Rwanda Customized Module

Agricultural Entrepreneurship

Student Guide

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In 2016 the Global Forum for Rural Advisory Services (GFRAS) developed the New Extensionist Learning Kit (NELK) modules https://www.g-fras.org/en/knowledge/new-extensionist-learning-kit-nelk.html on functional skills for individual extension staff, in response to the demand from its network. GFRAS continues to develop new set of modules covering different technical skills. The Learning Kit contains modules designed for self-directed, face-to-face, or blended learning and can be useful resource for individual extension field staff, managers, and lecturers.

Responding to the growing demand from extension and rural advisory service providers worldwide to adapt the modules to the local contexts, GFRAS has embarked on the journey to support the NELK Customization process. NELK Customization is understood as a guided process as permitted by GFRAS aimed as adapting the original module to suit the local context. Details on this process can be found on the NELK Customization Guide.

This Agricultural Entrepreneurship Module is development as part of the NELK Customized package adapted from Module 11 Agricultural Entrepreneurship.

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1. Before you begin

1.1 General instruction

This module should be used in conjunction with the workbook provided. As you read through the module, you will find different visual features that are designed to help you navigate the document.

![Activity & DVH Study](image)

![Did you know](image)

![Example](image)

![Keywords](image)

![7DNHQRWH](image)

**Figure 1:** Icons used to highlight important information throughout the manual

1.2 Activities

Each session in the module will contain various types of activities:

- A **pre-assessment** is to be completed before reading through the module overview and introduction, and a **post-assessment** is to be completed once the entire module has been covered. This will measure the degree to which your knowledge has improved by completing the module.

- Each session contains one or more **session activities** to be completed in the workbook, where indicated in the module. These activities measure your ability to recall and apply theoretical knowledge.
At the end of each study unit a **summative assessment** needs to be completed. These assessments are longer than the session activities and will test your knowledge on all the work within the study unit.

### 1.3 Assessment instructions

Keep the following in mind before doing any of the assessments:

- All assessments are to be completed in the provided workbook.
- The manual contains all relevant information you will need to complete the questions, if additional information is needed, such as the use of online sources, facilities will be made available.
- Work through the activities in a study unit and make sure that you can answer all the questions before attempting the summative assessment. If you find that you are not certain of any part of the training material, repeat that section until you feel confident.
- The summative assessment must be done under the supervision of your trainer at the end of your learning period.

### 1.4. End users

Rwandan extension agents that face and interact with lead

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<table>
<thead>
<tr>
<th>Number</th>
<th>Rwandan Extension Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cell development officer (CEDO)/IDP</td>
</tr>
<tr>
<td>2</td>
<td>Sector agronomist</td>
</tr>
<tr>
<td>3</td>
<td>Sector livestock officer</td>
</tr>
<tr>
<td>4</td>
<td>District agronomist</td>
</tr>
<tr>
<td>5</td>
<td>District livestock officer</td>
</tr>
<tr>
<td>6</td>
<td>District veterinary officer</td>
</tr>
<tr>
<td>7</td>
<td>District director of agriculture, livestock and environment</td>
</tr>
<tr>
<td>8</td>
<td>Veterinary pharmacist</td>
</tr>
<tr>
<td>9</td>
<td>Crop/agronomic advisor for a private company</td>
</tr>
<tr>
<td>10</td>
<td>Crop/agronomic advisor for an NGO</td>
</tr>
<tr>
<td>11</td>
<td>Other field staff for an NGO</td>
</tr>
<tr>
<td>12</td>
<td>Farmer field schools facilitator</td>
</tr>
<tr>
<td>13</td>
<td>Farmer-promoter</td>
</tr>
<tr>
<td>14</td>
<td>Other</td>
</tr>
</tbody>
</table>
Agricultural entrepreneurship

Module outcomes

After completing this module, you will be able to:
1. Understand the concept of agripreneurship;
2. Evaluate the key skills involved in running a business;
3. Identify markets, map resources and conduct business planning;
4. 8QGHUWVQGWKHEDVLSQLQFRGRLQIRUQDQFLDO management, sales and risk management;
5. 3HUIRUPRSHUDWLRQVQGQDQFLDOUHFRUQHSLQ; and
6. Build a business and manage relationships.

Module overview

Over the past 30 years, there has been a major shift in agricultural markets and the international trade of agricultural products. The world is moving from local and national markets towards a global system of trading, which means that neighbouring farmers working on small plots of land may be competing with large industrial farmers from another country in a single marketplace.

In developing countries, there is increasing pressure on farmers to commercialise their operations. This change is driven by the following factors:
- Declining land size, which means that farmers need more intensive production systems to support their family needs;
- Urbanisation and rapid population growth and
- General modernisation, which means that farming families need to generate larger incomes to support their family needs and expectations in terms of medical support, education,
transport, communication and to cover the rising costs of their cultural traditions.

In order to meet the drive for greater commercialisation, extensionists need to develop new skills to support the agripreneur needs of farmers and other actors in the value chain. For the farmer, this includes working with individual farmers to develop farm plans, as well as working with various levels of farmer organizations—from groups to cooperatives—in areas of market analysis, financing, sales and building business opportunities for farming clientele.

New extensionists also need to take on a more market focused and systems approach to work in ways that strengthen the roles and opportunities of other actors in a value chain, such as farm workers, input suppliers, warehouse managers, transport companies and financial services, so that they can all work towards a common business goal.

This module familiarises extensionists with the key terms and concepts required to introduce agricultural entrepreneurship to farmers, farmer groups and agricultural businesses and to support improved productivity and market engagement. The module provides a practical approach to improving the knowledge, skills and attitudes of extension agents as they seek to help the farming community take on new enterprise skills.

Agripreneur: An individual who starts, organises and manages a business venture focusing on the agricultural sector.

Value chain: A set of connected actors that work together to add value to a product and increase efficiency and competitiveness, while linking producers to processors and markets.

Supplier: A company or a business that supplies goods or services to another business, in this case a farming operation or an agripreneurship.
Module introduction

Approximately 1.5 billion people are engaged in smallholder agriculture across the world. This mainly rural community includes 75% of the world’s poorest people whose food, income and livelihood depend on agriculture. Despite their important role as food producers, the commercial prospect for millions of poor smallholders remains challenging. There is a growing perspective that better market engagement is a critical element in improving the livelihood prospects of rural families. However, poverty is endemic to this community and, in order to support this farming sector, several global agencies have renewed their investments in smallholder agriculture, but with a stronger focus on upgrading the agripreneur opportunities for farmers.

To stay relevant and meet the needs of the rural community, the new extensionist must acquire new skills in business support. The methods used will depend on the scale of the business venture involved. With the more pluralistic nature of extension, business services will be provided in a combination of free and fee-based-service business models.

Smallholder: Farmers who own a small plot of land on which they grow self-sustaining crops, and who rely mainly on family labour.

Endemic: A condition that is regularly found in a particular area among particular people.

Pluralistic extension: Extension that is characterised by the inclusion, interaction and coordination of multiple public and fee-based providers, services and information sources.

Complete the pre-assessment in your workbook.
Study unit 1: Introduction to agripreneurship

Study unit outcomes
After completing this study unit, you should be able to:
- Understand the role of the new extensionist in agripreneur development;
- Identify the clients of agripreneurship; and
- Define a business idea.

Study unit overview
There is an increasing awareness in extension work that agriculture should be seen as a commercial activity. Within this context, farmers are seen as agripreneurs and farmer groups or cooperatives are seen as enterprises. This means that the goal of extension services will be to enhance profitability and sustainable productivity. In this way, the focus of extension needs to expand from focusing on poverty reduction to include value capture and wealth creation.

In this study unit, you will be introduced to agricultural entrepreneurship, the role of the extensionist in agripreneur development, agricultural entrepreneurs and successful business ideas.

Commercial activity: Activity that involves trade and trading.
Enterprise: Any business operation or organization that provides...
Value capture: The process of maintaining a percentage of the value provided in every transaction.
Study unit introduction

Entrepreneurship refers to the capacity to take risks, develop, organise and manage a new business venture in order to make a profit. **Agricultural entrepreneurship (agripreneurship)** relates to marketing and producing various agricultural products, as well as agricultural inputs. Most smallholder farmers produce food for their families, but at the same time, almost all smallholders sell a portion of their produce into various markets and that level of market sales is growing. Therefore, smallholder farmers are working towards being, or already are, agricultural entrepreneurs. All types of entrepreneurship have the common goal of making a profit. Entrepreneurs may work alone and keep the profit of their ventures for themselves, or they may choose to become part of a farmer group where they invest in their production system as an individual but sell collectively. Farmers are increasingly entering into regular business relationships with other value chain partners. Over time, farmers tend to shift from working as individuals towards some form of cooperative or contractual marketing approach and, if successful, they go on to create medium to large-sized businesses.

**Agripreneurship:** Entrepreneurship that relates to the marketing and production of various agricultural products, as well as agricultural inputs.

**Agricultural inputs:** Products or resources that farmers use in farm production, e.g. seed, fertilisers and agro-chemicals.

**Contractual marketing:** A marketing approach in which companies at different levels of the value chain (e.g. production and distribution) work together to achieve greater financial advantages than they would have on their own.
Session 1.1: The role of the extensionist in agripreneur development

Session outcomes
After completing this session, you should be able to:
- Understand why agripreneur development is important;
- Identify the clients of agripreneurship;
- Identify the characteristics of a successful entrepreneur;
- Identify the criteria for a successful business;
- Outline the elements to consider when starting a business; and
- Understand free service methods and fee-for-service methods for business upgrading for farmers or farmer groups.

Introduction
In order to meet the challenges of becoming agricultural entrepreneurs, farmers—particularly smallholder farmers—and farmer groups need to expand their understanding of markets and economic opportunities. In this way, they should be able to achieve success in running their farms, groups and cooperatives as sustainable and profitable businesses. Even though farmers may be innovative and entrepreneurial, they often lack the know-how to engage with markets on a consistent basis and they need the advice and support of extension services to shift from opportunistic sales to regular and consistently profitable sales, based on the selection of sales opportunities that support business goals.

Opportunistic sales: Sales that are based on responding to any sales opportunity that becomes available.
The importance of agripreneur development

In research that was conducted in 2015, the World Bank established that:

- Only 10%–12% of small farmers were able to access vital extension services, mainly because large farms were crowding out the smaller farmers' access to key benefits;
- Small farmers focused on their own livelihood needs first and not on their farms as enterprises; and
- Any extension support that small farmers received was geared towards improving productivity and not towards improving profitability to make sure that their livelihoods were sustainable.

Based on this information, it was decided that a new perspective to extension services and practices needed to be introduced that involves the following changes:

- Agriculture should be seen as an enterprise and the farmer as an entrepreneur;
- The perspective of extension services should move from poverty reduction to wealth creation; and
- The goal of extension services should expand from productivity enhancement to include profitability enhancement.

Rural development is increasingly linked to entrepreneurship, which is seen as a development intervention that could promote and speed up the rural development process. Furthermore, institutions and individuals agree that there is an urgent need to promote rural enterprises. Apart from the potential benefit of offering employment, rural entrepreneurship is seen as a way of improving the quality of life for individuals, families and communities and sustaining a healthy economy and environment. The main idea was to get the farmers to think as entrepreneurs, then to learn as entrepreneurs and, finally, to perform as entrepreneurs.
Entrepreneurship is becoming a key factor in the survival of smallholder farms that have to keep up with the demands of a changing and increasingly complex global economy.

How is agripreneurship different from traditional extension methods?

Traditionally, most extension agents, especially those supported by Governments and NGOs have focussed on helping farmers to work in groups, to grow more produce and to develop agri-enterprise options with a cooperative approach.

Since the 1990s, much of the extension work has included a marketing component to their work with the aim of linking farmers to markets. The marketing approach has, however, mainly focused on achieving economies of scale through aggregating produce to sell through collective group marketing.

The farmer group support model has a proven track record and should not be considered as outdated, because this approach works to the advantage of millions of farmers around the world. However, the farmer cooperative model is not the only approach and this guide offers a complementary approach which seeks to support the more individualistic agripreneurs.

This approach is considered catalytic, especially within value chains, and the aim is to foster new business opportunities which create greater value and more jobs.

In Rwanda, we have seen another model called “Village agent business model” which involves Lead farmers to be part of the extension services delivery and to facilitate aggregation of produce. They receive incentives in the form of commissions.
business ambitions more readily. Fostering more agripreneurs is therefore a means to support latest trends in extension work. The role of some extension agents is then to work in ways that support agriculture as a fully commercial activity. The value of extension in agripreneurship is to help agripreneurs to:

- Create more agricultural businesses;
- Help agripreneurs to modernise their local farming community; and
- Provide more opportunities for more farmers to access better pay to support better lives.

Advisory services need to support this new set of clients to take on new opportunities in new ways.

**The role of extension agents working on agripreneur development**

In order to meet the drive for greater commercialisation, farmers need the support and advice of extension agents. Extensionists can work with individual farmer-entrepreneurs and with farmer groups, associations and cooperatives, in order to support them in:

- Conducting market analyses;
- Working in value chains with partners;
- Developing farm plans;
- Financing;
- Sales;
- Building business opportunities for farming clientele; and
- Developing skills and competencies required for successful entrepreneurship.

Agripreneur development is a complex task that involves working with actors within a market chain and linking to business services supporting the value chain. In this way, the success of an agripreneur generally requires working with others and being
and governments are increasingly turning to pluralistic advisory service approaches.

**Pluralistic extension and extension agents working with other agents**

- Addresses the need for specific extension services for specific contexts, economic enterprises, livelihood operations and for different farmer categories;
- Addresses the wide variety of demands, while making better use of the variety of service providers available;
- Develops better services through cooperation between community-based, public and private sector actors;
- Shifts the coordination and accountability between extension services and other service providers to the level of the farmers, farmer groups and organizations; and
- Provides a system in which the quality and content of extension services are more responsive to the needs and priorities of farmers, e.g. some services focus on enhancing the social inclusion of vulnerable groups and others focus on developing and empowering the value chain.

In pluralistic extension services, the extension agent may team up with farmers and lead farmers, farmer groups and associations,
local volunteer agents, commission agents, business support

Farmers and lead farmers

Farmers play a central role in agricultural development and transformation. They grow crops or raise livestock and they, or their family members, do the initial processing (harvesting, drying, sorting, etc.). Farmers can sell their products directly to consumers (often other people in their village) or to traders.

**Lead farmers** are farmers with agricultural expertise. They are often the more progressive farmers with a higher level of education than their peers, which means that they are likely to be literate and numerate, although this is not a general rule. Based on local respect and their status as a leading member of the local farming community, lead farmers often play a dominant role in extension services.

