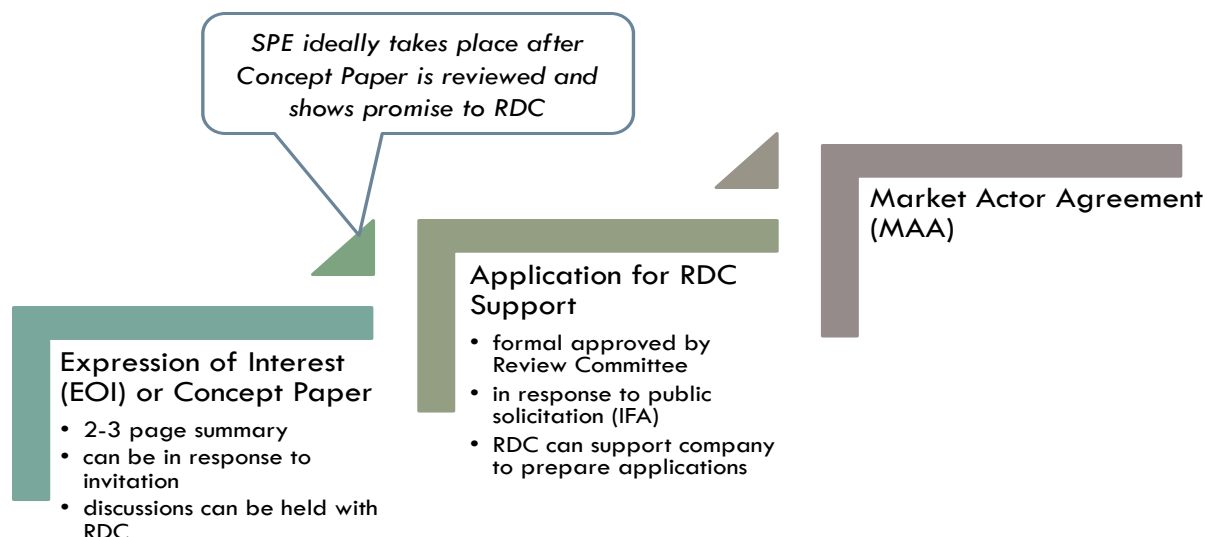
RDC facilitators can support the company staff that participate in the SPE to document the results of the SPE in the form of a: (i) PowerPoint presentation (PPT), and (ii) completed Costing Spreadsheet. The PPT should include the following:

- Participants in the SPE and process followed
- Rationale for company's proposed Directed Procurement Model
- Slides for each component of the directed procurement model with:
  - Bulleted information responding to questions in question guides and reflecting company decisions and policies related to their procurement model
  - Related graphs, tables, diagrams, etc.
  - Summary of proposed costs by component (from Costing Spreadsheet)
- Summary of final costing for proposed procurement model including price per kilo of purchased product after taking all costs into consideration.

Company staff can share a draft version of this PPT with their senior management (*assuming management has not been involved in all the discussions*) in order to get final input and approval.

Once the plan is complete and assuming it shows promise to both the company and RDC, the RDC staff can meet with company representatives to discuss which of the procurement model pilot activities could be eligible for RDC support and begin to determine what level of technical and financial support can be provided. In this case RDC, staff can assist the company to develop a detailed workplan for implementing the pilot, as well as an Application for RDC consideration.

Figure 8. Context of the SPE and the Steps for RDC support



The SPE ideally takes place after a concept paper from the company has been reviewed and shows promise, and before a formal application is submitted to RDC. Results of the SPE can provide specific information about the company’s proposed procurement model (*number of company hub/collection points, lead farmers, farmers, company field agents, needed training events/TA, inputs, etc.*) that will help determine the appropriate form of support from RDC. This information from the SPE also allows the company to develop a realistic workplan – that needs to be included in their application to RDC and eventual MAA. See Figure 8 above.

## APPENDIX 1:

### Detailed Question Guides for Directed Procurement Models (with Facilitator Notes and Commentary)

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## INITIAL QUESTION GUIDE: *Deciding to Establish a Directed Procurement Model*

A company needs to consider many things before establishing a directed procurement model. Given the investment and long-term commitment needed to make directed procurement models successful, a company should not take the decision lightly and should carefully weigh the potential risks and rewards. The following questions can help guide the company in making an informed decision.

### 1) Which procurement model do you want to use?

*The company has to determine the model of directed procurement it wants to use. The choice of model depends on many factors and need not be an either / or decision. In certain situations, companies may use a combination of models. The choice can also be influenced by the number and location of farmers as well as company staff capacity.*

**CONTRACT GROWING MODEL:** *may be most appropriate in the following situations:*

- *production of high value crops*
- *company has a higher margin on its final product (can justify the higher expense of contract growing)*
- *farmers not familiar with the new crops*
- *more complicated production systems*
- *high buyer specifications (e.g., quality, traceability, pesticide levels, etc.)*
- *crops require traceability to individual producers*
- *farmers produce majority of production company needs (reduces company risk by ensuring close cooperation with producers)*
- *with nucleus/estate model where company has a large plantation, may contract individual farmers bordering*

*Advantages of contract growing include:*

- *assurance of clear communication and direct transactions with farmers*
- *close monitoring and direct feedback from farmers*
- *traceability of production to individual farmers*
- *company can respond promptly to farmer issues*
- *greater assurance that farmers will apply correct crop production practices.*

*Disadvantages of contract growing for companies include:*

- *high ratio of company extension staff to farmers, resulting in higher costs per farmer and operations*
- *number of farmers and company's geographic coverage is limited*
- *slower scale-up pace*
- *may limit integration of smaller farmers (due to need for cost effectiveness / value achieved for each farmer)*

**HUB MODELS:** *may be appropriate in the following situations:*

- *company needs to have lower cost per farmer for commercial viability*
- *production of crops with lower value (producing lower margins for the company)*
- *crops for which farmers already have technical expertise*
- *buyer requirements and specifications are not high (quality, traceability, pesticide levels, etc.)*
- *crops don't require traceability to individual producers*
- *need to integrate large numbers of small-scale farmers into the procurement model.*

*Advantages of the hub models include:*

- *lower ratio of extension staff to farmers (resulting in lower costs per producer)*
- *potential to reach more farmers in a larger geographic area*
- *can allow quicker scaling up*
- *requires smaller management structure, number of personnel and operational costs*
- *can integrate smaller farmers.*

*Disadvantages of the hub models include:*

- *loss of direct communication (and greater risk of miscommunication) with individual farmers*
- *difficult to introduce and monitor complicated production systems*
- *difficult to get direct feedback from farmers (due to indirect monitoring)*
- *difficult to trace production to individual farmers*
- *can take longer time to recognize and respond to farmer issues*
- *less assurance that correct crop production practices will be applied*
- *risk of intermediaries promoting own interests or taking advantage of farmers in group or with company.*

**2) What advantages would this procurement model operation provide your company compared to the way you now source raw materials and products?**

*Note: Companies should understand that, in most cases, a directed procurement model is not likely to lower costs of raw materials (compared to existing methods of procurement from traders, etc.), at least not in the first few years. When a procurement model reaches economies of scale, per unit buying costs can begin to decrease. However, if the only motivation is to pay less for raw materials (without concern for quality, volume, new varieties, etc.) then directed procurement models may not be appropriate for them.*

*The incentives and benefits of directed procurement models for companies include:*

- *adapt to domestic and international trends towards higher quality*
- *reliable source of raw materials*
- *respond to market requirements for high quality*
- *production to buyer specifications (and target market segments that have particular specifications)*
- *risk diversification by ensured supply in different geographic areas*
- *mitigate risk of crop failures by sharing this risk with producers*
- *flexibility to respond to market demands—can increase or decrease orders with farmers based on demand*
- *engage in large-scale production without capital outlay for land and infrastructure*
- *mitigate risks of contiguous farm area by contracting farmers in small, geographically-diverse areas*
- *reduce labor costs (and conformance to labor laws) through subcontracting*
- *focus on processing and marketing functions by outsourcing production*
- *good public relations with government/public through benefits to participating farmers*
- *expand crop production when commercial farming land is limited*
- *target and access certain high premium / niche markets (fair trade, organic, etc.) that require direct relationships with farmers*
- *differentiate themselves from competitors*
- *procure raw materials / products locally rather (import substitution).*

**3) What are the immediate and long-term prospects for your end-market (i.e., market that you intend to sell products procured from farmers, either in raw or processed form)? Does this procurement model make sense given this scenario?**

*There must be strong demand for the company's final product to justify investing in directed procurement models and ensuring their success. Since directed procurement models require substantial investment, it must have or be very confident of achieving, strong demand for its end-market products before investing in such a scheme. Weak demand results in losses and the need to reduce or suspend purchases – undermining company relationships with producers.*



#### 4) What risks and challenges could you face in developing this procurement model?

*Directed procurement models are much riskier when it is easy for farmers to side-sell, so companies need to have different / additional systems to address those higher risks. The following points describe many of risks / challenges companies can face with directed procurement models. **Note:** they may also be present when side-selling is more difficult for farmers.*

*Companies engaging in directed procurement models may encounter the following risks / challenges:*

- *side-selling by farmers can result in company losses and inability to meet their own buyer commitments;*
- *farmers not using inputs provided under the directed procurement models could result in: 1) lower productivity and quality and 2) difficulty in repaying credit received for inputs;*
- *significant start-up costs and takes longer to achieve economies of scale and positive returns for the company;*
- *difficult to access financing for directed procurement models (banks tend to be unfamiliar with them);*
- *can bring in additional buyers and competitors;*
- *subject to same challenges/risks all agricultural production strategies face (natural disaster, disease, complexity of operations, weather, acquiring needed inputs, etc.)*
- *starting with a new crop, unfamiliar to farmers, needs more cost and time than crops more familiar to farmers;*
- *local enabling environment (marketing boards, restrictions on purchasing from farmers, lack of tax incentives, shortage of government subsidized inputs, etc.) is not conducive to directed procurement models;*
- *may face high turnover of company extension staff and higher costs.*

#### 5) Why would farmers be interested in participating in your procurement model?

*If a directed procurement model is to succeed, companies must ensure that farmers are satisfied with their benefits from participation. Benefits can include higher productivity and earnings, greater knowledge, access to inputs, and guaranteed markets.*

*Advantages for farmers include:*

- *guaranteed buyer allows them to focus on producing, rather than marketing their products*
- *access to better seed and other inputs (sometimes in the form of credit)*
- *access to technical support in crop production and new technologies to improve higher yields and productivity*
- *ability to produce new crops can enable them to be more highly skilled and commercially-oriented farmers;*
- *receipt of immediate feedback from buyers*
- *produce higher value crops for broader export or domestic markets they could not access individually*
- *diversified crop portfolio*
- *peer learning process with other farmers participating in the procurement model*
- *procurement / payment procedures that are (generally) more transparent.*

#### 6) What risks would farmers face participating in your procurement model?

*Risks for farmers include:*

- *company may not respect their purchasing agreement (due to volatile markets and other factors) leading to losses for farmers;*
- *investing too much land, time, etc. in an outgrowing crop means greater potential losses if operation does not succeed;*
- *over reliance on cash crops (without a ready alternative market) increase risks of crop failure or if buyer cannot respect agreement. Cash crop proceeds also affect household well-being if farmer does not use them sensibly;*
- *farmers may become overly indebted if production is unsuccessful;*
- *difficulty in assessing company reliability and risks associated with growing new crops.*

## 7) In what geographic areas will you conduct your procurement models?

- ensure that the targeted area has adequate infrastructure including
  - utilities
  - communication
  - land availability
  - availability of inputs (input suppliers, irrigation, etc.)
  - other as specified
- enabling environment in selected areas should be conducive to outgrowing (government support, regulations, contract enforcement, etc.);
- other factors include farmer familiarity with crop, presence of financial institutions, soil fertility, climatic circumstances, infrastructure / accessibility to area, openness of farmers to procurement model.