Farmer groups, cooperatives and associations

Farmer groups are primarily organizations of farmers, typically informal in nature with a membership of 15–50 farmers. Cooperatives are larger, second-order and more formal associations that look after the interests and causes of farmers. Farmer organizations, which are often community-based, can be grouped into two types: resource-orientated organizations and market-orientated organizations.

**Resource-oriented farmer organizations**

This type of farmer organization deals mainly with production inputs needed by the members (farmers) in order to enhance their productivity. Resource-oriented farmer organizations are:

- Generally small organizations, with well-defined geographical areas;
y Predominantly concerned with access to inputs; and
y Typically focused on a small number of the most commonly
grown products in their area.

**Market-oriented farmer organizations**

These farmer organizations have taken on a more commercial role and they often specialise in a single *commodity*. They are typically focused on a small number of the most commonly grown products in their area. These farmer organizations have taken on a more commercial role and they often specialise in a single *commodity*. They are typically focused on a small number of the most commonly grown products in their area. These farmer organizations have taken on a more commercial role and they often specialise in a single *commodity*. They are typically focused on a small number of the most commonly grown products in their area.

Commission agents

As farmers make the shift towards more commercial farming, they require access to improved agricultural inputs, such as new varieties of improved seed, fertilisers, credit and agro-chemicals. Input suppliers are steadily expanding their input supply outlets and networks to meet this demand. In order to accelerate the process of marketing inputs, input suppliers are steadily expanding their input supply outlets and networks to meet this demand. In order to accelerate the process of marketing inputs, input suppliers are steadily expanding their input supply outlets and networks to meet this demand. Input suppliers are steadily expanding their input supply outlets and networks to meet this demand. Input suppliers are steadily expanding their input supply outlets and networks to meet this demand. Input suppliers are steadily expanding their input supply outlets and networks to meet this demand. Input suppliers are steadily expanding their input supply outlets and networks to meet this demand. Input suppliers are steadily expanding their input supply outlets and networks to meet this demand. Input suppliers are steadily expanding their input supply outlets and networks to meet this demand. Input suppliers are steadily expanding their input supply outlets and networks to meet this demand. Input suppliers are steadily expanding their input supply outlets and networks to meet this demand. Input suppliers are steadily expanding their input supply outlets and networks to meet this demand.

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**Commodity:** A raw material (e.g. copper) or an agricultural product (e.g. coffee) that can be bought and sold.

**Capital:** Money or other assets that farmers have available and that they can use to contribute to particular cause or invest in a business effort.

**Bulking:** Storage of a large quantity or volume of a product.
Business development services

Agripreneurs and smallholder farmers often face financial and non-financial factors that have a negative influence on their business growth, e.g. low educational level, inadequate technical skills, lack of information and poor market access. **Business development services** assist these farmers by providing services that help them to increase their productivity and profitability, as well as their competitiveness in the market.

With the growing pluralism of extension agencies, farmers are gaining access to business development services through different types of supporting agencies. To meet the business needs of farmers and farmer organizations and to enable them to compete more effectively in target markets, the new extension agencies or more diversified service industries must build their ability to help farmers gain business skills, particularly in the following areas:

- Analysing market opportunities and market demand;
- Mapping market chains;
- Making production and demand led decisions for product(s) selection;
- Defining and recording production costs;
- Undertaking profitability analysis;
- Keeping financial records;
- Evaluating which business development services are needed to improve their competitiveness;
- Developing a common business vision for investment; and
- Both preparing and investing in a business plan.

As the business skills of farmers and their organizations become more sophisticated, the groups will need to learn more about:

- Meeting product specifications at a profit;
- Negotiating new business models with chain partners;
Providing business development services requires organised and cooperative actions—which are focused on creating favourable business environment for agripreneurs—between all stakeholders in the value chain.

Table 1 shows the categories that business development services can be divided into.

**Table 1: Business development service categories**

<table>
<thead>
<tr>
<th>Service category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology and product development</td>
<td>Services that support research and identify new ways to produce, PHH, process and market agricultural products, e.g. new mobile information systems and improved, drought-resistant seed.</td>
</tr>
<tr>
<td>Training and technical assistance</td>
<td>Services that develop the capacity of farmers and enterprises to plan and manage their operations better and to improve their technical expertise.</td>
</tr>
<tr>
<td>Input supply</td>
<td>Services that help farmers to improve their access to, and use of raw materials and production inputs, such as seeds, fertiliser, agro-chemicals and tools. These services also facilitate the linkages between farmers and suppliers and enable suppliers to expand their outreach to farmers and suppliers.</td>
</tr>
<tr>
<td>Service category</td>
<td>Description</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Finance</td>
<td>Financial service providers offer credit to smallholder farmers and agri-entrepreneurs, usually in the form of loans, (for example, from formal service providers such as commercial banks) and informal service providers, such as money lenders and savings cooperatives. Financial services can also include supplier or buyer credits, warehouse equity capital.</td>
</tr>
</tbody>
</table>
| Market access    | Services that:  
|                  | y Identify and establish new markets for smallholders and agri-entrepreneurs;  
|                  | y Facilitate linkages between all actors in a given market;  
|                  | y Enable buyers to expand their outreach to, and purchases from rural producers; and  
<p>|                  | y Help entrepreneurs develop new value-added products and meet specifications. |
| Infrastructure   | Services that establish sustainable infrastructure and distribution networks that enable producers to increase production, sales refrigeration and storage, processing facilities, transport systems, loading equipment, communication centres, improved ports, and expanded road and rail routes. |</p>
<table>
<thead>
<tr>
<th>Service category</th>
<th>Description</th>
</tr>
</thead>
</table>
| Policy           | Policy service providers:  
|                  | y Conduct research and analysis to improve overall terms of trade, strengthen sectoral governance and correct any power imbalances;  
|                  | y Identify and reform policies and regulations that restrict smallholder farmers and agri-entrepreneurs; and  
|                  | y Facilitate the organization of businesses, donors, government policies. |

In terms of payment, business development services are supported in the following three ways:

- **Free public services**, which are financed by government, NGOs or public sector agencies;
- **Specialised fee-based services**, which are provided by private and specialised companies at a cost; and
- **Embedded services**, which are included in a commercial transaction in which the farmer or agripreneur does not pay direct fees for the embedded services, but the cost of the services is included in the price paid for a particular product, e.g. quality specifications and production tips from a buyer to a small-scale supplier.

**1*2₀HOGDJHQWV**

Over the past 20–30 years, there has been a rapid establishment of NGO-based extension agents. Although the NGO field agents do not have as broad a coverage as the government extension systems, they often have better resources and they have more...
The accountability and management expertise of the international NGOs and contracting companies for short-term interventions has often favoured them as implementing partners for externally funded agricultural projects. The contracting companies’ access to resources has enabled them to strengthen and specialise their extension services.

Most government extension agents still focus their efforts on basic production systems, whereas many NGO field agents have broadened the types of services to include issues such as financial education, savings and loans, credit, business planning, nutrition, farm plan diversification, youth engagement and gender. This complementary service can provide more balanced services to the farming community.

Private sector service providers

There are various forms of private sector extension services, such as those paid by producers and those paid by a lead firm. Private sector field agents are paid by a farmer or a farmer organization to provide specialised training targeted at a specific product or sector. These extension agents work with farmers to help them sell higher volumes of quality produce to meet market requirements. In most cases, the more commercial farmers pay for these services to increase their share of produce that will achieve the highest premium prices.

When lead firms offer private extension services to farmers, it is often part of a contractual sales agreement. The extensionist is paid to work with farmers or farmer organizations to enhance production and quality. The field agents providing these services are assessed by the lead firm in terms of their ability to improve the supply of goods from the farmers. Farmers are keen to access this type of support.
because it provides them with knowledge, new technologies, access to more reliable markets and often credit, which enhances their ability to increase their income through the sales of higher value goods.

**Fee-based agents**

As NGOs transition their roles from a large, paid field force to a lighter and more sustainable approach, there has been a shift to the use of commission agents and fee-based service providers. In this case, field agents are trained by NGOs to become local knowledge brokers, offering their services to the farming community at a fee.

In the past, farmers have been reluctant to pay for services that were also offered by the government for free. However, farmers now realise that they are unlikely to receive the levels of support they need from government services, as there are not enough government agents in most countries and the services offered by the government are limited in scope. It has also become clear that farmer organizations need support from a range of service providers if they are to run competitive enterprises.

As such, there is a trend towards providing linkages, information or knowledge sources, e.g. technical knowledge, market insights and research results and funding, by an intermediary (an organization or a person) that develops relationships and networks between or among the creators (producers) and users of knowledge.
Financial education and links to credit;
Farm business planning;
DUPHUJURXSQDQFLQJ
Advanced production advice.

These services are linked to greater commercialisation and farmers are willing to pay for such support to enhance their related payments of fee-based agents are typically based on the sales of goods and services.

Identifying the clients of agripreneurship

It is important for extensionists to know who their agripreneurship clients are. They have to identify their entrepreneurship clients within their farmer client base. There to identify potential agripreneurs based on their assets, natural resources, farm size, expertise, technology use, access to markets, level of organization, access to agricultural services and the types of products that they produce. The categories of

y Rural World 1: Farmers who are globally competitive, embedded in agri-business, commodity producers and processors, politically connected, linked to formal markets and often export-driven;
y Rural World 2: Locally orientated farmers with access to and control of land, multiple enterprises, who are often undercapitalised and declining in terms of trade; and
y Rural World 3: Farmers known for their fragile livelihoods, limited access to productive resources, multi-occupational migrants straddling rural and urban residencies, unskilled and uneducated and dependent on low-waged, casual family labour.

Within these larger segments of farmers, the farmer WSHVGLVFVXVHHGEHORZDUHLQYROHYGLOKWGHQWLQFDWRQI entrepreneurs.
Women farmers

The economic importance of women farmers and their role in increasing household income is often overlooked and so is their potential as clients of extension services and, therefore, potential clients for entrepreneurs. Women farmers often experience a unique set of challenges, including the availability of labour, lack of authority and decision making within the family, which impacts on their farming system options.

Small-scale family farmers

Small-scale family farmers are characterised by limited resources in terms of land (generally less than two hectares), water and money. These farmers are an aging population, they are often not well educated and, therefore, they are a more challenging set of clients for the extension agent when it comes to communicating with them about potential entrepreneurship.

Figure 1 highlights the fact that within many farming communities, most smallholder farmers are net buyers. Therefore, there are few smallholder farmers who have the capital, capacity and desire to become agripreneurs. However, smallholder farmers are an important farmer segment as they make up the bulk of farmers in a country. To support these IDUPHUVH[WHQVLRQDJHQWVQHHGWRRQGZDVRLGHQWLILQ] the catalytic farmers, and then develop methods to foster their business ambitions.
Small-scale family farmer: Self-sustaining farmers who focus on growing enough food to feed their families with occasional sales of goods to market. This is a group in transition and in many cases, the farm is a complementary source of food and income, but also essential for their livelihoods.

Medium-scale farmers

Medium-scale farmers are key contributors to the production and marketing of major food crops such as cereals and oil seeds. They typically have access to at least 2–10 hectares of land, may have a primary school education and have better access to credit and other resources than small-scale farmers. Because of their higher socioeconomic status in the community, these farmers are often more progressive and may be more easily approached about new business enterprises. These farmers are often in positions of leadership within farmer organizations.
Commercial farmers

Large-scale commercial farmers usually do not make use of public extension services. They have access to resources, such as capital, marketing information, technologies and **Information and Communications Technology (ICT)** tools. It is likely that commercial farmers are entrepreneurs and that they pay for specialised services which will include market development.

Information and Communications Technology: The integration of communication devices, applications and services, including computers and computer networks, mobile phones and television to enable users to access, store, transfer and manipulate information.

Farmer Cooperatives

In addition to the farmers, there are also opportunities to develop the business skills of target farmer organizations and or the marketing managers who work within these organizations. Most farmers are engaged with some sort of farmer organization and much of the support work done by extension agents is to help farmers come together in groups to improve their access to learning, technologies and markets.

As shown in Figure 2, there is a steady progression of farmer organizations from individuals, through small groups to associations and farmer cooperatives who may become businesses. As these organizations become more sophisticated in their operations, they also take on personnel to business management. There may be interesting opportunities for extension agents/services providers to support the enterprise whole improves their competitiveness.
In addition to farmers, a growing number of agripreneurs are found off farm, these are often processing companies who may have a farm to supply some of their raw materials. This is illustrated in Figure 3. These firms typically buy a considerable amount of their raw materials from other farmers. This category of agripreneur is focused on value addition and exploring new, higher value market opportunities. They are seeking new types of technologies to give them a competitive edge and they generally have a strong business background. They will be seeking both private and public types of extension support to improve production, processing efficiency and marketing.
In order to identify clients who can be considered for entrepreneurship, the extension agent has to be familiar with the characteristics of a successful entrepreneur. These characteristics are discussed in the following section.

**The characteristics of a successful entrepreneur**

Successful entrepreneurs usually have a number of common characteristics, in that they:

- Have the initiative, drive and ability to identify and take advantage of opportunities;
- Are single minded, willing to take on ideas and unconventional views;
- Can operate in a zone that takes on ideas that may not be popular with established views and perspectives;
- Are creative leaders, ready to disrupt the status quo;
- Are always looking for opportunities to improve and expand their businesses;
- Are determined to implement their vision and ideas to achieve their goals;
- Thrive on change and cope well with risk and uncertainty;
Know how to identify and evaluate risks and are willing to take calculated risks, while accepting responsibility for both profits and losses;

Are creative problem-solvers, understand the decision-making process and enjoy making decisions;

Establish strong partnerships and other relationships and work well with other people;

Are **innovators** who are always looking for better and more profitable ways to do things, which is particularly important in the face of strong competition and a changing market environment;

Are honest and trustworthy, but often highly demanding and singularly focused (they are not always good team players); and

Are eager to learn and keep themselves informed about the latest developments and trends in the agricultural environment.

It is important to mention that determination and optimism are a true entrepreneur’s main features. Although planning, **market analysis** and **market opportunity identification** (MOI) are necessary parts of starting an enterprise, real entrepreneurs often do not wait for the results of these analyses to see whether they should launch their new idea: they see an opportunity and they jump in.

**Innovator:** An individual who is known for creative thinking and for introducing new methods to existing processes and ways doing things.

**Market analysis:** The study of a market in order to determine the attractiveness of the market in a particular industry and to understand the opportunities and threats in the market as they relate to the strengths and weaknesses of an enterprise.

**Market opportunity identification:** A systematic, participatory method for collecting market information to identify and select products and services for investment and agripreneur development.
Examples of some individual farmers as agripreneurs

1. Sina Gerard/Ese Urwibutso

This company owned by Sina Gerard started in 1983. It is recognized by people and the Rwanda government for its immense contribution to the economy. Over 2,000 people are employed in this company.