## 8) What are the projected costs of your procurement model?

Companies must know the costs to establish a successful directed procurement model and be able to absorb them before they begin. With the costs in mind, company must conclude that investment in a directed procurement model will have net positive return (benefit) for company over the long term.

**The definition of these costs depends on the structure of the proposed procurement models and decisions and choices made using the Question Guides** (costs can be determined progressively while going through the guides).

- companies should develop a budget for procurement models based on projected production targets for 1-3 years (see illustrative budget);
- projected quantities can be compared with projected total costs to determine per unit cost for raw materials (inclusive of all costs related to the procurement operations);
- can then compare to a predetermined maximum per unit cost to assess whether procurement model is commercially viable;
- contrasted with existing methods of procurement from traders, etc., a directed procurement model is unlikely to result in reduced raw materials costs—at least in the first few years

## QUESTION GUIDE 1: *Selecting and Engaging Intermediaries for Directed Procurement Models*

In a directed procurement model companies often need to choose **intermediaries** (hub/sub-hub managers, lead farmers, agents, etc.) who can serve as liaisons with farmers. These intermediaries typically have a contract or agreement with the company to perform certain roles and functions.

### 1) What are your criteria for intermediary selection? Create a list.

The company needs to focus on criteria that will help it to choose intermediaries who can best respond to their particular needs. Potential criteria include:

- good reputation, respect/trust of community, ability to influence and convince people to listen
- honest, hard-working and sincere
- enjoy working with farmers
- commitment to the community (money alone does not work)
- loyalty to company and honesty with regard to financial information, dealings with farmers, etc.
- sufficient means to travel and communicate with farmers prior to receiving fees / commission
- time to devote to farmers

- *willing to carry out required intermediary tasks (visiting farmers, meetings, etc.)*
- *familiarity with the targeted crop(s)*
- *space for a procurement site (advantageous, but not mandatory)*
- *willingness to listen to farmers and ask for their input / opinions*
- *have basic education and literacy skills*
- *progressive and willing to adopt and adapt new technologies.*

## **2) Describe your strategy / approach for selecting intermediaries**

- *ask community leaders / businesspeople to propose intermediary candidates*
- *ask farmers to suggest an intermediary*
- *develop shortlist of intermediaries to present to farmers in target area for their input*
- *ask for referrals from the local area government agricultural services*
- *encourage farmers to approach the company and offer themselves as intermediaries*
- *receive recommendations from existing intermediaries (referral system)*
- *identify and promote high performing farmers who already produce for the company to intermediary status.*

## **3) Describe how (or if) you plan to solicit support from government ag. service agencies in selecting intermediaries. If considering this direction, it is important to understand:**

- *input from government agricultural agencies in intermediary selection can help companies identify good intermediary candidates and help build relationships between the company and those agencies;*
- *however, company should not depend on the agencies for ongoing services and intermediary identification;*
- *govt. agency representatives may propose intermediaries and take the company only to areas they know—there could be others and the company should check with additional sources of information;*
- *companies should be careful—they may need support of govt. agricultural service agencies initially but do not become dependent on them!*

## **4) What will be the intermediary role in your directed procurement model?**

*Intermediary roles and functions may include:*

- *manage a procurement hub or sub-hub*
- *assist with input distribution*
- *monitor farmers*
- *provide farmers with technical advice*
- *disseminate company information to farmers*
- *assist with organizing training activities and demonstration plots*
- *identify farmers*
- *help company to prepare and implement procurement operations (it is recommended that company procure directly from individual farmers, not intermediaries)*
  - *set up collection point(s)*
  - *initial quality assessment of farmer production*
  - *support procurement schedule development (crop timing, pick-up times, etc.)*
  - *organize procurement transportation*
  - *receive payment and distribute to farmers.*

*Companies should maintain a level of direct relationships with individual farmers. This can include training / coaching sessions for all farmers, meetings with intermediaries, distribution of inputs to and tracking of credit with individual farmers, direct procurement from individual farmers, etc. Without these*

*direct relationships, directed procurement models may have greater problems with quality, adherence to crop production advice, side selling, etc.*

## 5) Describe how you plan to compensate intermediaries?

- *intermediary compensation typically involves a fee or commission based on the volume of production that farmers produce and sell to the company. While there are other ways to compensate them (e.g., fixed payments), this is the most common. Though their compensation may be minimal (given all they do), some intermediaries consider what they do a contribution to their community and to the farmers they work with;*
- *another form of compensation is participation in training events and exposure visits organized by the company;*
- *being the intermediary for an established company may confer special status in the community and could be an incentive to take on the role.*

*No matter how intermediaries are compensated, it is important that companies offer appropriate incentives for the work they expect of intermediaries.*

## 6) How would you deal with an intermediary who does not perform as expected?

*Sometimes an intermediary does not work out and needs to be replaced. This can be a sensitive process, especially if he/she is well-known in the community and the company expects to need his/her support in future. Depending on the situation, here are a few suggestions on ways to replace an intermediary:*

- *ask the underperforming intermediary to suggest two or three possible replacements*
- *ask field agents to recommend intermediary candidates for the next season*
- *survey farmers in the group to find and appoint a replacement intermediary*
- *release the underperforming intermediary and use the criteria in 1) above to find another.*

## QUESTION GUIDE 1.1: *Selecting Farmers*

*(if farmer selection is part of your procurement model)*

Farmer selection is essential to the success (or failure) of directed procurement models that include direct contracts with farmers (*directed models that do not have individual contracts with farmers do not apply here*). A number of options for selecting farmers are available and the one chosen depends on the farmer model the company uses.

### 1) What criteria will you use to select farmers? Create a list

- *own the land to avoid problems from landlord / farmer disputes (if land leased, written documentation must be available and understood by all parties)*
- *be personally involved in growing the crop (i.e., be a real farmer)*
- *have existing knowledge of the crop*
- *have appropriate soil and sufficient water for the crop to be planted*
- *be able to repay loans they receive*
- *respect agreements and be trustworthy*
- *be able to implement advanced production practices (e.g., irrigation, etc.)*
- *be a good listener and willing to follow company field agent and/or intermediary suggestions / directives*
- *have minimum amount of land and production capacity to produce needed crop(s) and in correct context*

- *have land that it is contiguous with other farmers (to facilitate monitoring, communication, equip. use, etc.)*
- *be able and willing to keep records*
- *be pro-active and willing to invest in improved production practices*
- *be able and willing to comply with infrastructural requirements (adequate storage, drying, facilities, etc.).*

*Can also rank or group criteria according to the importance for your company.*

**2) IF USING INTERMEDIARIES TO SELECT FARMERS, describe process intermediaries should follow and company role when selecting farmers. List each step.**

- *Intermediary can explain procurement model modalities to farmers in their area*
- *Intermediary confirms that farmer meets the company's minimum criteria (see above)*
- *Intermediary selects farmers who will be loyal to them and listen to them.*
- *Company can ask intermediaries to propose farmers who meet criteria*
- *Company field agents and intermediaries can meet with potential farmers to present procurement model procedures and conditions. Field agents can present themselves, their acreage, experience, etc.*
- *Field agent and intermediary can agree on who will be participating farmer and visit farmer plots together*
- *Company may meet with some farmers to ensure they understand agreement with intermediary and avoid any confusion or disagreement.*

**3) IF COMPANY STAFF DEAL DIRECTLY WITH FARMERS, describe company role in selecting farmers. List each step.**

- *Identify geographic area(s)*
- *Ask field agents to identify potential farmers using several different methods—investigation, govt. agriculture services, referrals, farmers meetings, farmer self-selection, identifying farmers who currently grow crop, etc.*
- *Determine if farmer meets company criteria: 1) use criteria above when interviewing farmers and 2) visit the plot to verify the information provided*
- *Before fully engaging farmers, inform them about benchmarks that should be achieved if accepted for existing procurement models, encourage producers to: present themselves to company and refer other good farmers.*

**4) IF YOU PLAN TO INTERACT WITH AN EXISTING FARMERS' GROUP OR ASSOCIATION, describe role of farmers' group or association, and company interactions, with farmers**

*The role of existing farmers' group or associations should be limited and may include:*

- *sharing company information*
- *helping to enforce compliance by members*
- *taking on certain infrastructure investments*
- *establishing collection points*
- *it is preferable for the company to make payments directly to individual farmers in the group, the company may send a consolidated payment and an itemized list of what is due each farmer in the group for them to distribute to their members.*

*The company should interact extensively with individual farmers and not be overly dependent on the existing farmers' group or association. Direct company transactions with farmers may include:*

- *training / coaching on company-specific topics for all farmers*
- *monitoring every producer-member*
- *calculating individual producer input requirements*
- *monitoring credit transactions of each farmer*
- *grading and purchasing every farmers' production.*

**(Example) Working with Existing Farmers' Groups:** *In Kenya, the East African Growers Group conducts procurement models for fresh vegetables for export. As part of these operations it works with a limited number of independent self-help groups (SHG) of small-scale farmers who work together to meet volume requirements for producing vegetables for EAGA. By law, SHGs must have elected officials and be legally registered business entities. At the time of harvest, SHGs appoint or hire a grader to grade each member's harvest. The SHG then puts the farmers' production into individual boxes labeled with his/her name and SHG. EAGA collects the boxes, conducts the final grading and sends a consolidated payment to the group account along with an itemized list of the payment due each member. In conducting the final grading and payment by individual farmer – EAGA helps groups avoid management problems.*

## **QUESTION GUIDE 2: Ensuring Farmer Access to Appropriate Inputs, Including Seed**

Access to quality inputs for farmers is a critically important aspect of directed procurement models as it helps ensure that they:

- can grow the desired product varieties and quality
- have the quality inputs needed to increase production
- produce in conformance with buyer requirements, especially in high-end markets.

For many companies engaged in directed procurement models, the sale and distribution of good quality inputs (particularly seed) to farmers is one of the most important elements of success. For this reason, the company must take particular care when designing its input distribution arrangements.

### **1) Will you need to facilitate access to inputs for your farmers?**

*There are several different reasons a company may have to help farmers access inputs:*

- *required quantity and quality of inputs are unavailable in areas where procurement models are occurring;*
- *farmers cannot afford to purchase the required quantity and quality of inputs;*
- *ensure that farmers use specialized inputs as needed*
- *to confirm that farmers' production can meet buyer requirements (e.g. maximum pesticide residue levels), companies may need to:*
  - *prescribe minimum inputs (including seed) needed to meet required quality and quantity of production while also keeping farmer costs down. If producers resist, the company MUST convince them to use fewer inputs;*
  - *identify and mandate the input source that farmers must use;*
  - *procure and distribute inputs directly to farmers, either with a discount for volume, for cash or credit;*
  - *develop guidelines, pamphlets, technical manuals, etc. for the correct application of inputs for specific crops;*
  - *restrict the use of certain inputs by farmers;*
  - *establish and sometimes implement spraying schedules together with farmers;*
  - *import specific inputs on their own*

- *demonstrating tangible benefits can help the company build closer relationships and trust with farmers and reduce side-selling.*

## 2) How will you facilitate access to needed inputs?

- *purchase and sell to farmers;*
- *purchase and provide to farmers on credit;*
- *work with input suppliers to facilitate the sale of inputs to farmers;*
- *facilitate linkages between farmers and financial institutions for credit to purchase inputs (for more information, refer to Question Guide: Credit and Finance).*

### **Questions to answer if distributing inputs (whether with upfront cash payment or on credit)**

## 3) Where will you get the inputs?

- *import inputs yourself;*
- *purchase from local input manufacturers or suppliers;*
- *produce your own inputs, particularly seed—in many cases companies could consider developing a seed multiplication program to ensure quality seed for their farmers (see Question Guide: SEED PROGRAM).*

*If a company purchases seed from third parties it should conduct due diligence—monitor the seed while it is kept in the warehouse / cold storage prior to season start, conduct pre-planting / sprouting tests, etc. It is better to have more than one source of seed in case problems occur with a particular provider.*