All started with his bakery as his signature Urwibutso donuts, which later became the name of his multiple ventures. When his bakery started producing a return on investment, Sina expanded and ventured into fruit-juice making. It is also involved in animal husbandry, production of passion juice, banana wine, and chili oil. This company rears rabbits, ducks, cows and pigs. They are sold locally and internationally. The company is located in rural areas and is quite beneficial to farmers and traders.

Currently Urwibutso produces an array of products such as Akanoze Maize flour, Akandi Mineral water, Agashya Pineapple juice, strawberry and passion fruit juice, Akabanga chili oil, Akaryoshye strawberry yoghurt, Akarusho white, red and banana wine as well as the ‘Akarabo’ biscuit.

Partnerships

The Akarabo biscuit was launched in collaboration with the Sweet Potato Action for Security and Health in Africa (SASHA) as well as its partners International Potato Center (CIP),
Rwanda Agricultural Board (RAB), Catholic Relief Services (CRS), IMBARAGA, Young Women Christian Association(YWCA). This biscuit was created to increase both nutritional and economic aspects of rural households with women being the focus group. With his success in business Sina Gérard decided to invest back in his community. He gives farmers free seeds, fertilizer, training and buys their crops when ready for harvest. He aims to make Rwandan farmers feel proud to be farmers, as they account for about 80% of the population.

Integration within the community

Sina interacts very much with local farmers. He has built the school Collège - Fondation Sina Gérard - for students in his community. The school teaches students from the nursery school level up to secondary school. Students learn for free, even those in the boarding school. The school is built for low-income families, especially the ones Urwibutso Enterprise works with. The school trains students to build skills and knowledge in the sectors of Agriculture, Veterinary Tech and Food science.

The school now has about 1,100 enrolled students. The students have access to farm cites that produce fruits like strawberries, apples, Macadamia nuts, fruits that are new to Rwanda. Sina aims for the school to be a center where young and low-income people build themselves up and get out of poverty.

2. VAF Vision Agribusiness Company

The VAF Company is owned by Shirimpumu Jean Claude. Fourteen years ago, he was a well-paid worker at Rwanda Biomedical Centre (RBC) earning a monthly salary of Rwf 1 million which was a lot compared to the local market compensation. Now the managing director of Vision agribusiness farm in Gicumbi, Shirimpumu earns millions from rearing pigs, chicken, cows, goats and sheep. He also grows beans and maize on large scale.
Business idea: what inspired him to quit his profession for farming?

“It all started as a side business to supplement my salary,” Shirimpumu recalls, adding that he started with only 5 piglets. He said that he had tried to venture into piggery while at university school and got a job, he saved as much as possible to be able to embark on the piggery project.

“On my return from India where I had gone to pursue a masters’ degree in project management, I decided to continue with the piggery project as a business generating enterprise,” he said. He had conducted extensive research about piggery and established that there was enormous market within the country and the region at large.

“This presented a business opportunity and indeed in 2008, I decided to embark on the project well knowing its rate of returns project, he decided to quit his job at RBC to focus entirely on his piggery project.
“I realized that the project needed a lot of attention and time to make it more successful, and therefore decided to tender in my resignation letter in 2013, to embark on a new phase as a full-time farmer,” he explained before adding that the move gave him an opportunity to plan better on how to expand his piggery and also diversify into more livestock farming. He also rears goats and sheep, and grows beans and maize.

After securing the money, Shirimpumu constructed a modern piggery and imported more exotic breeds from Belgium and Denmark.

“Introducing new exotic breeds boosted my competitiveness and other pig farmers to embrace cross breeding as one way of increasing productivity.”
**Achievements**

- From 5 piglets, Shirimpumu’s farm now has more than 600 pigs and has since ventured into poultry and cattle farming.
- Apart from employing more than 20 people including veterinary doctors, his farm has now become a training centre with many universities rushing to book internship placement for their students.
- He also sells more than 2000kgs of pork every week generating millions of cash from the project.
- “We are thinking of selling every kilogramme of pork at about Rwf 2000 because of the high quality we are producing,” he added.
- The model farmer has also used money generated from his farm to buy more land where he is currently growing various crops to support his projects in Gicumbi District.

As part of a strategy to increase productivity, Shirimpumu mobilised fellow pig farmers and formed the association of Rwanda pig farmers.

**Challenges**

Shirimpumu’s achievements have not come on a silver platter; the Gicumbi model farmer has had to endure challenges and tests to make the project a success.
“The biggest challenge farmers often face is the lack of knowledge about piggery as a profitable activity,” he said, adding that being able to select the right breed for the right purposes is still a big challenge which often affects production.

“The question of middle men along the value chain is also still unresolved despite the associated negative impact it brings to farmers,” he added.

According to Shirimpumu, the rate of growth in terms of pig production will depend on how fast commercial-scale units are able to replace the stock of pigs from disappearing backyard producers. This should be looked at as part of the strategies to combat food insecurity in the country, he advised.

**Future plans**

Shirimpumu plans to turn his farm into a demonstration farm where all farmers will be able to come and acquire knowledge and expertise about pig farming.

Complete Activity 1.1 in your workbook.

**Who are the agribusiness service providers?**

Extraordinary farmers and business leaders, seek extraordinary agro-enterprise service providers. These agribusiness service providers can be public or private. They can offer services which can rapidly yield value to their clients.

**What types of services do agribusiness providers offer?**

**Business mentors:** Farmers generally know how to produce crops and raise livestock, what they want to learn is how to improve their farming business skills from long-term business mentors, who can advise them on how to make investments to improve existing enterprises.
Marketing experts: agents who can work with farmers to identify new markets to explore.

Production experts: Specialists who can provide information on how to improve productivity

Technology experts: Specialists who can support rapid innovation in technology options

Postharvest handling experts: Specialists who support value addition

Financial services: agencies who can advise on the most appropriate financing method

Value chain specialists: who can work on ways to strengthen investments across a value chain

To support this new type of client, RAS will need to develop new approaches and working relationships where they can engage with agripreneurs. There are a range of possible strategies, approaches and methods that can be used to support agripreneurs. These approaches often use pluralistic models that combine free and fee-based RAS business services to foster agripreneurs through various stages in their development. Some examples of ways to support agripreneurs are listed below.

**Agripreneur workshops**

Agripreneur workshops design training sessions that work with combinations of agro-enterprise agencies, investors, production experts and marketing experts. At these

Agripreneur workshops, service providers can work with different types of agripreneurs on specific aspects of their business models. For example, having specific topics around key issues such as product development, marketing strategies, book keeping, investment management and how to grow the customer base.
**Agripreneur competitions**

RAS agencies can sponsor enterprise competitions, where the best business plans are funded to a specific level, or winners enter into training programs that help agripreneurs to plan and launch their businesses. This is a useful way to help identify promising agripreneurs and filter out the business teams who have most promise for growth and continued growth and investment.

**Agripreneur incubators**

Capacity building programs that enable RAS providers to identify agripreneurs and work directly with agripreneurs. Incubators take different approaches depending on the type of agripreneur that is being selected for support. Once a cohort of agripreneurs are selected the incubator teams can provide specialized assistance in helping to identify new markets, strengthen business models, provide training in key areas of business management, book keeping and brokering business relationships.

**Agripreneur accelerators**

Short term booster services that work with agripreneurs to help agripreneurs launch, maintain and upgrade new ventures.

In Rwanda, the Rwanda Youth in Agribusiness Forum (RYAF), Business Development Fund and local Universities such as Christian University, in partnership with Hanken School of Economics at the University of Helsinki in Finland initiated the agribusiness incubation center. This is an example of agri-preneurs acceleration initiative. Another example is the Accelerator Programme to Support Young Entrepreneurs with Seed Funding managed by Imbuto Foundation.

The joint initiative seeks to accelerate sustainable growth of Rwandan start-ups in the agricultural industry through helping
in prototyping, mentoring, coaching and access to capital. The incubators will reach out to local and international companies to receive free training and support in terms of legal matters, accounting and others.

**Agripreneur mentoring/coaching services**

Once agripreneurs have launched their businesses, these services provide occasional support as required to maintain business focus, competitiveness and innovation. These types of services are often provided by networks of investors or agripreneurs who diagnose weaknesses in existing firms and find ways to work with the business teams to address these issues.

**Informal Youth Incubators**

There is a growing realization that more needs to be done to motivate younger farmers to enter the agricultural sector. Attracting youth agripreneurs and especially highly skilled youth, into working the land requires RAS to provide new thinking and one of the options that is being tested include

**Business basics courses for Youth**

To address the concerns around increasing migration of youth from rural areas into low paid or unemployed situations in urban centres, Government and development agencies are exploring methods to support rural youth business training courses. These short, but intensive courses aim to bring together small teams of youth or individuals and give them a crash course in basic business management. This helps the clients to visualize a business idea and then over a period of 1-5 weeks to gather information to develop a basic business plan.

These plans are regularly monitored by business advisors, who help the youth teams to develop viable business options and also learn the most essential bookkeeping skills, such as cost ledgers,
information. These book keeping skills are complemented with

At the end of the business training period, the business plans are typically presented to an advisory panel, who make decisions on whether the individual or group are ready to take on a loan of $50-$500, depending on the type of business being developed.

At the business launch stage, the credit is often disbursed based on initial needs with subsequent disbursements being given based on milestones that need to be achieved. The progress of the agripreneurs is then mentored for an additional 5-10 weeks to help get the businesses on their feet.

**Formal Youth business incubators**

More formal training is given through incubators, such as the youth agripreneur incubator being run by the International Institute of Tropical Agriculture in Nigeria. This incubator offers more specialised training over a 6-18 month period, which enables youth agripreneurs to learn and hone their business skills. These types of incubation approaches are high cost and so there are currently few of these in operation. The

*Complete Activity 1.2 in your workbook.*
Matching clients with market opportunities

If RAS is to provide inclusive agribusiness services to all types of farmers/business owners, then we must find ways to identify and target specific types of clients and then identify specific business opportunities with them. Matching clients with appropriate markets is a skilful process and it takes trust and judgement to know how much risk farmers/business owners should sensibly take on.

Risk analysis tools

Risk analysis tools use a matrix to assess levels of risk that certain business opportunities offer. In Figure 6, the least risky businesses are those which focus on market penetration and are essentially selling more of an existing product into an existing market.

<table>
<thead>
<tr>
<th>Existing product</th>
<th>New product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing market</td>
<td>1. Market penetration</td>
</tr>
</tbody>
</table>

The most risky businesses being those which sell new products into new markets. Depending on the clients, business advisors can work with clients to make informed decisions about the level of risk they would like to take on.

Risk assessment questions

When talking with your agripreneurs, it’s also helpful to review the following questions:

- How much money is needed to start the business?
- How long until first payment?
- How long to break even?
- How long to profitability?
The answers to these questions are important, as the extension agent can judge whether the responses match the means and ambitions of the client and if the match works.

**Figure 7:** Pathway diagram

Catholic Relief Services uses the graphic in Figure 7 to gain an idea of where farmers are on an economic scale within their communities. Based on where farmers fall in this pathway, Catholic Relief Services can assess the types of risk that farmers want to take on and the levels of investment that they have to set up and maintain their business operations.

**Recover:** These are established farmers, who are either recovering from a major shock or who face regular shocks, these farmers are often dealing with chronic poverty. Farmers in this category often struggle with basic food security. They have limited land and often limited access to water and they only sell into markets when they occasionally have surplus. This is the largest segment of farmers, in developing countries, they are often described as net buyers, as they do not produce all they need to support the food for their families. Given their high level of vulnerability, these farmers have a high level of risk adversity, nevertheless, there are potential agripreneurs in this segment and
RAS can help to identify the innovators and work with them to build their business options.

**Build:** Farmers within this category, are more stable, generally have more assets but are lacking in a number of skills areas, which would enable them to use their assets more productively. This group of farmers have more regular engagement with markets and may be actively seeking farmer groups to join, so that they can upgrade their farming systems.

**Grow:** These farmers are often the most progressive farmers within a community. They already have productive assets and are regularly engaged with markets. However, they may not have access to new technologies and often lack critical business skills that could enable them to significantly raise their business capacity. These farmers are prime clients for agripreneurial support and they can play strong leadership roles within communities, helping to raise opportunities for their neighbours and farmers within cooperatives.

In addition to the different types of farmers, there are other potential agripreneurs who live and work in rural areas or are associated with a particular value chain. These are aggregators, food and feed processors and service providers that also seek knowledge and advice in how to develop business ideas and invest in agricultural markets.

**Type of agripreneur clients**

This section will take a more in depth review of the types of clients that an extension may need to work with to achieve inclusive agripreneurial support services.

**Smallholder Agripreneurs**

These smallholder farming families typically have 2-3 acres of land and mainly farm for their home needs, with some sales into markets. These farmers make up the bulk of smallholder farmers. Within this group of farmers there are a few exceptional farmers, and some budding agripreneurs, who in addition to growing basic
grains, are also producing some high value products, such as spices, wood, fruits, nuts, vegetables, honey, livestock, they may also do some basic processing in areas such as special foods, drinks or fabrics and by selling these higher value products, they can develop very successful micro-businesses.

These smallholders however, need considerable support to transition from farming for the family to farming as a business. Although these farmers have fewer assets and make lower investments, the transition towards being an agripreneur uses the same methods and skills as it takes to transform a larger farmer. The key for the extension agent is to identify the best in class farmers and foster the ambitions of the most innovative producers and help them grow into local business people. Figure 8 shows the interventions and constraints for smallholder farmers.

**Figure 8:** Smallholder farmer constraints and interventions
Development horizons for vulnerable smallholder farmers

The development prospects for land constrained smallholders in poor countries with conventional extension approaches are limited. Even with significant gains in technology, most of these farming families have insufficient land to become middle income. Investments in this social segment should aim to support stability and resilience as rapid growth is unlikely in most cases. These farming families can however, achieve transformational change across generations. Improvements in food security and modest improvements in market linkage, will enable more of these farmer types to educate their children, so that they have better prospects.

Increasing production of staples is unlikely to provide major changes in income, as production levels are limited by land area and labour and grains are generally low value products. However, production gains will reduce hunger and levels of food buying as farmers shift from net buyers to market neutrality and limited surplus for sales.

Support to market linkage will improve aspects of collective marketing and powers of negotiation with buyers. This category of farmers, in prevailing resource and market conditions, should aim towards increased consistency in earnings and greater resilience through food and income stability.

RAS role in developing marketing strategies for more vulnerable farmers

Helping these farmers to improve their food security and social upgrading, before embarking on more commercial activities. Due to their limited land area, it is important for these farmers to consider commercialization plans that include their staple food production whilst...
investing in small plots for higher value products and or small livestock options.