## 4) How will you manage the input distribution logistics?

- *establish a selling point—either a company warehouse or other site convenient for farmers to buy the inputs;*
- *sell inputs to individual farmers during a pre-planting training/coaching session or preliminary meetings;*
- *develop a list of farmers with input amount – including credit if appropriate – for each and give it to the intermediaries. Farmers can pick up the inputs, often in the presence of a company agent, at a predetermined place, date and time or the intermediary can be responsible for distributing them to each farmer.*

***Note:** Relying on intermediaries to manage distribution of inputs (and credit) to farmers without company supervision is not recommended practice (see **Question 9**, for examples of potential problems with intermediaries distributing inputs to farmers).*

## 5) What price will you charge farmers for inputs?

*A number of different pricing strategies exist and will depend on company priorities. Possible pricing strategies include:*

- *add margin to cover the costs of other activities such as training or extension services;*
- *subsidize the cost to farmers to encourage use of inputs;*
- *charge the actual cost of inputs, including distribution.*

## 6) How will you collect farmer payment if you require it upfront?

*Companies should consider how to minimize risks of receiving upfront payments from farmers. It is better not to rely on intermediaries (lead farmers, producer groups) to collect payments. Risk reduction strategies include:*

- *utilize a single selling point, preferably a company warehouse or office;*
- *ensure a company representative is present at the time of payment;*
- *collect cash from individual farmers in advance and distribute inputs at a later, agreed-upon time.*

## 7) How will you collect farmer payments if you provide inputs on credit?

*There are several payment options companies can use with farmers receiving inputs on credit. In general, it is better not to rely on intermediaries (or producer groups) to distribute inputs on credit or collect payments from individual farmers on behalf of the company—this can lead to various management problems. Options for collecting farmer payments include:*

- *deducting total cost of inputs from the final price paid farmers at harvest in a pre-determined, mutually-agreed and transparent manner;*
- *partial payment by farmers upon delivery of inputs with the balance, plus additional charges, if any, deducted from the final price paid at harvest.*

## 8) When will you distribute the inputs?

*Regardless of payment scheme, timing of input distribution is critical to ensure the correct use of them by farmers. Timing strategies include:*

- *ensure that input distribution takes place early enough in the season to allow farmers to plant on time;*
- *input distribution during training / coaching events work if logistics are well planned. Otherwise it may detract from the event, particularly one that is time-constrained.*

## 9) How can you minimize potential problems if you have to rely on intermediaries to distribute inputs to farmers?

*Some companies rely on intermediaries to distribute inputs to individual farmers because logistics are easier and reduces costs. Company field agents should be present during distribution by an intermediary to minimize problems such as:*

- *distribution of inputs to non-designated persons;*
- *intermediaries trying to sell inputs or replace them with others of lower quality;*
- *asking farmers to pay more than the price company communicated to them and that they agreed to pay;*
- *logistical difficulties with recordkeeping and distribution.*



## **Additional question if company relies on third party suppliers to sell inputs to farmers:**

### **10) What types of arrangements will you make with private suppliers to ensure your farmers have access to the necessary inputs?**

*Companies should establish links and arrangements with input suppliers; they are good for input suppliers' business when large numbers of farmers become customers. The level of supplier engagement with and investment in farmers depends on the crop and buyer or end-market requirements. A company can use a Memorandum of Understanding (MOU) with selected input suppliers to formalize support of farmers with inputs and technical assistance. These types of arrangements allow companies to:*

- *work with existing input retailers to carry and sell specific products directly to farmers or lead farmers;*
- *arrange with suppliers to offer discounts to farmers;*
- *persuade suppliers to allow intermediaries to be distribution agents who receive inputs at distributor prices and sell to farmers at market prices; farmers avoid long distance travel to buy inputs or worry about adulteration;*
- *encourage suppliers to expand their distribution systems to cover company outgrowing areas;*
- *convince suppliers to adapt inputs to farmer needs—packaging, product distribution, etc.—or to develop custom chemical kits (see PepsiCo India example)*
- *encourage suppliers to conduct training activities, demonstration plots, trial plots, field days, etc. using their products and provide technical support to farmers and TOT to company field agents;*
- *avoid providing inputs on credit and the reduce risks of farmer side-selling and subsidization of competitors;*
- *collaborate with supplier(s) to lobby government to permit imports of critical inputs.*

***(Example) PepsiCo India:*** *PepsiCo India, conducts large-scale potato procurement models, and DuPont Chemical Co., sells agricultural inputs, entered an agreement for DuPont to: (1) develop a chemical kit based on products and exact dosages PepsiCo farmers needed and (2) provide free training to PepsiCo field agents and farmers, protective clothing for farmers, and power sprayer (and 3-year guarantee) for every 200 farmers.*

## **QUESTION GUIDE 2.1: Developing a Seed Program**

Gaining access to quality seed is an important reason and an excellent way to motivate farmers to participate in directed procurement models. Continued access to quality seed also convinces farmers to remain loyal to the company and refuse to jeopardize their access to good seed by side-selling their harvest.

### **1) What advantages (if any) would a seed program provide your company?**

*The advantages to developing a seed program for companies engaged in directed procurement models include:*

- *assured source of good quality seed— seed provided by private seed companies or government agencies is often inconsistent in quality and availability, subject to price fluctuations, etc.;*
- *reduced dependency on third-party suppliers;*
- *ability to adapt, test or develop new seed varieties appropriate to their needs;*
- *greater control over the timely delivery of seeds to farmers to avoid delayed production;*
- *selling seed helps company cover its seed development program costs and subsidize farmers extension services;*

- *high quality seeds are strong motivation for farmers to work with and remain loyal to company (best to develop a seed program before engaging farmers in procurement models);*
- *charging company farmers / intermediaries a premium price for quality seed can reduce possibility of their selling it to others at a higher price.*

## 2) Can you justify having your own seed program?

- *need sufficient scale of operations to justify the expense / investment of developing its own seed program*
- *can justify company's own seed program if it wants:*
  - *readily available high-quality seeds;*
  - *loyalty among farmers by providing consistently high-quality seeds;*
  - *reduce dependence on seed suppliers;*
  - *varieties adapted to its end-market requirements, etc.*
- *companies should conduct feasibility study / business plan that projects costs, expected revenues and benefits of developing a seed program;*
- *company may first want to develop and test procurement models before considering a seed program.*

## 3) What kind of seed program do you want to develop?

*There are several ways to develop a seed program:*

- *sub contract to other seed companies—develop an agreement with one or more third-party seed companies to produce seeds for it;*
- *create its own seed from breeder or foundation seed;*
- *create seed through tissue culture, etc.*

## 4) Where will you get your foundation or breeder seed?

- *consultations with agronomic experts, internet research, etc. can lead to possible sources of seed;*
- *buyers the company deals with may be able to obtain it abroad.*

## 5) What investments will you need to make for your seed program?

- *investments vary widely depending on the crop and the type of seed program;*
- *companies should conduct a feasibility analysis before deciding whether to invest in a seed production program.*

## QUESTION GUIDE 2.2: Providing Credit to Farmers

Companies engaged in directed procurement models frequently need to provide credit to their farmers. The credit can include one or a combination of: seed, full package of inputs, and/or cash. The amount of credit extended to farmers and mechanisms used depend on a wide range of factors.

### 1) Is there sufficient rationale for you to consider providing farmers with credit?

- *farmers need critical production inputs to produce a crop that satisfies company and end-market requirements, but cannot afford them;*
- *financial institutions or input supplier companies are unwilling or unavailable to provide credit to farmers;*
- *some form of credit may convince farmers to participate in the procurement model. Credit also can ensure loyalty to the company and reduce side-selling, though this is not always the case;*
- *farmers unable to pay labor costs required to harvest crops, so company provides credit (i.e., advance payment) to selected farmers prior to harvest. Typically reserved for farmers with long-term relationships with company.*
- *companies may want to begin their procurement models with farmers who don't need credit and who can serve as models for others;*

### 2) What are the potential risks and considerations for providing credit to farmers?

*Sources of risk include:*

- *company cannot ensure the money (cash) is used as intended;*
- *short-term incentive for some farmers to side-sell to another buyer who does not deduct input cost from farmer price;*
- *requires a large cash outlay that affects company cash flow;*
- *company with loan to finance credit to farmers can face repayment risk if farmers default;*
- *monitoring credit to farmers can put company field agents in difficult position when, in addition to providing technical support, they also must enforce loan repayments;*
- *if farmers default and excluded from farmer operations, company may not be able to procure sufficient production from remaining producers;*
- *may attract farmers interested only in credit and not in performing well as a farmer;*

*Additional considerations when weighing risks and benefits of providing credit to farmers*

- *less risky where there is no ready (alternative) market for the crop farmers produce;*
- *farmers with an intermittent production schedule, such as short-term irrigated vegetables, have advantage of regular harvests and payments, which reduces their overall need for financing;*
- *farmers producing and selling for one annual season will generally pose a higher risk of defaulting on loans;*
- *in-kind credit, as opposed to cash loans, usually poses less risk of default;*
- *convincing financial institutions or input suppliers to provide farmers with finance or production materials can spread or eliminate credit risks (see the next section on Mitigating Credit Risks).*

### Mitigating Credit Risks

### 3) Can farmers obtain credit directly from financial institutions (banks, MFIs, etc.)?

*In some cases a financial institution may make direct loans to farmers based on their credit history and ongoing relationships with the bank. Advantage of this is the company not exposed to any risk because the process is limited to the relationship between the financial institution and borrowing farmer. The challenges of this option include:*

- *many financial institutions, especially microfinance institutions (MFIs), do not have lending products tailored to agricultural production calendars. The company can encourage financial institutions to develop appropriate lending products if it can:*
  - *provide an attractive number of potential new clients, and*
  - *act as a moral guarantor by assuring that its farmers are reliable suppliers.*
- *need for physical collateral limits client base of many financial institutions to borrowers with sufficient assets—a problem for many farmers. Some financial institutions have lending practices that base specific loans on character assessment, spread risk over large numbers of similar borrowers and use group-lending practices that rely on peer pressure to minimize default rates;*
- *with Village-Based Savings and Loan organizations (VBSLs), farmers who are members can obtain production credit. Usually VBSLs have small amounts to lend as since liquidity is limited to members' savings. In addition, VBSL repayment terms typically do not correspond to agricultural production calendars;*
- *difficult for small farmers to obtain an agricultural loan directly from a financial institution that usually lends only to large farmers with collateral.*

#### **4) What are the opportunities and challenges of financial institutions and/or input supply companies entering into a tripartite arrangement with your company?**

- *in tripartite arrangements, the company has agreement with a financial institution to provide financing directly to farmers. When it purchases from farmers, company sends proceeds to bank who deducts loan and interest from amount and deposits balance in each farmer's account. This relieves company of risks associated with providing credit to farmers and positively impacts cash flow.*
- *to establish tripartite arrangement, a company must identify and short-list interested commercial banks, MFIs, or others, and then discuss and negotiate a model financial product that meets everyone's needs. This can take time. Advantage for financial institutions is the opportunity to reach large numbers of farmers with little risk and few administrative burdens.*

*Though the company does not provide a financial guarantee, the financial institution is assured that the farmer is producing for a reputable company which must send the sales proceeds to them first. As with all transactions that involve farmers, information and transparency are essential to maintain mutual trust. Below are examples of how such arrangements might function:*

- *farmers must have an individual account with the participating financial institution (can be a challenge for financial institutions that do not take deposits or have individual accounts);*
- *once financial institution agrees to lend to individual farmers, company provides list of its farmers with information on suggested loan amounts based on production estimates;*
- *financial institution makes a loan to the farmer based on this information;*
- *after purchasing farmers' products, company sends payments to the bank, who deduct loan amount and interest and deposits balance in each farmer's account;*
- *company may arrange with bank to transfer farmer's loan proceeds directly into company account for inputs provided to farmer. This amount becomes part of the farmer's bank loan;*
- *company can make similar arrangement with input suppliers: send list of farmers and input needs to input supplier who sends invoice for these inputs to the bank. Bank pays input supplier and adds amount to each farmer's loan and the supplier distributes inputs to farmers.*

*Other key points in successful tripartite arrangements between companies, banks and farmers include:*

- *companies may be able to negotiate reduced interest rates, collateral obligations, etc. due to economies of scale financial institutions often enjoy*
  - *company reduces bank administrative costs by helping farmers with paperwork and establishing loan amounts based on acreage, which determines a farmer's production capacity;*
  - *intermediaries help disseminate information and perform specific functions so bank not need to work with individual farmers on every transaction*
- *when available, crop insurance can help reduce risk for all parties in such arrangements;*
- *close collaboration between banks, company, input suppliers, insurance agencies, farmers, etc. can make entire process run smoothly.*

#### ***Challenges to Initiating Tripartite Arrangements***

- *financial institutions may not have branches in rural areas where procurement models occur. Often only banks are government-run and lack capacity and sophistication to enter into tripartite agreements;*
- *perception among banks that agricultural lending to smallholder farmers is very risky;*
- *company needs to demonstrate how risks and administrative burdens can be reduced;*
- *farmers must have an individual account with the bank;*
- *success hinges on relationship between companies and farmers—if this fails then lending scheme also will fail*
- *if there is no crop insurance, banks may be reluctant to lend to farmers.*

### **5) What form and level of credit will you provide farmers?**

- *Companies need to decide if they will provide:*
  - *seed on credit (100%, 50%, less)*
  - *fertilizer and pesticides*
  - *cash (how much and when).*

### **QUESTION GUIDE 3: Providing Technical Assistance to Farmers**

Along with good quality seeds, farmers value company technical assistance (TA) more than anything else. This assistance can include training / coaching sessions, field-based technical advice and demonstrations which encourages and motivates farmers. Technical assistance helps farmers produce according to company specifications and realize yields and quality that benefit both farmer and company. Technical assistance also can increase farmer productivity; make company operations more cost effective; and improve farmer profitability, which all builds mutual trust and loyalty.

The following questions can assist the company to determine the types of TA to provide farmers.

#### **Field-Based Technical Support (Extension)**

#### **1) What are field agent\* tasks and objectives when providing technical advice and extension services to farmers during field visits?**

\*In some hub models, company may rely primarily on third party “hub managers” for providing TA and extension

- *give instant, on-the-spot advice;*
- *respond quickly to crop disease;*
- *answer specific questions and concerns;*
- *monitor the correct application of and adherence to prescribed production packages;*
- *plan production schedules and progress towards harvest;*
- *plan for procurement;*
- *provide farmers with feedback on rejections, poor production, etc.;*
- *advise on post-harvest practices (drying, storage, etc.);*
- *provide farmers with written prescriptions for necessary chemicals that they can take to input suppliers;*
- *take digital pictures and share with experts (including international experts).*

*Company field agents can use farmer record books to monitor technical information provided to farmers. These books become part of the management information system (see Question Guide: Communication and Info. Systems) that the company uses to track farmer performance, review recommendations, etc.*

## **TRAINING / COACHING**

### **2) What topics and activities will you cover in farmer training / coaching sessions?**

- *recommended agronomic practices;*
- *post-harvest issues;*
- *issues related to procurement models, planting schedules, etc.;*
- *distribution of seeds or other inputs;*
- *introductions to higher level people in the company;*
- *advice on input supply, production and financial services by specialists in those and other relevant areas;*
- *past season results and adjusting practices for the upcoming season;*
- *discussion on procurement plans.*

### **3) How will you develop training / coaching session content?**

- *company training / coaching team can develop a training module or session plan that details session approach and content to ensure the same message is delivered during multiple sessions with different trainers;*
- *experience shows that training programs including practical field visits provide better learning opportunities for farmers than those limited to classroom learning.*

### **4) Who will be part of your training / coaching team?**

- *company field staff;*
- *hub managers*
- *intermediaries;*
- *expert farmers, recruited as trainers, who have the following qualifications:*
  - *extensive experience growing the targeted crop*
  - *basic education*
  - *good communication skills and speaking voice*
  - *sufficient time to devote to coaching*
  - *self-confidence*
- *selected resource people.*

## 5) Where and when will you organize farmer training / coaching sessions?

- *advantages to arranging training sites near demonstration plots to facilitate field demonstrations;*
  - *should fit within the crop calendar (before planting, harvesting, etc.);*
  - *common options include\*:*
    - *three sessions—one prior to planting, one during growing season, and last before harvesting*
    - *two sessions—one prior to planting and other before harvesting.*
    - *one session – prior to planting (preferably done with farmers more experienced in targeted crops and company specifications)*
- \*choice will also be determined based on company's projected margins and amount it can spend on training while still keeping the model commercially viable*

## 6) How can you make your training / coaching sessions cost effective?

- *engage input suppliers, and other service providers with a commercial interest in contributing to the training;*
- *include local expert farmers on training team; farmers can relate to them and are less expensive than high level resource persons;*
- *limit duration and use a low-cost training site;*
- *trade-off between larger and smaller groups—large groups may be more cost effective, but small groups offer better learning opportunities.*

## 7) How will you develop your training / coaching team capacity?

- *organize a training of trainers (TOT) workshop for the training / coaching teams to:*
  - *ensure trainers are familiar with the training modules (including all technical issues)*
  - *introduce adult learning methodologies*
  - *practice the training before giving it to farmers*
- *invite expert farmer candidates to the TOT, evaluate them and select the best ones.*

## 8) How can you motivate field agents to provide training and technical support to farmers?

- *provide professional development opportunities such as training, exposure visits, etc.;*
- *offer awards and recognition for good work;*
- *develop performance-based remuneration packages to improve their commitment to and the effectiveness of their technical support.*

## 9) What techniques can you use to promote good production practices and motivate farmers?

- *guided visits for farmers to selected farmers' fields to observe good practices;*
- *visits by company managers to farmers' fields lets managers see reality on the ground and motivates farmers by making them feel part of and valued by company;*
- *visits to farmers by company buyers also can motivate farmers;*
- *visits by farmers to company factories and offices;*
- *recognition such as Best Farmer of the Year, Best Intermediary of the Year, etc.*

**(Example) Multi-Flower Farmer Extension:** Multi-Flower Ltd conducts procurement models with hundreds of small-scale producers for flower seed production. Their hands-on, professional extension services contribute a good deal to the success of the scheme, and, the considerable support and coaching that farmers receive from field agents plays a big role in helping them achieve their contractual outputs. The fact that field agent payment is partly results-based contributes to their high level of commitment and ensures they do their best to help farmers in their area achieve their targets. Doing so can double their salaries through the bonuses.

### QUESTION GUIDE 3.1: *Developing Demonstration Plots*

Demonstration plots are frequently used by companies to demonstrate both effective, modern agronomic practices to producers and the profitability and benefits of adopting the varieties and improved practices it recommends. Farmers who are reluctant to change their agronomic practices are more likely to pick them up after seeing demonstration plot results. Demonstration plots can lead to increased trust and stronger relationships between the company and its farmers and, if used effectively, they can improve farmer productivity—another benefit for the company.

#### 1) **What are the objectives of having demonstration plots?**

- *demonstrating production techniques that can increase productivity;*
- *showing farmers the proper way to handle and use inputs such as:*
  - *new seed varieties*
  - *fertilizers*
  - *pesticides*
  - *herbicides*
- *motivating farmers to adopt improved practices and/or inputs for better yields and product quality.*

#### 2) **What technical production practices and/or inputs will you use on demonstration plots?**

- *production packages should be affordable and readily accessible, and enable farmers to easily adopt the demonstrated practices / inputs quickly;*
- *technical production practices / inputs used on demonstration plots should be practical and appropriate to local setting. Ensure that practices / inputs correspond to local agronomic parameters (soil, climate, geography, etc.).*

#### 3) **How many and what size demonstration plots will you have?**

- *better to have a few well-cared-for demonstration plots than many that are not properly tended and unlikely to display good results;*
- *ideal for each intermediary to have a demonstration plot but could be expensive for company to set up and field agents might find them difficult to monitor;*
- *plots large enough to provide a good demonstration of techniques, inputs, etc. and small enough to easily manage.*



#### 4) Where will you locate demonstration plots?

- *demonstration plots should be in strategic, easily accessible, visible locations for farmers living in the area;*
- *locating demonstration plots near areas where company-led farmer training / coaching sessions is an advantage.*

#### 5) What is the company's role in managing demonstration plots?

*Important considerations:*

- *be involved in managing demo plots—leaving management entirely to farmers could lead to poor results;*
- *assign a field agent to monitor the plots and guide farmers;*
- *have a checklist for preparation and management of demonstration plots*

*Role of company in managing demonstration plots may include:*

- *selecting experienced farmers with suitable land and location;*
- *selecting demonstration plot site;*
- *testing the soil when possible;*
- *collecting and distributing inputs such as seeds, fertilizers and pesticides;*
- *assessing seed quality through purity, germination and vigor tests;*
- *treating seeds before planting;*
- *preparing detailed work schedule, monitoring plot at regular intervals; and*
- *providing guidance and supervision to ensure:*
  - *proper land preparation—plowing, laddering, fertilizer dosing, soil moisture, etc.*
  - *sowing seeds at the appropriate time;*
  - *transplanting seedlings at the proper age;*
  - *employing crop management practices (e.g. mulching, fertilizer use, thinning, weeding, rouging, etc.)*
  - *monitoring for insects and diseases and application of control measures (e.g. appropriate pesticides and non-chemical / integrated pest management (IPM) alternatives if available)*
  - *harvesting demo plot crop(s) separately from other plots at appropriate stages and using proper methods;*
  - *post-harvest operations such as threshing, cleaning, drying, sorting, grading, packaging, storing, etc.*
  - *weighing and recording crop yield after completing post-harvest processing (un-/sorted / graded and ungraded);*
  - *recording data in the approved format.*

#### 6) What is the role of farmers selected to farm demonstration plots?

*It is important that the most qualified and trustworthy farmers should manage demonstration plots—companies should not automatically select intermediaries as plot managers.*

*Possible roles for demonstration plot farmers:*

- *assist the company select suitable land;*
- *prepare land according to company directives;*
- *timely and proper sowing of seeds as advised by the company;*
- *follow crop management practices (e.g. mulching, fertilizer application, thinning, weeding, rouging, irrigation etc.) per company advisories;*
- *visit demo plot regularly and advise company of any problems;*
- *adopt proper, company-directed pest control measures;*
- *harvest, thresh, clean, sort, grade and dry crops as directed by the company;*
- *assist company to record data.*

## 7) How will you compensate the farmer cultivating the demonstration plot?

*Some companies engage an expert farmer, provide all the inputs and agree that the farmer can keep the harvest in return for maintaining and opening up the plot for farmer field days. The company may consider contributing labor and irrigation costs up to harvest (weeding, mulching, etc.) to ensure they are done correctly.*

## 8) How will you use the demonstration plot to motivate farmers to adopt improved production practices?

- *prepare sign boards with specific information and arrange to display them at demonstration plot site;*
- *organize formal field days at demonstration plots and invite farmers and neighboring farmers to observe production and harvesting techniques;*
- *use demonstration plots in conjunction with other training / coaching activities for farmers;*
- *keep track of input / output data and share analysis results with farmers;*
- *organize and conduct visits to plot at strategic points during soil preparation, planting, growing and harvesting.*

### QUESTION GUIDE 3.2: *Developing Trial Plots*

Companies use trial plots *to experiment with new varieties and production methodologies*. Trial plots differ from demonstration plots, which companies use to show farmers how to carry out a proven practice it wants them to emulate. If the varieties and production methods grown and used on trial plots are successful, companies may show them to farmers. Companies also use trial plots to conduct multi-location trials of new varieties in conformance with government regulations that require they be tested before being *released* throughout the country.