2) **Farming families working on small plots will**

LQFUDVHDLQJO\QHKGWRDNHGGVPHHHWWKURXJKDFHVWRRWK\% farm incomes. Some of these will be agricultural in nature, others will require non-agricultural work and in many cases business options will include periods of migration, for short and longer durations.

By helping farmers to upgrade their farm plan, extension agents can help farmers to develop a clear vision for their farm businesses. Improved organization can help farmers to realize economies of scale and support business planning and marketing:

- Production gains: Identify specialized markets and link farmers into growing supply chains.
- 0DUNHWOLQNDJHDFXVORZHUULVNSURGXHUWR\BUVWOLQNEX\HUVDQYF VRSDFGUKWHK\QHGSURXGFWVWRLWDOLJHDFVZ
- ,QFURPH'LYHUVLOFDWLRQ3RRUIDUPHVUFDQQRWUHO\RQVLOOH YDOXHFKDLQWKH\QHGSURXGFWVWRLWDOLJHDFVZ
- ,QFURXVHGVWDOSOHIRGSURXFWRQIRRGVHFUXULW\UVWR 0DUNHWLGHQWLDWLRQ
- 3URGXFGLYHULGDFWLRQ
- 6WDEOHDVHFWKZ
- Slow asset accumulation.
- Improved family nutrition.

**More commercial farmers**

For smallholder farmers, with 2-10+ acres of land, their asset levels allow them to develop more extensive business plans. With larger areas of land to test new technologies these farmers are often termed progressive farmers. These farmers have assets, skills and ambition, but are often limited by access to new technologies and services which would enable them to transform their existing assets to economically productive assets. These farmers are interested to take on new ideas and are often interested to join groups of other farmers with commercial ambitions.
Prospects for farmers with land and labor assets that they are unable to use effectively can change relatively quickly when given the opportunity to link with higher value or higher volume markets. These farmers are likely to show gains in productivity when exposed to better genetic materials and improved production technologies. However, they need to be able to sell their surplus if they are to make gains on their investments. There are numerous cases, where growth, in higher value crops for urban domestic markets are providing farmers with stable income gains. Figure 9 shows the constraints these farmers have.

Figure 9: More commercial farmer constraints

Given their ability to expand production and productivity, gains by this segment of the farming community can rapidly go beyond reducing hunger and shift towards increasing surpluses to bulk sales of key staple and cash crops as they can raise their incomes through greater specialisation in value chains to provide growth in their incomes.

Role of RAS

Support farmers in market analysis to enable farmer groups to identify and secure new business opportunities. Expose farmers
to the use of new technologies, such as new varieties of existing
business planning skills to support more systematic farming and
work with farmers on basic cost and revenue book keeping so

Work with farmers in collective marketing groups to help
aggregate produce for sale to target buyers. Identify better
market linkage options and more reliable buyers, to enable
farmers to grow farm their enterprises and increase sales
to target markets. Raise women’s roles in management and
marketing, especially when many of the men are engaged with
migratory work.

Business for Farmer Groups

Examples of methods for farmer organization in market linkage
include:
- Farmer group management;
- Financial skills and access to credit;
- Linkage to agri-dealer networks;
- Value chain support within the chain;
- Collective marketing;
- Agent networks; and
- Community fee-based service providers.

Beyond the farm

who are more focused on value addition and processing
rather than production. These agripreneurs may have land
and some may farm, but they generally are seeking value
addition options and supplies of goods from other farmers to
support their processing activities

These agripreneurs are interested in accessing suppliers from
other farmers and investing in technologies that will enable them
to access higher value markets.
There are different levels of farmers, but all can engage in agripreneurship. Smallholders that are limited by land size need to focus on a full farm plan that is diversified. Smallholders with more assets may be able to take on more risk and can specialise in a few value chains. Off farm agripreneurs, or those who add value to produce, may be seeking ways to link to more lucrative or higher volume markets. RAS needs to identify the type of client and then find ways to match markets with their risk profiles.

Complete Activity 1.3 in your workbook.

Example 1: Asili Natural Oils

Asili Natural Oils is a company with a modern processing plant where quality Moringa products are produced. Storage is a critical component in the production and care of Moringa products. This company endeavors to ensure the final product is of high value. This company focuses on the production of cold pressed Moringa oils, Moringa seed cake, and cosmetic ingredients. Moringa is a plant that is appreciated for its health and beauty benefits world over. This company works with the local communities in a bid to get them to be part of the supply chain. Farmers are encouraged to plant Moringa trees and care for them since they are a source of income.

Key challenges:
- Logistics/transport
- Sufficient supply of raw materials
- Cost of staff in field for training

RAS opportunities:
- Improved market analysis
- Production upgrading at Factory
- Business skills and finance
- Financial management to meet Investor requirements
- Complying with International Standards
Session 1.2: Criteria for a successful business

Session outcomes
After completing this session, you should be able to:

- Identify the different business types;
- Identify and analyse the cost of resources needed to start a business;
- Identify the risks involved in starting a business; and
- Discuss free services versus fee-for-service methods for business upgrading.

Introduction

In agriculture, the criteria outlined in Figure 10 are generally regarded as essential to a successful business:

Figure 10: Agripreneurship criteria
Then to:

- Product management involves selling a product that holds unique benefits to customers (i.e. a benefit that they cannot find anywhere else);
- **Marketing** is one of the key elements in business success, in that it coordinates actually reaches the customers by coordinating product, price, place (distribution channels) and promotion;
- In order to achieve business success, the enterprise should have a strong reputation with its customers;
- Sales are the lifeline of any business and, in order to achieve success, a business should focus on setting objectives for increasing sales to regular customers, attracting new customers, increasing or improving distribution strategies and opening new possibilities;
- Even if a business has a great product and a solid customer base, it still has to achieve business success. This includes compiling the following financial statements and/or documents:
  - An annual budget;
  - Regular cash flow statements;
  - Regular income statements; and
  - Profit and loss statements.

**Marketing:** The process responsible for identifying, anticipating and satisfying customer requirements.

**Reputation:** The beliefs or opinions that customers generally hold about a business, its products and services.

**Budget:** A financial document that gives the estimated future income, costs, expenses and resources of a business for a particular period, e.g. a year.

**Cash flow statements:** A financial report that gives information on the cash generated and used in operations, investments, financing and supplementary activities, such as income tax and interest.
**Income statements:** A financial statement that shows the profitability of a business during a particular period.

**Profit and loss statements:** A financial statement that summarises the income, costs and expenses of a business during a particular period in order to provide information on the ability of the business to generate profit by increasing income or by reducing costs.

Profit and growth relate to the generation of wealth and are often used as the main criteria for the performance and success of a business; No business can be successful unless it achieves **customer satisfaction.** To support long term operations, a business owner has to ensure **employee satisfaction** as far as possible because it influences the performance of employees. A business owner’s ability to continue the business, while maintaining growth for an indefinite period is a crucial requirement for maintaining a **competitive advantage** and continuous business success.

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**Elements to consider when starting a business**

When an entrepreneur starts a new business, there are a number of elements that they need to consider, including:

- The type of business they want to establish;
- The amount of money involved in starting a business;
- The costs of getting into the business;
- The type of marketing strategies they plan to use;
- The location of their business;
- The competition in the industry;
- The legal and regulatory requirements for starting a business;
- The level of employee satisfaction in the business.

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**Customer satisfaction:** A term that is often used in marketing and that points to the extent to which the products or services of a business meet or exceed customers’ expectations.

**Employee satisfaction:** The extent to which employees are happy and content in their jobs or in their positions in a particular business.

**Competitive advantage:** The factors that allow a business to differentiate its product(s) or service(s) from those of its competitors in order to increase its market share.
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The main elements to consider when starting a business are discussed in the following sections.

**Identifying the type of business**

Single ownership is the simplest business form. It is a business that is owned and controlled by one person (individual) or with their family. In agripreneurship, this would be the farmer and/or their family, a trader, processor or a retailer.

The main characteristics of single ownership are:

- The business is owned and managed by a single individual or family;
- The single ownership is not a legal identity, which means that it has no existence separate from the single (individual) owner;
- Although he owns and controls everything himself, the single trader may employ paid workers to assist him;
- The owner is also responsible for all the debts and taxes of the business; and

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**Single ownership (Individual ownership)**

Single ownership is the simplest business form. It is a business that is owned and controlled by one person (individual) or with their family. In agripreneurship, this would be the farmer and/or their family, a trader, processor or a retailer.

The main characteristics of single ownership are:

- The business is owned and managed by a single individual or family;
- The single ownership is not a legal identity, which means that it has no existence separate from the single (individual) owner;
- Although he owns and controls everything himself, the single trader may employ paid workers to assist him;
- The owner is also responsible for all the debts and taxes of the business; and

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**Single ownership**: A business that is owned and controlled by one person—the owner (producer or trader).
Because the owner represents the legal identity of the business, there are no other legislated structures and positions involved in the single ownership.

**Organised farmer organizations**

Smallholder farmers, who operate as individual ownerships, generally receive poor market prices for inputs, services and produce sales, particularly farmers selling lower value field crops. One of the most important reasons for farmers working together in groups is that it enables them to come together and enjoy the benefits of **economies of scale**, so that they can compete more effectively with larger farmers. Farmer groups or organizations can plan together and, for example, buy inputs at a lower cost through bulk procurement. Farmers can also use their economies of scale in groups and cooperatives to support bulk sales of aggregated goods, so as to access better unit prices, higher volume and higher value markets.

**Identifying resources**

A resource can be regarded as any physical entity that is required to carry out a particular task, activity or project, e.g. materials, money, people, equipment or facilities. In resources (e.g. cash and investments), physical resources (e.g. land, animals, water, buildings, facilities, machinery, tools, equipment and vehicles), human resources (workers) and information resources (e.g. internal documents and procedures).

The type of resource that you as the extension agent will identify relates to the farming business, the farm product, business processes and the goals and activities involved in the business. Once you and the agripreneur know which resources they will need to start the business, you also need to analyse the costs.
Analysing the cost of resources

The best way of analysing the costs involved in the identified resources is to inspect all the information about the resources. This is often referred to as the cost of production. The following process can help you identify, analyse and prioritise resources:

**Step 1: Visioning**

- Listing all the activities that have to be performed from planning, production, post-harvest and getting the product to market;
- Allocating costs to each of the identified activities and resources; and
- Identifying the benefits of the resources listed.

**Step 2: Prioritise resources by comparing costs and benefits**

It is important to compare the value of costs to the value of benefits of each resource by comparing the total costs and total benefits and use the information to produce solutions to problems or develop new ideas.

After analysing the cost of your resources, you can further prioritise your resources in terms of advantages and disadvantages.

Evaluating the identified resources

After the activities and resources have been identified and analysed and then prioritised, they will have to be evaluated according to the contribution they will make towards achieving
the business’ goals. The following questions will help you as the extensionist evaluate the resources available to the agripreneur to determine the potential competitive advantage they would give:

- Is the resource valuable to the business? Will this resource provide a competitive advantage to the agripreneur? For example, will a new type of seed improve yield?
- Is the resource easy to find or gain access to? For example, is a tractor available to smallholder farmers?
- How well is the agripreneur organised? If it is being run by a farmer group or cooperative, are all the members in agreement and do they all understand their role in the enterprise?

Once the resources have been clearly identified, the agripreneur has to be organised around these resources to make sure that the next step would be to identify the risk issues involved in starting the business.

**Identifying risks**

A risk is anything that may lead to loss, damage, danger or injury.

**Financial risk**

For example, if a large part of the farmer’s income comes from the sales of a single crop and that farmer cooperative is selling to a single large customer and that customer is unable to pay or makes a late payment for whatever reason, then the enterprise may face serious financial risks, reputational risks and employee-related risks.
Examples of financial risks include:

- External economic pressure which may lead to changes in currency values, which, in turn, affects the import of inputs, such as fertiliser and agro-chemicals and also affects the prices for export goods, such as coffee or cotton;
- Loss of a key supplier or a key customer;
- Increase in production or operational costs; and
- Increase in lending rates, bank charges and interest rates.

**Operational risk**

Operational risk refers to an unexpected failure in production or the business, which may be caused by:

- A climatic effect that leads to crop failure, low yields or animals losses due to drought, pests or disease;
- Storage infestations leading to major losses in quality; and
- Problems at a key processing stage.

Operational risks may also be caused by external events, which are beyond the farmer’s control such as a natural disaster or political unrest.

**Employee-related risk**

The workers in the farmer’s employ may also cause risk in the business, for instance:

- Seasonal labour not being available at the right time, such as at harvesting;
- Lack of knowledge and/or training;
- Employees providing poor customer service;
- High staff turnover; and
- Theft.
Customer service: The process of ensuring customer satisfaction with a product or service by taking care of customer needs and providing professional and helpful assistance to the customer.

Staff turnover: The number of permanent employees who leave a business within a reported period versus the number of actual active permanent employees on the last day of the previous reported period.

Reputation risk

The reputation of a business is linked to the beliefs or opinions that customers generally hold about a business, its products and services. Reputational risk may occur if the enterprise is seen as unreliable in terms of being unable to meet the quality and volume needs of buyers, not honouring contract agreements, selling to alternative customers at the last minute, and not repaying loans. These types of activities and decisions can lead to negative publicity about the business, criticism of the quality of the products and, in some cases, legal action.

If the reputation of the enterprise is damaged, it may result in a loss of income, as customers will hesitate to buy from the business. Suppliers may also start to question the business.

Free service methods and fee-for-service methods for business upgrading for farmers/farmer groups

Because the budgets for extension services have been cut in several countries, other options and approaches to these services have been explored. These options include structural changes implemented, terms such as private extension services, paid extension, commission agents and commercialised extension are
being used to refer to the emerging fee-for-service extension services.

There are different types of fee-for-service methods, depending on the local physical, economic and institutional conditions involved in a particular agriculture sector. For example, in developing countries, the following types of fee-for-service methods have been implemented:

- Direct contracts between governments, local authorities and private consultants to provide extension services for a limited period (for example, in Rwanda—with extension service providers, Uganda and Nicaragua);
- Direct contracts between governments, local authorities and private consultants, which include payment rates based on the producer’s income level (for example, in Chile, Mexico and Columbia);
- Direct agreements between producers and extension services (or example, in Ecuador);
- Tradable extension vouchers that are funded and awarded to low-income farmers by government, based on certain criteria (for example, in Costa Rica);
- Direct contracts between farmer groups and extension services and other experts (for example, in Rwanda, Kenya, Nigeria, Argentina and China);
- At source payments made between farmers and para-vet extension agents (for example, in Rwanda, Kenya and throughout Africa);
- Direct instalments paid per training session to local community-based private service providers, who train farmers in NGO-managed capacity.