## 1) What is the purpose of your trial plot?

- *use trial plots for a variety of reasons including testing new seeds in local climatic conditions, new production methods (seed versus transplanting, etc.), flood versus drip irrigation, spacing, multi-location trials, etc.*
- *ensure chosen varieties and technologies under experimentation are appropriate to local climate, context and realities.*

## 2) Who will manage your trial plot?

*Company may choose either a participatory trial managed by local farmers or a company-managed trial. There are arguments for either choice, depending on whether the company has land, qualified staff, etc. In either case, company needs to be very involved in managing and monitoring trial plot—more so than it does with demonstration plots.*

**3) What should be the role of the farmer responsible for cultivating the trial plot? (case of a participatory trial in which a farmer takes an active role)**

- *must follow strict company protocols regarding trial objectives and purpose;*
- *should help the company keep track of trial results;*
- *agreement with farmer must state that farmer will provide or sell harvest to the company, which should be prepared to compensate the farmer for lost production;*
- *if company contracts with local farmer to use his/her field, it must provide all inputs, labor costs and other expenses to ensure quality;*
- *farmer involvement can include: select and prepare land, sow seeds, apply company-developed production packages, visit field regularly, report problems to field agent, take preventive measures to protect against disease, harvest / clean / store crop, keep track of the register, etc.*

**4) What information will you collect and what format will you use to record the results of the trial plot?**

**5) How will field agents support and manage the trial plot?**

- *company should be actively involved in managing trial plots (preferably with hired expertise on its own or leased land) to ensure that results are accurate;*
- *company must ensure that staff have clear instructions and correctly monitor trial plot—otherwise it is not worth the investment.*

**6) How will you choose the trial plot area?**

- *companies should take care when choosing land for trial plots, to ensure soil and conditions are both suitable for and similar to the projected procurement model areas;*
- *trial plots should be located within easy access of field agents to facilitate visits;*
- *selected area should be close to an irrigation source.*

**7) How many trial plots will you have and what size will they be?**

- *better to have a few well-cared-for trial plots than it is to many that are not properly tended and unlikely to display good results;*
- *should be large enough to provide useful trials, but small enough to be easily managed.*

**8) What is your work plan for establishing trial plot(s)?**

- *illustrative activities include site and farmer selection, soil testing, input collection / distribution, seed quality assessment, seed treatment, land preparation, seed planting, sign board preparation, crop husbandry practices (mulching, fertilizer application, thinning, weeding, rouging, etc.), harvesting, cleaning, drying, sorting, packaging, storage, etc.*

## QUESTION GUIDE 4: *Procuring from Farmers*

Well-managed procurement operations are critical to the success of directed procurement models. They require careful logistical and financial planning in order to succeed and the following questions can assist companies with this crucial task.

### 1) **Where will you conduct the procurement with farmers?**

- *collection points (either through a hub model or a contract farming model) are an important element of directed procurement models. Companies can organize themselves or engage intermediaries in establishing or facilitating these collection points;*
- *to ensure trust and transparency during grading, weighing and payment, it is best if the intermediaries are present at the procurement site;*
- *in hub models, company may use intermediaries to manage the collection point(s).*

### 2) **How will you undertake your grading activities?**

- *company must ensure that farmers clearly understand all aspects of grading system, including process, prices paid for particular grades, standards applied for grading, etc., transparent and well understood grading and weighing system (good scales, weighing techniques, etc.) will create good will and high morale among farmers;*
- *if final grading and rejections need to be conducted at the company's warehouse or processing plant, company must explain / demonstrate this process clearly to farmers to avoid suspicion;*
- *company must have feedback systems in place to inform farmers of problems and guide them on ways to improve their practices in future;*
- *if company delegates post-harvest functions, e.g. drying, sorting, cleaning, etc. to farmers, it allows them to add value to their crops and increase their profits.*

### 3) **Will you purchase or find a market for the farmers' second grade or rejected products?**

- *company can increase farmer loyalty and profitability if it can find an alternative market for, and purchase, lower-grade products that would otherwise be rejected;*
- *companies sometimes find ways to sell, or to process and sell, second grade products on the local market.*

### 4) **What cleaning and packing materials will you provide the farmers?**

- *in many cases, company provides farmers with sacks and packaging materials to improve procurement process and assure better quality;*
- *provision of crop cleaning materials (sieves, etc.) is particularly relevant for high value commodities like seed and could be provided either to the farmer or handled at the collection point.*

## 5) How will you organize payments?

- preferable for company to grade, purchase and make payments to **individual** farmers, even if part of a farmers group. purchasing in this way fosters greater trust and better relationships with group members;
- company quickly makes payments following procurement; delays breed farmer frustration and if they suspect delayed payment, they may be tempted to side-sell for immediate cash;
- important to work with company's own finance department to make careful projections and ensure adequate cash flow at the time of procurement;
- company must make arrangements with local bank branches so they can plan to have sufficient liquidity to honor payments to farmers because:
  - requires discussions and negotiations between company and banks well before period when funds needed;
  - when using intermediaries, company sets up an account in that person's name. During procurement, company gives intermediary a check for amount for farmer purchases and a detailed list of each farmer and payments due. Intermediary goes to bank (in some cases with farmers and a company representative) to cash check and distribute payment to each farmer;
  - local bank branches, particularly government-owned, are often limited in the available cash to pay large numbers of farmers at one time;
  - emerging technologies allow companies to make payments to producers using mobile phone technology.

**(Example) Arrangements with Local Banks in Bangladesh:** As part of its procurement models for peanuts and potatoes in a far northern rural area of Bangladesh, Bombay Sweets first attempted to help farmers establish their own bank accounts with local branches of government-operated banks, even going to the extent of taking their pictures and filling out applications for them. This proved unfeasible for several thousand farmers and Bombay Sweets decided to work through intermediaries and establish accounts for them. At the time of procurement, intermediaries and their groups arrived at the procurement center with their produce for grading and weighing and the company provided the intermediaries a copy of the list of all group members and the amount due each and wrote a check for the total due in his name. He then went to the bank, often with group members and a Bombay Sweets representative, to cash the check and distribute the proceeds. However, as farmer numbers increased, company field agents had trouble accompanying each group and bank branches often had insufficient liquidity to honor checks. These problems meant that intermediaries and their groups had to return at a later date, often from long distances.

## 6) How will you organize transportation?

- must plan carefully to ensure adequate transportation at the time of procurement;
- identify reliable transporters to load and transport in an appropriate way that does not damage the crop.

## 7) What records will you keep for your procurement operations?

- during procurement, it is important to label the bags with farmer information for traceability;
- in addition to farmer's name and personal identification number, label should include information on variety, volume and date of delivery.

## 8) Other Procurement Issues the Company Should Consider

- *company should encourage farmers not to use all of their land for outgrowing and cultivate some of their own products to sell to other buyers (this varies depending on the crop, context, etc.);*
- *efficient procurement is critical as related transaction costs are usually transferred to farmers through deductions on price the company pays them. Efficiency improvements can have immediate impact on farmers.*
- *since most post-harvest losses are due to poor handling, storage and transport, tackling these procurement-related issues can greatly improve returns for farmers.*

### Illustrative Company Procurement Monitoring List

#### ✓ Do you have a procurement schedule? Describe.

- *how is the company organizing procurement from farmers?*
- *what is the intermediaries' role in procurement?*

#### ✓ Do you have sufficient procurement materials (gunny bags, moisture meter, etc.) at hand?

- *describe if / how bags are tagged.*

#### ✓ Who is on the procurement team? Describe.

- *who has overall responsibility? what are the roles of all team members?*
- *are these permanent or temporary staffs?*
- *how many staff carry out bagging, handling, etc.?*
- *who is supervising financial management?*
- *is the security staff adequate?*

#### ✓ What kind of bookkeeping system and documents are used?

- *describe and diagram forms / registers.*

#### ✓ How are payments organized?

- *are there arrangements with a local bank?*
- *how many bank branches will be used? at what locations?*
- *who has signatory authority?*
- *how is payment made to farmers? provide specific steps / details.*
- *are there arrangements that ensure the availability of funds in accordance with the production schedule?*

#### ✓ How are the following operations being handled?

- *grading / testing of purchased products—what are the grading policies?*
- *weighing of products—what standards are used?*

#### ✓ How is the warehouse operation managed?

- *describe the inventory and storage system.*
- *describe all forms and registers.*

✓ **What are your arrangements for additional processing, e.g. drying, storage, etc.?**

✓ **How is transportation organized? Describe.**

- *from farmer to procurement site?*
- *from procurement site to warehouse?*
- *from warehouse to company factory or export location?*
- *is there a transportation schedule?*

#### **QUESTION GUIDE 4.1: Determining Price for Farmer Produce**

Companies have a range of options to choose from when it comes to setting prices with farmers. Three of the most common pricing mechanisms are: 1) fixed prices, 2) market prices and 3) split prices. Under **fixed pricing**, the company offers the farmer a fixed price at the beginning of the season. Under **spot market pricing**, the company agrees to pay the farmer the prevailing market price (or slightly higher) at the time of purchase. Under **split pricing**, the company pays an agreed upon *base price* at the time of purchase and makes a final payment once it on-sells or processes the product. However, companies usually use **pricing formulas** that combine elements of all three mechanisms to address the weaknesses of each.

**1) Are you operating in a closed or open market system?**

- *fixed pricing in open market systems (where many buyers exist for the crops farmers produce) are frequently problematic as farmers do not want to sell at agreed-upon prices when market prices go up (although they will insist that the company purchase at agreed-upon prices if market prices are lower). for this reason, the spot market pricing system seems to be most suited for commodities that have many competing buyers;*
- *generally better to use a **pricing formula** than firm fixed prices, particularly in open market systems, in order to be able to respond swiftly to market changes.*

**2) What type of business are you in?**

- *companies using directed procurement models for seed production typically offer a higher than market price as crops produced for seeds are more valuable than those produced for consumption or processing. In these cases, companies can use fixed prices since they are higher than what a producer could find on the open (commodity) market. This is not the case if the seed market is competitive with many companies interested in the same seed;*
- *seed business generally enables a company to invest more in providing inputs and credit to farmers because: 1) risk of side-selling is lower and 2) company is making a greater margin on sale of seeds which it can use to invest in its procurement models.*

**3) What are the farmer production costs?**

- *should do an in-depth analysis of farmer production costs, in a participatory manner, to establish prices or pricing strategies. Analysis needs to be updated regularly to consider changing input prices;*

- *when establishing costs, company should tell farmers that an increase in income is due primarily to improved productivity (resulting from company assistance with seed, inputs and technology transfer) –not higher prices. Can be a challenge because it is difficult to change attitudes. However, if companies do not address the issue, farmers are likely to hold on to their bias toward higher prices.*

#### 4) How will you engage farmers in setting prices?

- *buyers tend to set prices unilaterally, which makes farmers feel vulnerable and powerless and may negatively affect their commitment to any buyer agreement;*
- *ensure mutual commitment to an agreement by engaging farmers' representatives in open and transparent price-level negotiations, based on realistic production costs with both parties sharing benefits and risks of changing (world) market prices;*
- *can use a committee of company and farmer representatives to periodically check market prices in selected areas and determine appropriate price to set spot market pricing.*

#### 5) How will you determine and adjust the price?

- *to encourage farmers to participate in future operations, companies must offer a price that allows them to make an acceptable profit;*
- *where companies produce crops that sell at relatively low prices during first harvest and higher prices during following weeks, they might offer farmers a higher than market price at time of first harvest. This strategy is unlikely to damage company's bottom line in medium-term and can help ensure producers continue working with company over long-term;*
- *a small price difference can convince farmers to break a contract even though they risk consequences such as loss of inputs for the following season;*
- *contracted fixed price may or may not reflect current market price; if higher, company should match price others offer and not expect farmers to fulfill their contractual obligations;*
- *needs to be a mechanism for identifying and dealing with changes in (world) market prices and how they impact local market prices.*

**(Example) Pricing of ITC India:** *Instead of a fixed, pre-determined price for vegetables it procures from farmers, ITC follows a dynamic market reference pricing policy. Every evening ITC staff compiles prices from reference mandis (government mandated auction markets) and offers those to farmers at its collection centre the next morning. The farmer also is able to get market prices at village farm gate. ITC deducts packaging and transportation costs (10 percent), which farmers would have incurred if they had sold their produce directly in the mandis. Farmers still benefit since they don't have to pay mandi tax, loading and unloading charges, and save their commute time. Farmer's net income increases by four to eight percent by selling their vegetables to ITC directly at collection centre.*



## QUESTION GUIDE 5: *Hiring Staff for the Procurement Model*

Companies need to consider a variety of factors when hiring staff to manage their procurement models. The following questions can help them think through their choices.

### 1) **How many procurement staff persons will you need?**

- *most directed procurement models require a company coordinator and field agents; some may also require intermediary supervisors and/or an agricultural specialist. Some hub models will require reliable intermediaries to manage their procurement hubs.*
- *number of staff to hire will vary depending on:*
  - *size of procurement model (hub or contract farming) and geographic area to cover;*
  - *directed procurement model used (direct contract growing requires more field agents than hub models or indirect contract farming models that rely on intermediaries)*
- *desired “field staff to farmer” or “field staff to intermediary” ratio depends on a variety of factors that include:*
  - *directed procurement model being used;*
  - *type of crop: new crops require more field agents to monitor farmer production than traditional crops;*
  - *margin: crops that generate higher margin for company (or go into finished product that has good margins) can enable more investment in both agronomic support and field agents;*
  - *company financial capacity, ability, and willingness to invest over a long period of time.*

### 2) **Where will your procurement staff be based?**

- *most companies prefer that field staff be based close to procurement areas as possible;*
- *in many cases, companies want coordinator based at head office, often in capital city. Is particularly appropriate if procurement models are close to head office, which facilitates close communication with company management (i.e., finance and procurement departments). But requires coordinator to make frequent field visits.*
- *other companies prefer coordinators be based closer to production areas, which helps oversight and supervision, but can result in communication gaps with company management.*  
*Note: some qualified coordinator candidates may not be willing to live in remote or rural area.*

### 3) **Will your field agents be from targeted area or outside targeted area?**

- *pros and cons—local field agents might know farmers well and speak local dialects,*
- *but may also be subject local pressures and not as objective as agents from outside area.*

## **PROCUREMENT COORDINATOR POSITION**

### 4) **What skills, knowledge and experience are needed for your procurement coordinator (either coordinator of contract farming model or procurement hub\*)?**

*\*in some cases procurement hub coordinator(s) can be independent “service providers” to the company and not direct employees.*

- *advise staff and farmers on crop production and post-harvest practices;*
- *motivate farmers to achieve desired crop production standards;*
- *motivate and manage field agents;*
- *manage and coordinate input procurement logistics, distribution, production monitoring, farmer training, post-harvest handling and transportation;*
- *negotiate agreements with farmers / intermediaries;*
- *promote amicable relations with local businesses and government representatives;*
- *produce reports (using word and excel) and communicate via email.*

**5) What will be the key duties and responsibilities of your procurement coordinator?**

- *coordinate all procurement models for company and supervise staff;*
- *coordinate with local government administrative and agricultural officials and key private sector actors—input providers, transporters, warehousing facilities, etc.;*
- *conduct regular field visits to farming areas and support field agents in carrying out responsibilities;*
- *prepare outgrowing agreement modules (when required) and negotiate with farmers;*
- *participate in development and delivery of training programs for staff and farmers;*
- *coordinate procurement and distribution of needed inputs to farmers, especially seeds;*
- *negotiate with local input suppliers to obtain preferential rates for company farmers;*
- *monitor crop production to ensure that recommended practices are followed;*
- *coordinate trials of new crop varieties and practices;*
- *coordinate procurement of farmer crops;*
- *coordinate post-harvest handling, processing, storage and transportation of products to factory or warehouse;*
- *oversee infrastructural developments (e.g., land development, building construction and machinery installations) within production areas.*

**FIELD AGENTS**

**6) What skills, knowledge and experience is needed for your field agents?**

- *supervise and implement company procurement models;*
- *advise farmers on proper agronomic practices;*
- *educate farmers on advantages and benefits of participating in company procurement models;*
- *select good and resourceful farmers to serve as farmers;*
- *evaluate the appropriateness of land for targeted crops;*
- *conduct training / coaching sessions for farmers;*
- *manage demonstration and trial plots;*
- *coordinate harvesting, post-harvest handling and processing of targeted crop(s);*
- *produce simple reports.*

**7) What will be the key duties and responsibilities of your field agents?**

- *maintain good relationships with local administrative and agricultural officials;*
- *maintain working relationship with local input suppliers;*
- *evaluate suitable land and sites for procurement models;*
- *select good farmers to participate in the directed procurement model;*
- *assist in procuring and distributing crop inputs (if appropriate)*
- *supervise crop production practices—land prep, planting, irrigation, fertilizing, weeding, pest mgmt., etc.;*

- *supervise and ensure best practices in crop harvesting and post-harvest handling;*
- *provide periodic training / coaching to farmers;*
- *assist in organizing procurement operations with farmers (ensuring strict discipline, etc.);*
- *ensure other companies are not purchasing from farmers and no side-selling is taking place.*

## 8) What is included in your procurement staff remuneration package?

- *some companies use performance-based packages to motivate field agents to exceed targets;*
- *balance company and individual interests—best to combine group-based rewards for all field agents with individual rewards for exceptional performance;*
- *remuneration package should depend on industry standard in-country and relevant government regulations*

## QUESTION GUIDE 5.1: *Communicating with Farmers*

In directed procurement systems (hubs or contract farming) it is important for the company to maintain close communication with farmers in order to:

- *inform producers adequately and in a timely fashion about changes and issues such as new or additional buyer requirements, quality concerns, price fluctuations, etc.;*
- *identify and address sensitive issues that, if not addressed could jeopardize the scheme and relationships;*
- *establish trust between both parties and contribute to farmer loyalty to the company.*

### 1) What do you wish to communicate to farmers?

- *recommended (best) agronomic practices (as well as prohibited practices)*
- *production targets and schedules*
- *quality parameters*
- *prices*
- *procurement arrangements.*

### 2) How will you communicate with the farmers?

- *engaging intermediaries (including hub managers)*
- *regular meetings with farmers*
- *during contract negotiations*
- *visiting and monitoring farms*
- *organizing field days for demonstration purposes*
- *training and coaching activities*
- *other means, if necessary.*

*Things to consider:*

- *field agent and intermediary communication skills may be limited and company should consider ways to improve these essential skills;*
- *farmer and intermediary literacy rates may be limited so company should explore use of visual aids (e.g. pictures, drawings and exposure visits—seeing is believing!);*
- *intermediaries may filter or distort information from farmers due to a misunderstanding and/or an interest in presenting information differently from the company;*

- *intermediaries may not communicate effectively or honestly with farmers;*
- *frequency of communication is likely to depend on crop calendar—during set periods such as planting and harvesting, daily communication is critical while other times (weekly or monthly communication) is sufficient;*
- *information on prices and engaging farmers to establish pricing mechanisms are critical; important to clearly communicate those mechanisms to all farmers.*

### 3) How will you ensure that you have two-way communication with farmers?

- *get direct feedback from farmers to assess satisfaction level, manage expectations, and ensure they receive and properly understand important information from the company;*
- *engage farmers directly to get their thoughts on operations and ensure farmers get important information to the company. Some companies have high-level managers (above field agents) who organize formal monthly meetings with selected farmers;*
- *examples to ensure two-way communication include: 1) periodic visits and meetings between field agents, lead farmers and farmers and 2) regular meetings between field agents and high-level company managers;*
- *can be challenging for intermediaries to maintain regular communication with farmers—most don't have vehicles and commissions are modest. Techniques to help overcome these challenges include:*
  - *meet / speak with group members in marketplaces;*
  - *use bicycles to inform them of meetings;*
  - *choose farmers in close proximity and on contiguous fields;*
  - *conduct occasional, but not regularly scheduled field visits;*
  - *solicit questions, thoughts and ideas from farmers.*

***(Example) Two-way Communication with Farmers: East Africa Growers:*** *The primary means of communication between East Africa Growers (EAGA) and its farmers is through company field agents who coordinate, monitor and advise farmers. The primary goal is to assure that farmers are producing crops in compliance with the stringent requirements of European supermarket chains. However, some regional managers have taken additional steps to ensure that they remain fully apprised of farmer issues and concerns.*

*For example, one manager organizes quarterly, informal meetings open to all farmers during which they are encouraged to pose questions and raise issues they feel are not being addressed. One regional manager noted that he would try to resolve issues immediately, sometimes phoning the company home office to check on a payment to a farmer. These types of meetings also are useful occasions to explore possible changes in company policies by getting farmer reactions and input on how best to improve pricing practices or input provision.*

## QUESTION GUIDE 6: *Developing Management Information Systems*

Directed procurement models require an appropriate management information system (MIS); which includes tools and processes for record keeping, monitoring and communication. Companies should develop (or purchase) a system based on essential information they need. Resist developing or buying a system too complicated or provides information not really needed. The following questions can help companies to think through, research and develop strategies for collecting necessary data and information.

### 1) **What type of data and information is needed to manage your procurement models?**

*Which aspects or components of your procurement models will data and information need to be collected? Possible aspects include:*

- *production (farming);*
- *intermediation;*
- *input distribution;*
- *procurement;*
- *company staff and field agent activities;*
- *farmer productivity;*
- *other needed to comply with buyer requirements, industry standards, etc.*

### 2) **Who will use the data and information collected?**

*Who is going to use the information collected? This will help determine type of systems needed to develop, collate and analyze the data. **Note:** may be multiple uses for and users of the same data / information, including:*

- *field agents*
- *field management*
- *company management*
- *buyers*
- *regulators*
- *farmers*

### 3) **What type of data and information is needed on individual farmers?**

- *name and contact details*
- *location (record GPS if possible)*
- *acreage under cultivation*
- *types of crops produced for company*
- *inputs received*
- *inputs used*
- *other types of crops produced*
- *planting and harvesting dates (for planning purposes)*
- *other comments.*

**4) What type of data and information is needed on intermediaries?**

- *intermediary name and contact information;*
- *names of all farmers in their group;*
- *allocated area for each farmer in their group;*
- *projected production;*
- *actual quantity collected;*
- *activities intermediaries conduct;*
- *intermediary performance in complying with company rules and supporting farmers;*
- *records of inputs that intermediaries receive and distribute to each farmer.*

**5) What type of data and information is needed for input distribution?**

- *input types and quantities distributed or sold to each farmer;*
- *dates distributed and utilized by farmers;*
- *cost of inputs (especially important if inputs are supplied on credit);*
- *repayment (if distributed on credit).*

**6) What type of data and information is needed for your procurement operations?**

- *dates purchased;*
- *place of procurement;*
- *quality and quantity of produce purchased from each farmer;*
- *names of individual farmers;*
- *rate paid per kilogram;*
- *outstanding loans reimbursed;*
- *payments made to farmers;*
- *farmers' signatures;*
- *related costs (if any):*
  - *shipping costs to warehouse or retail location;*
  - *commissions paid;*
  - *labor costs;*
  - *storage costs*

**7) What type of data and information is needed to measure farmer productivity?**

- *quantity of desired quality product each farmer produces per cultivated acre;*
- *quantity and cost of inputs (if any) provided to the farmer;*
- *projected production versus actual production;*
- *performance evaluation ranking*

**8) What type of data and information is needed to monitor field agent activities?**

- *outgrowing areas visited;*
- *number of visits to individual farmers;*
- *specific problems raised by individual farmers (with data detailing received response or action);*
- *planned follow-up visits;*
- *trainings provided and participant lists;*
- *demonstration activities performed;*
- *signatures of field agents and field supervisors.*

**9) What systems will you use to collect, manage and process your data and information (computer applications, software, spreadsheets, manual registers, etc.)?**

- *register / account books*
- *receipts (for both company and farmers)*
- *packaging labels*
- *computerized documents, spreadsheets, databases, etc.*
- *Geographic Information Systems (GIS)*
- *barcodes*
- *digital pictures.*

**Note:** *new technologies can be expensive and are often unnecessary to meet specific company needs.*

## APPENDIX 2:

### Question Guides for Directed Procurement Models (for Distribution to Company)

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### **INITIAL QUESTION GUIDE: *Deciding to Establish a Directed Procurement Model***

A company needs to consider many things before establishing a directed procurement model. Given the investment and long-term commitment needed to make directed procurement models successful, a company should not take the decision lightly and should carefully weigh the potential risks and rewards. The following questions can help guide the company in making an informed decision.