**Para-vet extension agent:** A local service provider that provides basic frontline medical services for farm animals, in most cases diagnosis for common pests and diseases and sales of medical/veterinary products.
services marketing services and post-harvest handling (for example, in Rwanda, Malawi, Zambia, Kenya and many others in Africa);

- Mobile phone based payments paid by farmers to service providers, for regular advice for key products in terms of tips and access to experts, (for example, in Rwanda, Ghana, Kenya, Malawi); and

- Mobile apps linking farmers to services such as tractor use and transport of farmer goods (for example, in Nigeria).

In developed countries, the following fee-for-service methods are applied:

- A combination of funding options via direct payment by farmers and contributions by agricultural organizations (for example, in France);

- Charge on a time-cost basis for certain services (for example, in the United Kingdom); and

- Negotiated fee per an agreed, project-based activity performed by the extensionist (for example, in Queensland, Australia).

Investigative studies undertaken in a number of countries have identified the following key characteristics of farmers’ willingness to pay for extension services:

- Gender of the head of the household: The fee-for-service requires sufficient resources (e.g. land and livestock), which women farmers often do not have and, therefore, men appear to be more willing to pay for services;

- Leadership status of the farmer: Farmers with higher social status in their communities are more willing to participate in fee-based extension services;

- The use of credit: Farmers with access to credit are more willing to pay for their extension services;

- Exposure to mass media: It has been determined that farmers who listen to the radio were more easily convinced to take the option of fee-for-services models;
Module 11: Agricultural Entrepreneurship

- Age and experience of the farmers: Experienced farmers in their thirties and forties are willing participants in fee-for-service models;

- Education background: Farmers who learn more from formal education interpret and understand information better and manage their farms better on a fee-for-service basis;

- Family size: It is generally farmers with a smaller family size who are willing to consider the fee-for-service approach; and

- Land holdings and farm income: Farmers with bigger farms and higher income are willing to pay a fee for extension services and support.

📝 Complete Activity 1.4 in your workbook.
Session 1.3: Evaluating entrepreneurs (clients)

Session outcomes
After completing this session, you should be able to:

- Determine the reasons and motivation for a farmer/farmer group wanting to be an entrepreneur, or invest in a collective enterprise;
- Assess client readiness to take on a business approach;
- Identify the main business opportunities in a farmer’s location;
- Design a farm plan for individuals; and
- Design a group plan for farmer groups and cooperatives.

Introduction
In this session, the reasons for farmers wanting to be entrepreneurs will be investigated and their readiness to be entrepreneurs will be assessed. After identifying the main business opportunities in a particular location, the design of individual and group plans for farmers will be outlined.

Identifying reasons and motivation for becoming an entrepreneur

Farmers may want to become entrepreneurs for different reasons, such as being able to take control of their own lives and building a successful business. Establishing a business requires a clear vision of the opportunities and goals, a great deal of commitment and the willingness to master numerous skills. Therefore, any entrepreneur or farmer organization needs to fully understand their reasons for starting or upgrading their business.
To identify the reasons why your clients want to become entrepreneurs, you may start by asking them the following questions:

- What is the driving force behind your wish to set up a new business?
- Do you know exactly what your business will do?
- Will you be making the most of your strengths?
- Can you make decisions and work well on your own?
- Will your business make enough money for you?

The reasons for becoming an entrepreneur or establishing an agripreneur are generally identified in four main categories: personal satisfaction, financial gain, independence and self-fulfilment. These are based on the type of reward that they believe results from being an entrepreneur, as shown in Table 2.

**Table 2:** The rewards of entrepreneurship

<table>
<thead>
<tr>
<th>Nature of reward</th>
<th>The entrepreneur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal satisfaction</td>
<td>:DQWVWRGRVPRPHKLQJGL%UHQWDOG wants to choose his/her own way of doing things and making a life.</td>
</tr>
<tr>
<td>Financial gain</td>
<td>6HHVDQRSSRUWXQLW\WRPDNHDSURWWE\ starting his/her own business enterprise.</td>
</tr>
<tr>
<td>Independence</td>
<td>Seeks the opportunity to make his/her own decisions and to set his/her own targets and standards.</td>
</tr>
<tr>
<td>6H0IIXOøOPHQW</td>
<td>Wants to use his/her own skills and abilities more meaningfully and SURØWDEO\</td>
</tr>
</tbody>
</table>
Assess client readiness to take on a business approach

As an extension agent, it is important to make sure that your clients are ready to undertake the challenges and demands of entrepreneurship. Farmers who decide to take the route of agripreneurship, are taking on a business approach to their farming operations. Therefore, they have to understand that taking a business approach to farming requires:

- The primary goal of making a profit;
- Decision-making ability;
- An investment in infrastructure that includes elements such as improved production methods, farming more land, business technology;
- A strong focus on customer needs and requirements; and
- Facing the challenges involved in maintaining and growing a business.

In order to assess your client’s readiness to take on a business approach, you may consider asking them the following questions.

Problem-solving

- Do you usually come up with solutions to the problems in your farming operation or do you turn to others for help in problem-solving?
- Do you consider the needs of your buyers when approaching problems in your regular farming operation?

Facing challenges

- When you fail at a particular task, do you see it as a challenge to try even harder in order to succeed, or do you give up?

Approaching money matters

- Do you believe that your hard work will eventually pay off, even when you cannot see immediate financial rewards?
Do you consider the profitability of a specific product or the financial well-being of your entire farm operations when making decisions and solving problems?

Can you easily explain processes and procedures to your group/cooperative members?

Can you express yourself clearly when communicating with suppliers, distributors, buyers and other role players in your farming operation?

**Identifying the market opportunities in your location**

Before entering into any business venture, you, as the extensionist, need to work with the farmers/agripreneur to explore a relevant business opportunity. Farmers should look for the following elements in a good business opportunity.

**Elements of a good business opportunity**

In order to identify a good business opportunity, farmers should look for the elements discussed below.

**The product meeting a need**

The most important element in a business opportunity is whether the product has demand in the market. When evaluating a business opportunity, make sure that the farmers consider the following questions:

- Is there actually demand for the product in the market?
- Does the product solve a problem for consumers/customers?

**The opportunity working in a location**

Demand and prices change for certain products according to location. Therefore, farmers must find out how prices and costs work in a specific location.
When selling into different types of markets, such as their local village market or the wholesale market in the next town.

**Access to resources**

The farmers need to decide if they have the resources to take on the business opportunity, even if there is demand for the product and the selling price is attractive. As an advisor, you have to help the farmers determine if they have access to the necessary amounts of money, information, technology and people (employees) to enter into the business venture.

**Providing the product at the right price**

The farmers have to consider the market that they intend to enter and the product price. As the advisor, you need to ask them:
- Can you provide the product at a price that the market is willing to pay?
- Will the price attract customers, while still making a profit?

**Timing**

Timing is a key element when evaluating business opportunities. Everything has to line up in order for the opportunity to really work. If the timing is not right, the farmer may want to consider exploring the opportunity at a later stage.

**Methods for identifying business opportunities**

The question that every farmer or farmer organization who is thinking of starting a new business has to face is how do you find the opportunity that is right for you? The following methods may be considered when identifying a business opportunity:
- Identify a market opportunity: Study the agricultural market.
y Explore new markets: Many farmers tend to sell traditional products into their nearest market. Often farmers can gain information on new opportunities by visiting other markets, or larger, more distant markets, or by visiting new types of markets such as processing companies, poultry or beer factories, rather than only selling into an informal wet market;

y Matching risk with resources: One of the key skills of a good business advisor is to match the risks of a specific market opportunity with the skills, resources and ambitions of the clients. The aim of business development is not to match the most vulnerable farmers with the most profitable and volatile markets. This process of risk assessment is a particularly important part of the commercialisation process. Farmers may need help in supplying to the local market or to export markets and the extension agent needs to match risk with farmer capacity;

y Identifying customer (buyer) problems: Farmers should investigate the key problems or issues that their customers face when buying a product in their market and think about the ways they can improve on the product or introduce a better product to the market e.g. selling in bulk rather than small lots or selling sorted goods rather than selling mixed quality goods;

y The farmer should investigate the key problems or issues that customers face when buying a product in a market and think about the ways they can improve on the product or introduce a better product to the market;

y Addressing the customer’s need for something new: If there are clear demands in the market, the farmer may consider the customers’ need for new or alternative products, e.g. in the food market, customers have developed the need for all organic products;

y Considering a growing industry or market: A growing industry always offers a high demand, which, in turn, gives the opportunity to establish and grow your business. For example, the food market has developed a demand for all organic products.
example, in many countries, meat production is increasing—particularly poultry—but they do not have enough quality feed which opens the growth opportunity of supplying to the feed factories;

make the farmers’ product a better option for their potential buyers, rather than buying from existing producers or suppliers; and

Considering seasonality: The agricultural market is highly seasonal and, therefore, farmers should explore ways to expand and raise value in their markets by selling early or late in the season. Farmers also need to consider ways of using

Designing individual plans for farmers

As extension services adapt to the new, more commercial farming environment, in which farmers are more focused on

and nutrition, the public and private sector extension agents will need to work in new ways to meet the various demands

will need to support a combination of individual farmers and farmers in an organization. In all cases, the extension agent will need to help these clients gather information and develop production and marketing plans based on their abilities and aspirations. For the individual or family farm situation, the support will focus on how to use the existing assets, market options and business capacity of

Extension agents may receive enquiries from larger individual farmers or they may meet farmers as part of a farmer optimise their farming systems. This transition to working with both farmer groups and farmer organizations is apparent in most countries. In some ways, the balance of individuals versus group support will depend on who pays for the service.
In Nicaragua, some of the more progressive coffee cooperatives are providing individual coaching plans to farmers, so that they develop a long term investment plan to upgrade their farms. In addition to assisting with coffee production, the cooperatives are also keen to help farmers manage their risk by helping them to manage their soil and water resources, diversify their production systems to increase their incomes and improve their dietary options. As part of this upgrading process, farmers need to gather relevant information, develop upgrading plans for their production systems and learn basic business methods so that they can make more informed investment decisions. Figure 11 shows a farm plan, developed with a coffee farmer in Nicaragua.
In this case, the extension agent has helped the farmer divide the farm into parcels of land, each with a specific set of plans, so that the farmer can work on upgrading one part of his farm at a time. This approach helps the farmer to work in smaller and more manageable steps, while slowly working towards a farm that is more productive and meets the diverse needs of the family. Table 3 outlines the types of steps that an extension agent can consider when working on a farm family plan.

**Table 3: An example of the steps to create a farm family plan**

<table>
<thead>
<tr>
<th>Management</th>
<th>Finances</th>
<th>Production</th>
<th>Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>&amp;UHDPHDSU of the farmer and include their age, land size, phone or contact number, family members, estimated annual income and their annual investment levels.</td>
<td>List their main income products and costs.</td>
<td>Map the existing farm production by plot and develop a map of the plans for the future farm.</td>
<td>Analyse the cost of production for main income product(s), compare values with neighbouring farmers and identify current market options.</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Management</th>
<th>Finances</th>
<th>Production</th>
<th>Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>List the key food/income crops and the main food items that are procured on an annual basis. Create a food balance sheet.</td>
<td>Develop a seasonal calendar of income and costs.</td>
<td>Develop a seasonal production calendar. List key activities for target plots and products.</td>
<td>List the current market outlets and prices for products. Analyse new market opportunities (this can be done for individuals or groups). Decide on target products and market options with the farmer.</td>
</tr>
<tr>
<td>Review and prioritise key challenges the farmer is experiencing, e.g. productivity, markets, access to water, etc.</td>
<td>Identify means of access to credit/resources to support the farming system.</td>
<td>Develop a soil and water upgrade and management plan.</td>
<td>Compare sales options as individual versus through a collective marketing group.</td>
</tr>
<tr>
<td>Management</td>
<td>Finances</td>
<td>Production</td>
<td>Marketing</td>
</tr>
<tr>
<td>------------</td>
<td>----------</td>
<td>------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Use visioning to map the current situation versus the farmer’s goals, assets, skills and marketing ambitions.</td>
<td>Initiate entry to a savings and loan club.</td>
<td>Identify key threats to the production system.</td>
<td>Link production and marketing plans and set marketing goals.</td>
</tr>
<tr>
<td>Develop a farm plan with goals for the main plots over the next seasonal cycle.</td>
<td>Enrol the farmer in education process and prepare a plan.</td>
<td>Assess options for and devise a plan.</td>
<td>Evaluate market performance at the end of season.</td>
</tr>
<tr>
<td>Work with the farmer to prepare an implementation plan with achievable steps based on the farm plan.</td>
<td>Work with the farmer to prepare an implementation plan with achievable steps.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop a farm diary so that the farmer can follow the steps.</td>
<td>Develop a farm diary so that the farmer can follow the steps.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Management | Finances | Production | Marketing
--- | --- | --- | ---
Set indicators for monitoring progress.
Set baseline with soil test, water assessment and agronomic practices.
Establish dates to assess performance and a payment or visiting schedule.

### Designing group plans for farmers and cooperatives

Extension must simultaneously focus on farmer organizations and on upgrading the management skills of existing structures, in order to help farmers raise their competitiveness within a market or value chain.

Examples of methods for farmer organization in market linkage include:

- Farmer group management;
- Financial skills and access to credit;
- Linkage to agri-dealer networks;
- Value chain support within the chain;
- **Collective marketing**;
- Agent networks; and
- Community fee-based service providers.

**Collective marketing:** A marketing approach in which a number of farmers, producers or growers work together to sell their combined crops.
Farmer groups in collective marketing

A study tour organised by the Catholic Relief Services (CRS) and the International Centre for Tropical Agriculture explored how their support to farmer groups could be improved in order to improve market linkage. The study tour discovered that a common feature of farmer groups who were more successful in their ability to link with markets was their ability and drive to DFTXLUDQGFPRELQHYHEHDFLVF\N\00VHV\7KVHVWH\R\HV\LHGVNL was common across wealth levels and locations in the farmer groups.

7KV\N\00VHVZ\UHV\FOD\V\L0\HGD\VIR\ORZ\V
- Group management skills;
- Financial skills (starting with internal savings and lending);
- Marketing skills;
- Innovation skills for accessing new technology; and
- Sustainable production and natural resource management (NRM) skills.

Most groups proactively sought to develop most, if not all of these skill sets, even in the absence of external support. This provides a strong signal to modern extension services that their VWUDWHJLHVFRXOGEHQH\W\URPGHYHORS\LQJSUR\JUDPPHV\\WDW address the demand for this set of skills.

The area of innovation is also often limited to ideas of demonstration plots, but this is a somewhat outdated top-down approach. Extension systems need to change their approach to farmer-led experimentation and LQIRUPD\L\RQJD\W\KLQ\J\V\L0\FD\W\0\\L\ILQQR\YD\WL\RL\VL\\VR address the highly diverse needs of farming communities. Instead of demonstration plots, extension agents, the private sector and farmers need to work together at learning points, where new ideas in terms of new varieties, new ways of tillage DQGQHZEXVLQHVVPHWKR\G\DV\H\V\V\H\G\D\Q\GL\H\FL\W\LY\H adopted by the group.
Demonstration plot: A field or a small area of land that is used to teach, experiment and share ideas about agricultural practices, so that farmers and farmer groups can learn, practice and track the cost of new crops and improved techniques.

Tillage: Preparing soil or land for growing crops.

Farmer organization to support collective marketing

One of the most important aspects of a marketing approach is to help farmers organise and gain economies of scale, in order for them to compete with larger farmers. Extension agencies need to help farmers to buy inputs at lower prices by buying in bulk and then support bulk sales of the produce to gain higher unit sales prices.

In a typical value chain project, the approach will have an upgrading package that includes organization, access to better inputs, market analysis and the use of improved production technologies to enhance productivity, post-harvest cleaning and extension process is, however, not to do all of these things for the farmers, but to build the capacity of the farmer organization to invest in these methods and develop durable trading relationships.

The following sections explore some of the farmer organization methods being testing and scaled by various extension services that have successfully linked farmers to markets.

Collective marketing groups

At the most basic level, extension workers can work with farmers to bring together groups of farmers to learn new technologies and prepare basic production and sales plans to produce a Organising farmers into groups helps in training events and provides farmers with better negotiating powers at the time of sale through collective marketing.
Figure 12 provides an example of a flexible approach to combine produce for sales that can be applied at the local level with less than 100 farmers. When only a few farmers are involved in this type of structure, the management can be minimal and meetings beyond the farmer group unit to agree on sales conditions may only be required at the start of the season and at the time of storage and sales. It is important that when farmers start to associate beyond the primary group, they have a transparent system for group representation at the association level, as well as reporting mechanisms to provide regular and timely feedback to members. This process can be scaled to include several thousand farmers, but as the number of associated groups expands, more effort is required at the second order level to provide effective and transparent management. Many farmer groups and cooperatives fail when they become too large.

**Cooperative support**

The classic farmer-based organization is the farmer cooperative. The cooperative movement has a long history based on a more
formal arrangement of farmer groups linked to professional associations, or second tier organizations. When it has worked well, the cooperative movement has made huge changes in the prosperity of millions of farmers. Cooperatives, through market arrangements such as certification schemes like Fair Trade, have improved long-term trading relations in specific value chains, i.e. coffee.

However, the cooperative movement has also suffered from major problems with corruption and inept management, particularly those systems where governments were instrumental in establishing the organizations. Many of these cooperatives were manipulated for political means, with cooperative funds being misdirected to support political campaigns at the expense of the farmers. Frustration with years of mismanagement and poor arrangements, led many farmers to abandon the cooperative movement and strike out as lone operators. Even if working alone reduced their market options, it protected them from extortion and intimidation.

As the role of governments in most agricultural marketing systems has declined due to reforms such as the structural adjustment programmes, farmers have started to return to more formal farming organizations. However, they often need considerable capacity building in terms of leadership, management and financial operations and, at the same time, they need lean management systems to hold down administration costs and to retain members to show fair representation and effectiveness in the market place.

Value chain support

Where there is reluctance from farmers to work in cooperatives, or the lack of farmer cooperatives in key value chains, modern organizations that support greater collective action. NGOs have piloted a number of interim structures that support better market coordination of farmers.
Important factors in the design of these value chain structures include the level of maturity or formality within the chain and the emphasis that is placed on developing more durable trading relationships with farmers.

In the example in Figure 13, support from the external facilitating agency controls inputs to farmer groups, has staff hired to play coordinating roles within the supply chain and manages pack house operations. This type of support investment method seeks to support rapid integration of farmer produce with the needs of the buyers.

**Figure 13:** Extension support to value chain with fully integrated support.
viability of the chain can be compromised. A modern example of this type of integrated market support is demonstrated by the One Acre Fund in Rwanda where it operates in Karongi, Kayonza, Nyamasheke and other Districts.

The One Acre Fund is a NGO that supports smallholder farms in East Africa by providing agricultural training and asset-based financing.

**Facilitated value chain support**

To avoid problems associated with being too heavily involved within the chain, many external agencies now attempt to facilitate the roles of the chain actors, rather than work within the chain. In this case, technical advice and training is given to the chain actors to establish an upgrading process, which is implemented by the chain actors. The purpose of remaining outside the chain is to support greater sustainability of the value chain when the facilitation process ends. You can see an example of this in Figure 14.
Figure 14: Extension support to value chain as external facilitator

Complete Activity 1.5 in your workbook.
Session outcomes
After completing this session, you should be able to:
- $VV\ VW\ FOL\ HQ\ VW\ LQ\ GH\ Q\ JK\ W\ L\ X\ V\ L\ Q\ H\ V\ V\ L\ G\ H\ D$
- Identify the business gap;
- ‘H\ Q\ H\ W\ K\ H\ Y\ D\ O\ X\ H\ U\ R\ S\ R\ V\ L\ W\ L\ R\ Q$
- Identify and describe the farmers’ customers;
- Outline the key activities involved in the agripreneur;
- and
- Test the viability of the business idea.

Introduction
At this point, you should understand the importance of agripreneurship, the characteristics of a successful entrepreneur and the motivation for becoming an entrepreneur, the readiness to take a business approach, the characteristics of a successful business and the elements involved in starting a business. In this VH\ V\ L\ R\ Q\ R\ X\ Z\ L\ O\ O\ H\ U\ D\ Q\ D\ E\ R\ X\ W\ W\ K\ H\ E\ X\ V\ L\ Q\ H\ V\ V\ L\ G\ H\ D\ D\ V\ W\ K\ H\ ø\ U\ V\ W\ L\ Q\ V\ W\ D\ U\ W\ L\ Q\ J\ D\ Q\ H\ Z\ E\ X\ V\ L\ Q\ H\ V\ V\ Y\ H\ Q\ W\ X\ U\ H\ <\ R\ X\ P\ D\ ø\ Q\ G\ L\ W\ K\ H\ O\ S\ I\ X\ O$
to study this session along with the elements of a good business opportunity, as discussed in Session 1.1.

A business idea is the starting point for all entrepreneurs. ‘H\ ø\ Q\ L\ Q\ J\ D\ Q\ G\ H\ [S\ D\ Q\ G\ L\ Q\ ]\ D\ E\ X\ V\ L\ Q\ H\ V\ V\ L\ G\ H\ D\ Z\ L\ O\ O\ K\ H\ O\ S\ W\ K\ H\ H\ Q\ W\ U\ H\ S\ U\ H\ Q$
decide what they want to accomplish, identify the tasks involved and evaluate the potential challenges and pitfalls involved in the new business. In their business ideas, entrepreneurs have to:
- Identify products or services;
- ‘H\ ø\ Q\ H\ W\ K\ H\ P\ D\ U\ N\ H\ W
Identify their main competitors; and
Identify resources.

**Identifying a product or service**

Every business relies on a product that is sold to customers and accurately. The extensionist may need to ask the following questions about the product:

- What product will the enterprise or farming operation be offering to customers or buyers?
- What are the main features of the product?
- What are the benefits that the product will bring to potential customers?
- Are there any additional services offered by that product?

**Defining the market**

Once your client—be it the farmer, a trader or a local service provider—has decided on a particular product or service, the market where the product/service will be served must be defined. The following questions are relevant when defining the market:

- Where is the market? Which value chain? Which city, region, country or continent?
- Who are the target customers and what are their characteristics in terms of gender, age, ethnicity, income, etc.?
- When will the product be sold: season, time of day and dates?
- What will be the frequency of sales: will the product be sold at one time, regularly or all year?
- What are the terms of payment: cash on delivery, cheque, within 60 or 90 days, after delivery?

In many cases, people use the 4 P’s of marketing to determine

- Product: What are you going to sell?
- Place: Where will you sell from?
- Price: What price will you sell at?

In many cases, people use the 4 P’s of marketing to determine

- Product: What are you going to sell?
- Place: Where will you sell from?
- Price: What price will you sell at?
**Identifying the main competitors**

All businesses have to face competition and, therefore, it is important that the business owner identifies the main competitors. In terms of competitors, the agripreneur needs to consider the following questions:

- Who are the five largest competitors in the market?
- What, where and how do these five competitors offer their products to the market?
- What are the main features of their products?
- What are the benefits that they provide to the market with their products?

At the same time the agripreneur needs to think why will customers buy my product? Is it better? Is it cheaper? Is it faster, what is the advantage of your offer? Your value proposition?

**Identifying resources**

Identifying the resources available involves answering the following questions:

- How many farmers and/or workers will be needed to produce the product and deliver it to the market?
- What knowledge and skills would farmers and workers need to perform their jobs?
- What financial resources are needed and where will the agripreneur find those financial resources?
- What material resources will the farmer need and where will they find them?
- Which information resources does the farmer need and what are the chief sources of this information?

Identify the business gap

The ideal situation for an agripreneur is to find a profitable niche market on which to focus their efforts. Finding a niche market:A profitable portion of a particular market where business efforts are focused. Note these markets are often quite small and therefore prone to being oversupplied!
Identifying the main competitors

All businesses have to face competition and, therefore, it is important that the business owner identifies the main competitors. In terms of competitors, the agripreneur needs to consider the following questions:

- Who are the five largest competitors in the market?
- What, where and how do these five competitors offer their products to the market?
- What are the main features of their products?
- What are the benefits that they provide to the market with their products?

At the same time the agripreneur needs to think why will customers buy my product? Is it better? Is it cheaper? Is it faster, more convenient? What is the advantage of your offer? Your value proposition?

Identifying resources

Identifying the resources available involves answering the following questions:

- How many farmers and/or workers will be needed to produce the product and deliver it to the market?
- What knowledge and skills would farmers and workers need to perform their jobs?
- What financial resources are needed and where will the agripreneur find those financial resources?
- What material resources will the farmer need and where will they find them?
- Which information resources does the farmer need and what are the chief sources of this information?

Defining a business idea relates to identifying a business gap, which is discussed in the next section.

Identify the business gap

The ideal situation for an agripreneur is to find a profitable niche market on which to focus their efforts. Finding a niche market involves identifying a business gap for a product, which is not addressed by mainstream providers or competitors. A business gap can be found in an area in which consumers are not yet buying a particular product, or in which there is a customer demand that has not been met. However, for many business ideas, the gap is quite small and there may be many gaps range from the need for similar products that are better quality, or lower price, to new products and to changing a alternative way, e.g. importing bulked

Identifying a business gap involves the following:

- Study trends in the market that the farmer or producer intends to enter; determine if this is a growth market? Or if it is static or even declining?
- Listen to customers and try to determine what their expectations and concerns are and what they like or dislike about the farmer’s competitors;
- Establish what customers require in terms of product cost, quality and service delivery;
- Identify customer needs that are not currently being addressed;
- Determine if there is room for the farmer’s product in the market by identifying competitors’ strengths and weakness in order to identify gaps in their services that;
- Identify areas of specialisation that the entrepreneur’s competitors do not address; and
- Define the competitive advantage of the entrepreneur’s product.
'HøQLQJWKHYDOXHSURSRLWLRQ

\$YDOXHSURSRLWLRQLVLDVWDWHPHQW\$KDWLGHQW\$L\$HVDQGEULH

Defining the value proposition

A value proposition is a statement that identifies and briefly describes the unique value that a bundle of product(s) and services would bring to the agripreneurs customers that its competitors' products do not offer. In other words, the value proposition summarises the reasons for a customer buying a particular product and, in this way, it:

- Offers a clear explanation of the product or service;
- Gives an indication of the way in which the product differs from alternatives on the market; and
- Shows the reasons why customers would prefer this product over competitors’ products.

Before the value proposition is finalised, the farmers or producers may want to ask themselves the following questions:

- Do I offer a product/service bundle with superior quality, or a product that can solve an existing problem in an alternative way?
- Can my product be customised to suit the needs, requirements or preferences of customers?
- Are my prices lower than those of your competitors?
- Does my product offer a set of unique benefits to the customer?
- Are my distribution methods better to those of my competitors?

Steps in writing a value proposition

As an extensionist, you may use the following steps to help your client in defining a value proposition. Please note that market research may be required to obtain the information involved in the value proposition.

Step 1: Know the customer

Knowing the customer involves the following information:

- Who are the agripreneurs’ customers?
y Which customer problems or needs should the agripreneurs' product address?
y What product improvements or benefits are the customers looking for?
y What do they value?
y What are the obstacles that they are removing for their customers?

**Step 2: Know the product**

Knowing the product requires knowledge about:
y How the product addresses the customer’s problem; and
y The value or benefits the product offers the customer.

It is important to be as specific as possible, which may require the entrepreneur to add numbers or percentages regarding their product in their value proposition, e.g. expected crop yields, etc.

**Step 3: Know the competitors**

You and the agripreneur or farmer must ask yourselves how the product creates better value or more benefits for the customer than those of the farmer’s competitors.

**Step 4: Write a customer-oriented value proposition**

You and your client may consider approaching it from the customer's viewpoint, by answering the following questions:
y ‘I want to buy this product, because it will …’
y ‘What I value most about this product is …’
y ‘This product is better than competing products, because …’

**Identify and describe your client’s customers**

In the agricultural industry, there is a range of customers starting with farmgate customers. These customers buy directly from the...
farmer. Farmgate sales occur when the farmers sell their products directly from their farm to their neighbours, traders who travel in search of goods to buy, or to local buying agents.

Selling to farmgate customers:
- Is convenient for the farmer;
- Has no additional marketing cost, such as loading or unloading; and
- Has no problems in reaching agreements with the other members of a marketing group before the sale is made.

As the agripreneurs business grows, sales shift from local informal sales to larger and more formal markets. Individual farmers, who have regular surpluses of goods or farmers in groups, can bulk their goods for sale in a range of informal markets. As farmer organizations become more specialised they tend to sell higher quality and volumes of goods into the more formal markets, where they can access better buying conditions and often higher prices.

Customers in the informal market

Informal markets include local assembly markets, where farmers sell to traders, informal wholesale markets and informal retail customers. In developing countries, informal markets make up more than 60-70% of the available markets, this is the mainstream marketing area. Markets are formalizing with greater urbanization and increasing numbers of middle class buyers, who want more regulated food products, but this transition will take several decades.

Informal assembly markets

Informal assembly markets involve farmers and small local traders coming together regularly to sell their goods to larger traders.
In other words, the buyers in assembly markets are traders, not individual consumers.

Assembly markets are normally found in rural areas or in small towns close to farming areas. Many assembly markets are held only once or twice a week and some are held in the harvest season only.