- 1) Which procurement model do you want to use?
- 2) What advantages would this procurement model operation provide your company compared to the way you now source raw materials and products?
- 3) What are the immediate and long-term prospects for your end-market (i.e., market that you intend to sell products procured from farmers, either in raw or processed form)? Does this procurement model make sense given this scenario?
- 4) What risks and challenges could you face in developing this procurement model?
- 5) Why would farmers be interested in participating in your procurement model?
- 6) What risks would farmers face participating in your procurement model?
- 7) In what geographic areas will you conduct your procurement models?
- 8) What are the projected costs of your procurement model?

### **QUESTION GUIDE 1: *Selecting and Engaging Intermediaries for Directed Procurement Models***

In a directed procurement model companies often need to choose intermediaries (hub/sub-hub managers, lead farmers, agents, etc.) who can serve as liaisons with farmers. These intermediaries typically have a contract or agreement with the company to perform certain roles and functions.

- 1) What are your criteria for intermediary selection? Create a list.
- 2) Describe your strategy / approach for selecting intermediaries
- 3) Describe how (or if) you plan to solicit support from government ag. service agencies in selecting intermediaries. If considering this direction, it is important to understand:
- 4) What will be the intermediary role in your directed procurement model?
- 5) Describe how you plan to compensate intermediaries?
- 6) How would you deal with an intermediary who does not perform as expected?

### **QUESTION GUIDE 1.1: *Selecting Farmers***

*(if farmer selection is part of your procurement model)*

Farmer selection is essential to the success (or failure) of directed procurement models that include direct contracts with farmers *(directed models that do not have individual contracts*

*with farmers do not apply here*). A number of options for selecting farmers are available and the one chosen depends on the farmer model the company uses.

- 1) What criteria will you use to select farmers? Create a list
- 2) *IF USING INTERMEDIARIES TO SELECT FARMERS*, describe process intermediaries should follow and company role when selecting farmers. List each step.
- 3) *IF COMPANY STAFF DEAL DIRECTLY WITH FARMERS*, describe company role in selecting farmers. List each step.
- 4) *IF YOU PLAN TO INTERACT WITH AN EXISTING FARMERS' GROUP OR ASSOCIATION*, describe role of farmers' group or association, and company interactions, with farmers

### **QUESTION GUIDE 2: Ensuring Farmer Access to Appropriate Inputs, Including Seed**

Access to quality inputs for farmers is a critically important aspect of directed procurement models as it helps ensure that they:

- can grow the desired product varieties and quality
- have the quality inputs needed to increase production
- produce in conformance with buyer requirements, especially in high-end markets.

For many companies engaged in directed procurement models, the sale and distribution of good quality inputs (particularly seed) to farmers is one of the most important elements of success. For this reason, the company must take particular care when designing its input distribution arrangements.

- 1) Will you need to facilitate access to inputs for your farmers?
- 2) How will you facilitate access to needed inputs?

Questions to answer if distributing inputs (whether with upfront cash payment or on credit)

- 3) Where will you get the inputs?
- 4) How will you manage the input distribution logistics?
- 5) What price will you charge farmers for inputs?
- 6) How will you collect farmer payment if you require it upfront?
- 7) How will you collect farmer payments if you provide inputs on credit?
- 8) When will you distribute the inputs?
- 9) How can you minimize potential problems if you have to rely on intermediaries to distribute inputs to farmers?

Additional question if company relies on third party suppliers to sell inputs to farmers:

- 10) What types of arrangements will you make with private suppliers to ensure your farmers have access to the necessary inputs?

### **QUESTION GUIDE 2.1: *Developing a Seed Program***

Gaining access to quality seed is an important reason and an excellent way to motivate farmers to participate in directed procurement models. Continued access to quality seed also convinces farmers to remain loyal to the company and refuse to jeopardize their access to good seed by side-selling their harvest.

- 1) What advantages (if any) would a seed program provide your company?
- 2) Can you justify having your own seed program?
- 3) What kind of seed program do you want to develop?
- 4) Where will you get your foundation or breeder seed?
- 5) What investments will you need to make for your seed program?

### **QUESTION GUIDE 2.2: *Providing Credit to Farmers***

Companies engaged in directed procurement models frequently need to provide credit to their farmers. The credit can include one or a combination of: seed, full package of inputs, and/or cash. The amount of credit extended to farmers and mechanisms used depend on a wide range of factors.

- 1) Is there sufficient rationale for you to consider providing farmers with credit?
- 2) What are the potential risks and considerations for providing credit to farmers?

#### Mitigating Credit Risks

- 3) Can farmers obtain credit directly from financial institutions (banks, MFIs, etc.)?
- 4) What are the opportunities and challenges of financial institutions and/or input supply companies entering into a tripartite arrangement with your company?
- 5) What form and level of credit will you provide farmers?

### **QUESTION GUIDE 3: *Providing Technical Assistance to Farmers***

Along with good quality seeds, farmers value company technical assistance (TA) more than anything else. This assistance can include training / coaching sessions, field-based technical advice and demonstrations which encourages and motivates farmers. Technical assistance helps farmers produce according to company specifications and realize yields and quality that benefit both farmer and company. Technical assistance also can increase farmer productivity; make company operations more cost effective; and improve farmer profitability, which all builds mutual trust and loyalty.

The following questions can assist the company to determine the types of TA to provide farmers.

#### Field-Based Technical Support (Extension)

- 1) What are field agent\* tasks and objectives when providing technical advice and extension services to farmers during field visits?

\*In some hub models a company may rely primarily on third party “hub managers” for providing TA and extension

### TRAINING / COACHING

- 2) What topics and activities will you cover in farmer training / coaching sessions?
- 3) How will you develop training / coaching session content?
- 4) Who will be part of your training / coaching team?
- 5) Where and when will you organize farmer training / coaching sessions?
- 6) How can you make your training / coaching sessions cost effective?
- 7) How will you develop your training / coaching team capacity?
- 8) How can you motivate field agents to provide training and technical support to farmers?
- 9) What techniques can you use to promote good production practices and motivate farmers?

### **QUESTION GUIDE 3.1: *Developing Demonstration Plots***

Demonstration plots are frequently used by companies to demonstrate both effective, modern agronomic practices to producers and the profitability and benefits of adopting the varieties and improved practices it recommends. Farmers who are reluctant to change their agronomic practices are more likely to pick them up after seeing demonstration plot results. Demonstration plots can lead to increased trust and stronger relationships between the company and its farmers and, if used effectively, they can improve farmer productivity—another benefit for the company.

- 1) What are the objectives of having demonstration plots?
- 2) What technical production practices and/or inputs will you use on demonstration plots?
- 3) How many and what size demonstration plots will you have?
- 4) Where will you locate demonstration plots?
- 5) What is the company’s role in managing demonstration plots?
- 6) What is the role of farmers selected to farm demonstration plots?
- 7) How will you compensate the farmer cultivating the demonstration plot?
- 8) How will you use the demonstration plot to motivate farmers to adopt improved production practices?

### **QUESTION GUIDE 3.2: *Developing Trial Plots***

Companies use trial plots *to experiment with new varieties and production methodologies*. Trial plots differ from demonstration plots, which companies use to show farmers how to carry out a proven practice it wants them to emulate. If the varieties and production methods

grown and used on trial plots are successful, companies may show them to farmers. Companies also use trial plots to conduct multi-location trials of new varieties in conformance with government regulations that require they be tested before being *released* throughout the country.

- 1) What is the purpose of your trial plot?
- 2) Who will manage your trial plot?
- 3) What should be the role of the farmer responsible for cultivating the trial plot? (*case of a participatory trial in which a farmer takes an active role*)
- 4) What information will you collect and what format will you use to record results of the trial plot?
- 5) How will field agents support and manage the trial plot?
- 6) How will you choose the trial plot area?
- 7) How many trial plots will you have and what size will they be?
- 8) What is your work plan for establishing trial plot(s)?

#### **QUESTION GUIDE 4: *Procuring from Farmers***

Well-managed procurement operations are critical to the success of directed procurement models. They require careful logistical and financial planning in order to succeed and the following questions can assist companies with this crucial task.

- 1) Where will you conduct the procurement with farmers?
- 2) How will you undertake your grading activities?
- 3) Will you purchase or find a market for the farmers' second grade or rejected products?
- 4) What cleaning and packing materials will you provide the farmers?
- 5) How will you organize payments?
- 6) How will you organize transportation?
- 7) What records will you keep for your procurement operations?
- 8) Other Procurement Issues the Company Should Consider

### **Illustrative Company Procurement Monitoring List**

- ✓ Do you have a procurement schedule? Describe.
- ✓ Do you have sufficient procurement materials (gunny bags, moisture meter, etc.) at hand?
- ✓ Who is on the procurement team? Describe.
- ✓ What kind of bookkeeping system and documents are used?
- ✓ How are payments organized?
- ✓ How are the following operations being handled?
- ✓ How is the warehouse operation managed?
- ✓ What are your arrangements for additional processing, e.g. drying, storage, etc.?
- ✓ How is transportation organized? Describe.

#### **QUESTION GUIDE 4.1: *Determining Price for Farmer Produce***

Companies have a range of options to choose from when it comes to setting prices with farmers. Three of the most common pricing mechanisms are: 1) fixed prices, 2) market prices and 3) split prices. Under *fixed pricing*, the company offers the farmer a fixed price at the beginning of the season. Under *spot market pricing*, the company agrees to pay the farmer the prevailing market price (or slightly higher) at the time of purchase. Under *split pricing*, the company pays an agreed upon *base price* at the time of purchase and makes a final payment once it on-sells or processes the product. However, companies usually use *pricing formulas* that combine elements of all three mechanisms to address the weaknesses of each.

- 1) Are you operating in a closed or open market system?
- 2) What type of business are you in?
- 3) What are the farmer production costs?
- 4) How will you engage farmers in setting prices?
- 5) How will you determine and adjust the price?

#### **QUESTION GUIDE 5: *Hiring Staff for the Procurement Model***

Companies need to consider a variety of factors when hiring staff to manage their procurement models. The following questions can help them think through their choices.

- 1) How many procurement staff persons will you need?
- 2) Where will your procurement staff be based?
- 3) Will your field agents be from targeted area or outside targeted area?

#### PROCUREMENT COORDINATOR POSITION

4) What skills, knowledge and experience are needed for your procurement coordinator (*either coordinator of contract farming model or procurement hub\**)?

*\*in some cases procurement hub coordinator(s) can be independent “service providers” to the company and not direct employees.*

5) What will be the key duties and responsibilities of your procurement coordinator?

#### FIELD AGENTS

6) What skills, knowledge and experience is needed for your field agents?

7) What will be the key duties and responsibilities of your field agents?

8) What is included in your procurement staff remuneration package?

#### **QUESTION GUIDE 5.1: *Communicating with Farmers***

In directed procurement systems (hubs or contract farming) it is important for the company to maintain close communication with farmers in order to:

- inform producers adequately and in a timely fashion about changes and issues such as new or additional buyer requirements, quality concerns, price fluctuations, etc.;
- identify and address sensitive issues that, if not addressed could jeopardize the scheme and relationships;
- establish trust between both parties and contribute to farmer loyalty to the company.