**Informal wholesale markets**

Informal wholesale markets, which are generally found on the outskirts of larger towns and cities, are markets where farmers deliver produce in bulk. **Retailers** come to these wholesale markets to buy bulk goods, which they make into smaller lots to sell in their stalls and shops.

**Informal retail customers**

Informal retail customers are consumers and small businesses (such as restaurants and street-food vendors), who buy their daily or weekly supplies of food. It is possible for farmers to sell in bulk directly to these customers, but in order to do so they must work out a system with the retailer. **Wholesalers** may try to prevent farmers from selling directly to retailers.

**Formal markets**

Formal markets consist of all the businesses, enterprises and economic activities within the agricultural and food sectors that are structured, monitored, protected and taxed by government. The formal agricultural markets include supermarkets, hotels and restaurants, feed markets, selling to government buyers and export markets.
Supermarkets

As towns grow, people want to buy in convenient, one-stop shops. Supermarkets enable consumers to buy a large variety of packaged and of a standard/good quality. In developing countries, supermarkets serve mainly middle to higher income urban people. Farmers can sell directly to supermarkets, but they must meet strict volume and quality requirements.

Hotels and restaurants

One of the market consequences of urbanisation and rising incomes is changing diets, with consumers buying higher quality food products and also buying higher value products, such as vegetables, meat, dairy products, processed foods and ornamental plants. Urban centres also concentrate large numbers of consumers whose lifestyle involves buying meals at restaurants in addition to food that is prepared later. Hotels and restaurants pride themselves on serving customers with food made with fresh, high quality produce. In order to ensure the supply of high quality goods, chefs often work directly with farmers or with reliable suppliers of high quality produce. The feed markets

In urbanised countries, consumers’ diets have changed to include an increasing consumption of meat and milk products. There is also a growing demand for animal feed products, which is driving a new market opportunity for farmers.
Livestock feed processors require sources of both carbohydrates and protein in the feed they develop, which offers farmers the opportunity to grow a range of crops, including maize and soybean to supply these to feed processor markets.

**Government or public sector markets**

Governments are major buyers of products and they offer regular tenders to buy food and feed for their different service industries such as schools, hospitals, prisons, as well as for the military.

**Export markets**

Export markets involve goods produced in one location or country that are sold and consumed in another country. Examples include coffee, cocoa, tea, tropical fruits, nuts and cotton. However, nowadays the export trade in agricultural produce is a fully globalised process with goods moving in all directions.

The global trade in goods is particularly being fuelled by the current consumer demand for year-round supply of all food products, which requires retail outlets to have suppliers from across the world provide their fullest inventory of goods through the local seasons.

The key activities involved in an agri-business

Although the key activities involved in a business may differ, the key activities outlined in the following sections are generally performed in any agricultural business.
Crop production activities

The following core activities relate to crop production:
- Land preparation;
- Planting and fertilising crops;
- Weeding and pest and disease control or prevention;
- Harvesting the crops; and
- Crop conditioning, including cleaning, bulking, bagging and storage.

Marketing and sales

Marketing and sales involve the following key activities:
- Managing the marketing mix: product, price, distribution and promotion;
- Managing the marketing communication mix: advertising, sales promotions, public relations (PR) and direct selling (personal selling);
- Writing advertisements and press releases; and
- Selling the product to target markets.

Accounting activities

Accounting activities include:
- Doing financial planning and compiling and managing the budget;
- Marketing mix: A set of tactics and strategies that an enterprise uses to promote its product in a particular market and that is made up of the so-called four P’s of marketing: product, price, place and promotion.
- Promotion: The process of creating customer awareness of a particular product in order to generate sales and increase customer loyalty.
- Marketing communication mix: The specific blend of advertising, sales promotions, public relations, personal selling and direct marketing tools that an enterprise uses to communicate product value to its customers.

Accounting activities include:
- ‘RLQJQDQFLDOSODQLQJDGFRPSLOLQJDQPDQDJLQJWKH budget;
y Paying bills; and
y Managing the credit of the business.

Managing farmer groups and human resources

Although this section is more relevant to farmer groups and agricultural processing companies, the principles apply to farms and farmer organizations too. The activities involved in managing human resources include:
y Having clear roles for the business team;
y Having elected committee members and constitution for the farmer group;
y Planning human resources (employees/workers) for the business;
y Recruiting and selecting suitable workers for the business;
y Developing and training workers;
y Paying employees and managing the payroll;
y Managing employee performance and productivity; and
y Payroll:
The record of the salaries, wages, bonuses and taxes for the workers employed in a company.

Administrative activities

The following key administrative activities are usually performed in a business:
y Responding to customers;
y 0DQDJLQJQDQFLDQHVRXUFHV
y Answering customer enquiries and queries; and
y Filing.

Testing the viability of the business idea

In the business context, viability refers to the ability of an enterprise to operate and compete effectively in a particular market and to make a profit. A viable business is one that:
y Covers the expenses of manufacturing a product or delivering a service and running the business;
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- Generates adequate profits;
- Withstands business risks that it may encounter;
- Remains viable in the long-term; and
- Meets the goals set by the founders or owners.

One way of determining the viability of a new business is by using market research.

Market research: The process of collecting and analysing information about the market into which an enterprise or a new business is entering in order to evaluate the viability of the new product or service.

Market research

When a new business opportunity is identified, market research will give an indication of whether the idea is going to be successful or not. For example, market research results can provide the agripreneur with information on:

- The way in which customers in a target market view the product;
- Whether they would actually buy the product;
- How much they would be willing to pay for the product; and;
- Any additional features they would like to see on the product.

Another way of determining the potential success of a business is to conduct a feasibility study.

Feasibility study

A feasibility study is an analytical tool used to study the viability of a business idea by:

- Identifying potential problems and opportunities;
- Determining objectives;
- 'HQLQJ VXFFHV VIX ORX WFRPH VDQG
Assessing the costs and benefits involved in the alternatives for solving problems.

A feasibility study usually addresses the market viability, financial viability, technical viability and management viability of a business.

Rather than just diving into a project and hoping for the best, a feasibility study allows entrepreneurs and new business owners to investigate the possible negative and positive outcomes of a project before investing too much time and money.

- Complete Activity 1.6 in your workbook.
- Complete Activity 1.7 in your workbook.
Concluding remarks

In this module, you learned why it is important to develop agripreneurship and who the potential extension clients of agripreneurship are. You also learned what the characteristics of a successful entrepreneur are and what makes a business successful. You learned how to determine the motivation and free and fee-for-service approach to upgrading farmers and farmer groups was discussed. You learned how to identify a vision and value proposition for a business. Finally, you learned how to test the viability of a business idea and what the key activities involved in a business are.

Complete the summative assessment in your workbook.
Study unit 2: Evaluating the key skills involved in running a business

Study unit outcomes

After completing this study unit, you should be able to evaluate the key skills needed to run a business, including:

- Business planning;
- Market analysis;
- Making decisions on market opportunities;
- Learning basic calculations;
- Financial basics;
- Mapping the production operations;
- Managing equipment and labour;
- Basics of negotiating with partners;
- Developing customer relations;
- Marketing and sales;
- Basic and advanced bookkeeping;
- Skills/competencies and scale assessment; and
- Developing a training programme.

Study unit overview

extension clients need to design, start, and run and grow an agricultural or a rural business. The study unit focuses on business principles and skills, stepping away a little from the agronomic thinking to a more focused approach to the business methods and skills that will help agripreneurs to upgrade their production and business operations.

Agronomic: A branch of agriculture that deals with crop production and soil management.
Study unit introduction

In order to facilitate the process of agripreneurship, the extensionist will need to use their skills to support agripreneurs establish, run and grow a business. Completing this study unit should allow you to identify the basic competencies that a client/client group should have and to work on developing a learning programme that will enable your extension clients to acquire the skills they need to run their businesses.
Session 2.1: Evaluating the key skills involved in running a business

Session outcomes
After completing this study unit, you should be able to evaluate the key skills needed to run a business, including:
- Business planning;
- Market analysis;
- Making decisions on market opportunities;
- Learning basic calculations;
- Financial basics;
- Production operations;
- Management of equipment and labour;
- Basics of negotiating with partners;
- Developing customer relations;
- Marketing and sales;
- Basic bookkeeping;
- Skills/competencies and scale assessment;
- Advanced bookkeeping; and
- Developing a training programme.

Introduction
Successful agripreneurs are technologically competent and innovative and they plan ahead, so they can steer their agricultural and food businesses through the stages of enterprise development. In this session, you will learn how to...

Innovative: Capable of thinking about and introducing new and original ideas.
Business planning

A business plan is a document that outlines the financial and operational goals of a business for the near future and shows how these goals will be achieved. A business plan also describes:

- The value proposition;
- Means of delivery to key customers;
- The resources and partners needed to deliver the product; and
- Basic income and costs.

Business planning is the process of establishing goals and objectives for future performance and identifying the tasks and the resources needed to achieve the goals. In order to do business planning, the agripreneur should develop the following skills:

- Setting goals that align with the value proposition of the business;
- Identifying a value proposition that fits with customer needs;
- Collecting, organising, analysing and interpreting information and situations;
- Diagnosing problems and identifying relevant causes of the problems;
- Evaluating and comparing courses of action to address problems;
- Predicting and forecasting;
- Estimating the time and effort required to complete tasks; and
- Implementing and monitoring actions and tasks.

Market analysis

The agripreneur needs to be confident about conducting market analysis in order to determine market opportunities, market trends, growth potential in the market, major challenges and opportunities and realistic business opportunities in the market. In order to conduct market analysis, the entrepreneur needs the following skills:
y Critical thinking skills to identify challenges and **market opportunities** and to analyse needs and product requirements;
y Decision-making skills to make decisions about opportunities in the market;
y Problem-solving skills to identify complex problems and design solutions;
y Coordinating skills to enable value chain actors to succeed together in the market; and
y Communication skills to present market analysis results to partners and customers.

**Making decisions on market opportunities**

Decision-making is the ability to make sensible choices on market opportunities, which involves the skills of:
y Seeing the most important information quickly;
y Considering the positive and negative sides of each option;
y Selecting options and forecasting the outcome of each option or alternative; and
y Rapidly deciding on the best option for the business.

**Calculation skills**

Basic maths skills are essential to all areas of agripreneurship and, therefore, the agripreneur needs to be comfortable with:
y Adding;
y Subtracting;
y Multiplying;
y Dividing;
y Calculating percentages;
y Calculating **fractions** and decimals;
Calculating averages; and
Calculating area and volume.

**Production operation**

Production operation refers to all the activities involved in producing a product, which requires the following skills:

- Managing and updating the production system;
- Short- and long-term planning in terms of what and how to produce;
- Making decisions in terms of the timing of production operations, e.g. sowing according to soil conditions and seasons, sowing methods and fertiliser levels;
- Selecting the right resource mix including varieties, agrochemicals and use of labour to produce at optimal efficiency;
- Scheduling production processes;
- Operating farm machinery and equipment in some cases;
- Innovation to explore new ways of solving complex problems.

**Managing equipment and labour**

Agricultural businesses use equipment to produce crops or raise animals. The agripreneur needs the following equipment management skills:

- Deciding on the right equipment use for the situation, e.g. ownership, hiring services, renting, sharing or a combination of the options;
- Considering the costs involved in equipment options, including equipment housing, operating and repairing costs, fuel consumption, interest on investments, taxes and insurance; and
- Assessing the performance of equipment.
Agripreneurship also requires labour—i.e. employees—and they need to be managed. Therefore, the agripreneur needs the following labour management skills:

- **Human resource planning** and **recruitment**;
- Employee training and development;
- Employee motivation;
- Payroll management;
- Performance management;

Negotiating skills

In order to negotiate with their partners and buyers, agripreneurs must be able to:

- Use their **active listening** skills;
- Clarify issues by asking relevant questions;
- Identify the key issues involved in the negotiation;
- Identify areas of common ground between negotiating parties;
- Develop a line of logical, reasoned argument;
- Put their points across clearly and understandably using verbal communication skills;
- Identify and structure the problem, identify possible solutions or courses of action and decide on the most suitable option using problem-solving skills;
- Plan alternative outcomes if a satisfactory decision cannot be reached;
y Use decision-making skills;
y Use presented facts to make decisions with reasoning skills; and
y Use persuasion skills.

These are known as basic negotiation skills.

**Active listening:** A structured form of listening and responding in which the listener focuses attention on the speaker, thereby improving mutual understanding.

**Persuasion:** The process of changing an individual or a group’s attitude or behaviour towards an idea, event or issue by means of written and verbal communication.

**Negotiation:** The discussion method where differences between individuals and groups are settled.

### Customer relations

Customer relations refers to links between business actors in the market chain, referring to sales support, technical assistance and customer service.

Good customer relations include:

y 5DSLGDQGH46LWLYHUHVSRQV customer needs and questions;
y Active listening skills;
y Verbal and written communication skills to interact with the customer; and
y Time management.

### Marketing and sales

Marketing is central to any successful business, as it links the product to the customer. The most important marketing skills for agripreneurs are:
y Interpersonal communication skills like active listening and verbal communication skills;
y Strong written communication skills and the ability to present content creatively;
y Advertising and promotion skills;

Sales drive business success. The sales process has six basic steps:
y Prospecting for new leads;
y Initial contact with the prospect;
y Presentation of sales materials;
y Objection handling;
y Closing the sale; and
y Follow up/after sales service.

Closing a sale is the most important sales area to overcome for people without a sales background.

The skills required to perform the sales function include:
y Prospecting skills;
y Written and verbal communication skills;
y Active listening skills;
y Reporting writing skills in order to compile regular sales reports.

Developing a training programme

The following skills are required to design a training programme:
y Conducting a training needs analysis;
y Conducting a task analysis;
y Conducting a person analysis;

Prospecting: The sales process of recruiting or searching for new customers for a business.
Lead: An individual who has provided contact information that may point to a potential sales opportunity.
Sales presentation: The detailed presentation of information (which may include a demonstration) on a particular product.
Module 11: Agricultural Entrepreneurship

- Identifying the **training objectives** and **standards**; and
- Designing the content of the training programme, based on

**Training**: The process involved in teaching employees a particular skill or behaviour in order to perform their jobs.

**Training needs analysis**: The systematic process where the training needs of a business are identified.

**Task analysis**: The systematic collection of information on a particular job, in order to determine exactly what employees should be taught so that they achieve satisfactory job performance.

**Person analysis**: Identifying employees who do not meet performance standards and requirements and, therefore, require training.