1) What do you wish to communicate to farmers?

2) How will you communicate with the farmers?

3) How will you ensure that you have two-way communication with farmers?

#### **QUESTION GUIDE 6: *Developing Management Information Systems***

Directed procurement models require an appropriate management information system (MIS); which includes tools and processes for record keeping, monitoring and communication. Companies should develop (or purchase) a system based on essential information they need. Resist developing or buying a system too complicated or provides information not really needed. The following questions can help companies to think through, research and develop strategies for collecting necessary data and information.

1) What type of data and information is needed to manage your procurement models?

2) Who will use the data and information collected?

3) What type of data and information is needed on individual farmers?

4) What type of data and information is needed on intermediaries?

5) What type of data and information is needed for input distribution?

6) What type of data and information is needed for your procurement operations?

- 7) What type of data and information is needed to measure farmer productivity?
- 8) What type of data and information is needed to monitor field agent activities?
- 9) What systems will you use to collect, manage and process your data and information (computer applications, software, spreadsheets, manual registers, etc.)?



**APPENDIX 3:**

**Directed Procurement Model Costing Spreadsheet**

As described in Section 2.1, the Costing Spreadsheet is an Excel file with several worksheets (tabs) that correspond to the different components of a procurement model. These tabs are presented in summary form below, along with the specific line items that are costed. Additional details can be seen in the excel spreadsheet itself.

**Figure 9. Individual Tabs for Directed Procurement Model Costing Spreadsheet**



**Tab 1: Local Intermediary and Farmer Selection**

**Activity Description:**

1	Orientation/Introduction meetings with farmers and potential local intermediaries
<i>Variable Costs</i>	
	food and snacks
	event materials
	venue rental
<i>Fixed Costs</i>	
	Banner
	Consultants (technical resource people)
	Travel
<b>Total Orientation/Intro Meetings (variable + fixed costs)</b>	

**Tab 2: Input Supply**

**Activity Description:**

No	Line Item and Description
2.1	Seeds
2.2	Fertilizer
2.3	Crop Protection
2.4	Other (irrigation, land preparation, harvest, etc.)
2.5	Transportation costs to farmers
<b>Total Input Supply Costs</b>	

**Key Assumptions**

A	Targeted procurement volume (kg)
B	Estimated production area size (ha.)
C	Production per hectare
D	Estimated no. of farmers in procurement

**2.1 Background Assumptions for Seed**

E	Amount of seed needed per production area (kg./ha)
F	Cost of seed per KG

G	Total Seed requirement (B x E)
H	<b>Total Cost of Seed (F x G)</b>
	<b>Revenue from Sale of Seeds (if applicable)</b>
	<b>Net Cost of Seeds</b>

<b>2.2 Background Assumptions for Fertilizer</b>	
I	Amount of fertilizer needed per production area (ha.)
J	Cost of fertilizer per bag
K	Total Fertilizer requirement (B x I)
L	<b>Total Cost of fertilizer (J x K)</b>
	<b>Revenue from Sale of fertilizer (if applicable)</b>
	<b>Net Cost of Fertilizer</b>

<b>2.3 Background Assumptions for Crop Protection*</b>	
M	Amount of crop protection needed per production area (ha.)
N	Cost of crop protection per kg. (or other unit)
O	Crop protection requirement (B x M)
P	<b>Total Cost of crop protection (N x O)</b>
	<b>Revenue from Sale of Crop Protection (if applicable)</b>
	<b>Net Cost of Crop Protection</b>

\*additional subtables can be prepared as needed

<b>2.4 Other (irrigation, land preparation, harvesting, etc)</b>	
to be determined	

<b>2.5 Input Transportation costs to farmer distribution point</b>	
	Input
	Seed
	Fertilizer
	Crop Protection
	<b>Total transportation costs</b>

**Tab 2a: Seed Production Costs**

**Activity Description:** [If applicable]

**Key Assumptions**

	Targeted seed production volume (kg)
	Estimated seed production area size (ha.)
	Seed Production per hectare
<b>2a.</b>	<b>Seed Production Costs</b>
	Seed
	Fertilizer
	Crop Protection
	Irrigation
	Land rental
	Labor required
	Machinery Costs (power tiller, harvester, etc.)

	Storage costs
	Other (bags, tools, etc.)
<b>Total Seed Production Costs</b>	

**Tab 3.0: Training and Technical Support**

Activity Description:

No	Line Item and Description
3.1	Training Materials Development
3.2	TOT for Training Teams
3.3	Farmer-level training and coaching sessions
3.4	Local intermediary-level training and meetings
3.5	Demonstration Plots
3.6	Field Days
3.7	Trial Plots
<b>Total Training and Technical Support</b>	

3.1	Training Materials Development
	Travel for participants
	Lodging for participants
	Consultants (technical resource people)
	Part-time (Company staff)
	Venue rental
	Publication/printing of materials
<b>Total Training Materials Development Costs</b>	

3.2	TOT for Training Teams
<i>Variable Costs</i>	
	Food and snacks
	Handouts- Training Materials
	Note Book, Pen, Folder
	Transportation (for non-resident participants)
	Lodging for participants
	Consultants (technical resource people)
	Part-time (Company staff)
	Venue rental
<i>Fixed Costs</i>	
	Banner
	Trainers
	Travel of Trainers (food and lodging)
	Other
<b>Total TOTs for Training Teams (variable + fixed costs)</b>	

3.3	Farmer-level training and coaching sessions
<i>Variable Costs</i>	
	Food and snacks
	Handouts- Training Material
	Note Book, Pen, Folder
	Transportation (for non-resident participants)

	Venue rental (incl. chairs, etc.)
<b>Fixed Costs</b>	
	Banner
	Trainers
	Other
<b>Total Farmer-level Training (variable + fixed costs)</b>	

<b>3.4</b>	<b>Local intermediary-level training and meetings</b>
<b>Variable Costs</b>	
	Food and snacks
	Handouts- Training Material
	Note Book, Pen, Folder
	Transportation (non-resident participants)
	Lodging (if applicable)
	Venue rental (incl. chairs, etc.)
<b>Fixed Costs</b>	
	Banner
	Trainers
	Travel of Trainers (food and lodging)
<b>Total Local intermediary-level training and meetings (variable + fixed costs)</b>	

<b>3.5</b>	<b>Demonstration Plots</b>
<b>Variable Costs</b>	
	Seed
	Fertilizer
	Crop Protection
	Irrigation
	Banner/Sign board
	Labor required
<b>Fixed Costs</b>	
<b>Total Demo Plots (variable + fixed costs)</b>	

<b>3.6</b>	<b>Field Days</b>
<b>Variable Costs</b>	
	Transportation cost for farmers
	Refreshments
	Pavilion Construction & Rental
	Microphone & PA System
<b>Fixed Costs</b>	
	Banner
	Trainers
	Travel of Trainers (food and lodging)
<b>Total Field Days (variable + fixed costs)</b>	

<b>3.7</b>	<b>Trial Plots</b>
<b>Variable Costs</b>	
	Seed
	Fertilizer

	Crop Protection
	Irrigation
	Sign board
	Labor required
<b>Fixed Costs</b>	
<b>Total Trial Plots (variable + fixed costs)</b>	

**Tab 4.0: Collection and Logistics**

**Activity Description:**

<b>4</b>	<b>Collection and Logistics</b>
<b>No.</b>	<b>Line Item and Description</b>
4.1	Purchase of Crops
4.2	Commission for local intermediaries
4.3	Local Storage costs
4.4	Gunny Bags
4.5	Weighing Scales
4.6	Moisture Meters
4.7	Local intermediary collection point (PH) construction or rental
4.8	Transportation costs from collection point to company warehouse
4.9	Financing costs for procurement (interest expense)
4.10	Other
<b>Total Costs for Collection and Logistics</b>	

**Tab 5.0: Staffing**

**Activity Description:**

<b>No</b>	<b>Line Item and Description</b>
5.1	Pre-season Preparation Activities
5.2	Planting and Monitoring Activities
5.3	Procurement Activities
5.4	Other Activities [TBD]
<b>Total Staffing Costs</b>	

**KEY ASSUMPTIONS**

<b>5.1</b>	<b>Pre-season Preparation Activities</b>
	Company Procurement Coordinator
	Company Technical Specialists
	Company Agronomist
	Staff Transportation Costs (fuel, maintenance, etc.)
<b>Total Staffing for Preseason Preparations</b>	

<b>5.2</b>	<b>Planting and Monitoring Activities</b>
	Company Procurement Coordinator

	Company Technical Specialists
	Company Agronomist
	Staff Transportation Costs (fuel, maintenance, etc.)
<b>Total Staffing for Planting and Monitoring</b>	

<b>5.3</b>	<b>Procurement Activities</b>
	Company Procurement Coordinator
	Company Technical Specialists
	Company Agronomist
	Staff Transportation Costs (fuel, maintenance, etc.)
	Staff Lodging and Meal Costs
<b>Total Staffing for Procurement</b>	

<b>5.4</b>	<b>Other Activities [TBD]</b>
	Company Procurement Coordinator
	Company Technical Specialists
	Company Agronomist
	Staff Transportation Costs (fuel, maintenance, etc.)
<b>Total Staffing for Procurement</b>	

**Tab 6.0: Field Operations Costs**

Activity Description:

<b>6</b>	<b>Field Operations Costs</b>
<b>No.</b>	<b>Line Item and Description *</b>
6.1	Rent
6.2	Utilities
6.3	Communication costs
6.4	Refreshments
6.5	Motorcycles (depreciated)
6.6	Printing & Stationeries [see Worksheet 6a]
6.7	Office Equipment (depreciated)
6.8	Furniture (depreciated)
<b>Total Field Operations Costs</b>	
<i>* these can be broken down into sub-tables as needed</i>	

## APPENDIX 4:

### Example MOU for Company participating in SPE

#### MEMORANDUM OF UNDERSTANDING

(for conducting procurement model strategic planning exercise)

Between

[Name of Agribusiness Company]

&

[Rice and Diversified Crop Activity / RDC]

This document constitutes an agreement between **[name of agribusiness company]** (an agribusiness company in Bangladesh with address at: \_\_\_\_\_) and **the Rice and Diversified Crop Activity/ RDC** (a USAID-funded international development program with address at \_\_\_\_\_).

#### Objective

The objective of this MOU is to express the willingness of both parties to engage in a “procurement model strategic planning exercise” to identify the policies, strategies, operations and costs related to **[name of agribusiness company]**'s proposed “directed procurement model” for **[name of crops]** in **[name of geographic region in FtF zone]** during the **[insert date/season]** season. The exercise will cover all components of the procurement operations including company staffing, capacity building/TA to farmers, collection and aggregation, input supply, pricing for purchases from farmers, and credit (if any). The results of this exercise will help the company to: a) determine the most appropriate procurement model for its proposed crops and; b) successfully plan and implement its procurement operations. The results of the exercise may also allow both parties to explore additional forms of collaboration.

#### Roles and Responsibilities

Under this agreement, **[name of agribusiness company]** agrees to:

- Make senior staff (*responsible for company procurement activities and with management decision making authority*) available to participate in the strategic planning activity (*estimated at 5-6 days which may be spread out over a two-week period*).
- Collect all information needed to complete the planning exercise

Under this agreement, **RDC** agrees to:

- Provide staff who will facilitate the strategic planning exercise with the company using tools such as procurement model question guides and costing spreadsheet
- Assist in documenting the procurement model strategic plan and costing exercise

In order to carry out and fulfill the aims of this agreement, each organization will appoint an appropriate person to represent their organization and to coordinate the implementation of activities. The following persons are signing the Memorandum of Understanding:

[Agribusiness company representative]  
[Agribusiness company]  
[Position]

[RDC representative]  
[Rice and Diversified Crop Activity]  
[Position]

Signature and date:

Signature and date:

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