**Training objectives**: The desired results of the training programme.

**Standards**: Success criteria.

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**Basic and advanced bookkeeping**

The main objective of bookkeeping is to record and summarise financial transactions into a form that provides financial information about a business. The agripreneur should have the following bookkeeping skills:

- Purchase supplies and equipment;
- Pay supplier invoices on time;
- Issue invoices to customers;
- Record cash receipts and make bank deposits;
- Conduct a monthly **reconciliation** of every bank account;
- Maintain the petty cash fund;
- Check the bank statements of the business;
- &DOFXODWHQGLVXHDQFLDODQDOVLVRIWKHDQFLDQH
- OWLQVWHP
- Maintain the annual budget;
- Calculate variances from the budget and report
  VLIQLOFDQWLVVXHVWRPDQJHPHQWDOG
- Process payroll in a timely manner.

**Reconciliation:** The process that explains the difference between the bank balance shown in the bank statements of the agri-enterprise (as supplied by the bank) and the balance in the financial records of the enterprise.

**Basic financial skills**
It is important for agripreneurs to manage their money according to sound financial principles and they require the following skills to do so:
- Compiling financial goals;
- Understanding and applying the concepts of income and expenses;
- Creating a budget, which can be used as a plan for business and household expenses (spending money) and income (earning money);
- Compiling a seasonal calendar; and
- Identifying wants and needs in order to set priorities and reduce expenses.

Because the income of farmers and agripreneurs varies from month-to-month, they should be able to compile a seasonal calendar which gives an overview of their financial situation for a year, thereby making it possible to identify the times of high/low income and high/low expenses.

Financial management is discussed in detail in Study Unit 4, where you will also learn how to develop a seasonal calendar.
SMART skills

The CRS created the SMART curriculum. SMART skills aim to provide farmers and their organizations with a set of core skills to link to markets successfully. The following manuals are used in the SMART curriculum:

- SMART skills for rural development;
- Organising and managing farmers’ groups;
- Facilitating savings and internal lending communities;
- Understanding natural resources;
- Managing natural resources;
- Marketing basics;
- The seven steps of marketing;
- Promoting innovation; and
- Financial education.

Each module in the curriculum has the following four parts:

- Lessons that provide the necessary technical information and guidance on delivery methods that farmers;
- Quizzes for field agents to test their own knowledge;
- Staff exercises that give field agents the opportunity to practise their skills; and
- Field exercises to use when training farmers.

CRS has also published the content as e-learning modules, which can be accessed via the following link:

Using rating scales to assess skills

Once you have identified the skills that your clients need to run a particular business operation, you need to determine their skill level and you may consider using a rating scale to determine the skill levels. A rating scale is a tool that is used for assessing the performance level of tasks or the skill level involved in performing a particular task. A rating scale is similar to a basic checklist, except that you indicate the degree or level of the skills involved.
You may consider using a simple number scale in your rating, for example:

<table>
<thead>
<tr>
<th>Skills</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business planning skills</td>
<td></td>
<td></td>
<td></td>
<td>Insert comments regarding training and skill development that should be introduced.</td>
</tr>
<tr>
<td>Market analysis skills</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decision making skills</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production operation skills</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 = Not competent: Needs training and skill development
2 = Average: Needs improvement
3 = Competent

Once you have designed a basic rating scale, you can customise the broad skills categories down into more detail, e.g.

- Goal setting;
- Information handling;
- Identifying problems and causes;
- Predicting and forecasting; and
- Monitoring and implementing actions.

Complete Activity 2.1 in your workbook.

Complete Activity 2.2 in your workbook.
Concluding remarks

In this study unit, you learned about the basic competencies and skills that are required to run a business. These skills include business planning, decision-making, market analysis, production and operation, marketing and sales, customer relations, negotiation, equipment and labour management and basic bookkeeping. You also learned how to use rating scales to assess the skill levels of agripreneurs.

Complete the summative assessment in your workbook.
Study unit 3: Identifying markets, mapping resources and conducting business planning

Study unit outcomes
After completing this study unit, you should be able to:
y Identify market opportunities;
y Manage key activities and partners in a business; and
y Conduct planning from business canvas to business plan.

Study unit overview
Based on the content of the previous two study units, you should be familiar with the following elements of agripreneurship at this point:

y The characteristics of an entrepreneur, the motivation and readiness of the extension agent’s clients in becoming agripreneurs;
y The basic skills that the entrepreneur needs to run a business;
y How to define a business idea and a value proposition; and
y How to test the viability of a business idea.

In this study unit, the concept of agripreneurship is taken a step further by focusing on the following three elements: the activities and partners and the business planning process.
Study unit introduction

Completing this study unit should allow you to identify a variety of roles that you, as an extensionist, can play in analysing market opportunities, defining business and production operations, linking with partners and designing business plans for farmers and farmer groups.
Session 3.1: Identifying market opportunities

Session outcomes
After completing this session, you should be able to:
y Spot the market gap;
y Conduct a market visit;
y Interview buyers; and
y Identify the key buying conditions.

Introduction
In this session, you will learn about the process of market opportunity identification (MOI), which is one of the key elements in agripreneurship. You will learn about MOI by interviewing buyers and the key buying conditions.

Spotting the market gap
A gap in the market refers to a part of that market where the competitors of an enterprise are not meeting the customer’s needs and, thereby, opening up an opportunity for new business. It is usually a matter of identifying a need that is not being satisfied in a market and then providing a product that can accommodate the need. There are several sources for new business opportunities. When an agripreneur sees a gap in their market and they have the idea and the resources to correct it, the gap becomes a business opportunity.

An agripreneur may also identify a product that is being consumed in one market that is not available in another market.
particular vegetable in their market and they are able to pool the resources of several smallholder farmers to meet that need, they KDYHLGHQWL\øHGDEXVQLHVVRSSRUWXQLW\ Agripreneurs and farmers can also analyse their competitors in order to identify key business opportunities, expand their market reach and develop their products and services. For instance, a farmer group may look at what neighbouring farmer groups are producing to see where they may sell into the same market or introduce a new product.

Studying food sector trends are also a good way to identify business opportunities. A farmer or a cooperative leader may meet with business colleagues and traders to learn more about the latest production techniques, new varieties and trends in the market. For example, a cooperative leader sees that there is a growing demand for organically grown fresh produce in a supermarket chain that has a new outlet in a nearby town. Using this knowledge the cooperative’s members can explore whether they could supply the store with organic produce.

An MOI is a rapid but structured way of identifying opportunities in the market. The aim of MOI is to provide farmers and agripreneurs with a simple and systematic method for collecting market information to identify and select products for investment and agripreneur development. The MOI helps farmers review many products in the market, then select two or three products for a more detailed study before selecting which product to invest in. The ability to identify market opportunities is a core skill that farmers need to acquire if they are to engage with markets successfully, particularly when a value chain or market linkage project ends.

7KHPDUNHWRSRUWXQLW\LGHQWL\øFDWLRQSUFRHVVKHSVH\WHQVJH\ agents and farmers evaluate:
- Market demand and buying conditions for existing products with reference to collective marketing within a group;
- Market options for new products to encourage
Market options for **value-added products**, so that service providers can assist farmers in capturing more value from their raw goods.

These are supplying:
- A product that is in high demand or in short supply;
- An existing product in a new or improved way;
- A new product into an existing market; and
- A new product into a new market.

**MOI Step 1: Organise a market survey team**

In order to identify market opportunities, a market survey has to be conducted, which requires a survey team. Therefore, the first MOI step is to organise a survey team to support rural producers and agripreneurs conduct a market survey. This team will be responsible for collecting data, conducting the analysis and extension agent and two to three farmers, who represent the group.

**Diversification**: In business, the strategy of entering a new market or a new industry, in order to increase sales and profitability.

**Value-added products**: A product that has been produced or processed in a way that increases its value, e.g. processing wheat into flour.

**Market survey**: The systematic collection of market-related data (e.g. data on target markets and customers) from a population or part of a population to determine the present status of a situation, event or process.
MOI Step 2: Design an MOI survey questionnaire or checklist

The extension agent has to support rural farmers or producers in developing a survey questionnaire or checklist that they can use to collect market information, such as potential market and product options. The information is collected from a range of primary and secondary data sources, but as market information is highly dependent on the current situation, much of the information has to be collected. This information is used to compile a list of product options, based on market demand and the selected marketing strategy.

The following types of questions may be included in the initial rapid survey questionnaire:

- Where can the buyers be reached (i.e. buyers’ contact information)?
- What are the trends in demand for the (selected) products?
- Which products in this market are in highest demand and why are they in high demand?
- Which products are in low supply and why?

Questionnaire: A list of questions that are asked to respondents (e.g. consumers of a particular product) to obtain specific information.

Primary data source: Written or oral information obtained from a direct witness of, or a participant in, an event or a process, e.g. direct accounts, correspondence and speeches.

Secondary data source: Primary data that has been analysed and or processed, thereby providing second-hand information about an event or a process, e.g. books, journal articles, newspapers and collected consumer information made available by consumer research organizations.

Marketing strategy: A model that directs the way in which a producer will focus limited resources on the best opportunities, in order to increase sales.
What are the prices of the main products of interest?
What is the seasonality of the main products of interest, and
GRHVWKLVDFKWSULFH"
What are the prices of the main products of interest?
What is the seasonality of the main products of interest, and
What are the buying conditions in terms of:
◦ Volume;
◦ Quality;
◦ Minimum purchase lots; and
◦ Buying frequency?
What are the terms of payment?
Would you (i.e. selected buyer) be interested in working with
our farmers?

This first survey typically generates a long list of potential options
that may be of interest to the farmers. The next step reduces the
long list of options down to a few products that the farmers want
to explore in more detail.

MOI Step 3: Assess and select market options

Assessing and selecting market options requires the team to

Assessing and selecting market options requires the team to

Figure 15: GHQLQOWHUVWRFUHDWHDVKR"
This short list will be reviewed by the agripreneur unsuitable market options. When the farmers have selected or prioritised their short list of two to three products, a more detailed analysis is conducted.

**MOI Step 4: Detailed analysis**

Having selected two or three products, the extension agent needs to work with farmers to analyse these options in more detail. This may require further market visits and interviews with experts or other farmers who are growing the selected products, to learn more about how to grow the crop and gain a better understanding about risks and costs. Key areas to gather information are listed below.

**Production requirements**

Production analysis focuses on elements such as:
- Planting date and production time (days, months, years);
- Technical difficulties (low, medium, high);
- Soil and water requirements;
- Labour needs;
- Major pests and diseases; and
- Expected yield.

**Marketing requirements**

Marketing analysis focuses on elements such as:
- Defining buyers;
- Type of market (local, regional, national);
- Level of risk;
- Demand (high, medium, low);
- Quality criteria required;
- Delivery requirements (volumes and frequency); and
- Business relationship (agreement or alliance contract).
**Profitability**

Profitability analysis focuses on elements such as:
- Price stability;
- Pre-production investments;
- Cost of production;
- Expected revenue based on past experience/unit area; and
- Gross margin.

**Revenue**: The total income that is generated from selling goods, before any costs or expenses have been deducted.

**Gross margin**: The total sales revenue minus the cost of goods sold, divided by the total sales income and expressed as a percentage.

The information can be collected using the matrices shown in Figure 16, Figure 17 and Figure 18.

<table>
<thead>
<tr>
<th>Production alternative</th>
<th>Complete cycle</th>
<th>Pre-production cycle</th>
<th>Technical demand</th>
<th>Soil requirements</th>
<th>pH</th>
<th>Water requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(years)</td>
<td>(months or years)</td>
<td>(low, average, high)</td>
<td></td>
<td></td>
<td>(mm/year)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Planting period</th>
<th>Labor requirements</th>
<th>Need for irrigation</th>
<th>Altitude requirements</th>
<th>Major pests and diseases</th>
<th>Planting density</th>
<th>Annual yield</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(si, no)</td>
<td>(m.a.s.l)</td>
<td></td>
<td></td>
<td>(no/ha)</td>
<td>(t/ha)</td>
</tr>
</tbody>
</table>

**Figure 16**: Production feasibility matrix
Module 11: Agricultural Entrepreneurship

**MOI Step 5: Share results with farmers and select products**

The MOI survey provides the agripreneur with information on:
- Production requirements;
- Market demand; and
- Financial costs and revenues for a specific product.
The survey team writes up, systematises and analyses this information, so that they can present it to the entrepreneurs or farmers, who use the information to make an informed decision about which product(s) they should invest in for their production.

As part of the analysis there are some key areas that need to be considered:
- Seasonality;
- Supply and demand; and
- Buying conditions.

**Assessing seasonal supply and demand**

Market supply and demand are important concepts, because they influence the prices that farmers and agripreneurs can get for their produce. If farmers understand seasonal supply and demand, they can:
- Plan what crops to grow, when to plant and harvest, and where to sell;
- Plan to harvest their crops at the beginning or at the end of the season, when prices are higher;
- Grow a crop variety that is more expensive than the standard one, for example, red potatoes may be sold for more money than white potatoes;
- Decide to grow a more nutritious crop, such as vegetables or fruits instead of maize;
- Decide what the best time would be to sell their crop, for example, by storing it until the price goes up; and
- Try to increase the quality of the crop by protecting it from pests and diseases, so it can be sold for a higher price.

Information on and knowledge of market supply and demand products and to make use of opportunities that occur because of changes in demand and supply.
Market supply

Market supply is the quantity or amount of a product (maize, potatoes, tomatoes, eggs, etc.) that producers can offer to the market for sale. The supply of a product depends partly on its price and on local conditions. If farmers see that the price of a product is high, they will try to sell it immediately and they are also likely to grow more of the product next season. If the farmers see that the price is falling, they may keep their products in storage, until the price recovers. Low prices will also discourage them from planting the same crop the following season.

The supply of a product also depends on local conditions. For example, if there is a lot of rain in an area, farmers can harvest a great deal of grain, but if there is drought, the harvest is poor. Other local conditions that may also affect the supply of a product are:

- Pests and diseases;
- Availability of, and access to fertiliser, water and quality seeds;
- Poor roads and transport vehicles;
- Poor farmer health and nutrition; and
- Pregnancy and child rearing (in the case of women farmers).

Market demand

Market demand refers to the amount of the product that customers are willing and able to buy, which partly depends on the price. If the price is low, more people will want to buy and each person may want to buy more of the product. If the price goes up, fewer people want to buy and each person will probably buy a smaller amount.

Customers generally want to buy more:

- Staple foods (such as maize or wheat) or major vegetables (such as onions and tomatoes) and less unfamiliar types of food or items they use only in small quantities;
- High-quality products rather than items that are low-quality or damaged;
Fresh products, such as vegetables harvested yesterday, rather than produce that was harvested weeks ago; and

Longer-term changes in demand are caused by changes in consumer tastes and attitudes. For example, families are buying more maize and wheat than sorghum and millet, because they perceive these more recent crops as more modern and aspirational. In the same way there has been a fall in the purchase of traditional drinks in favour of processed drinks that people consider to be more healthy and attractive.

**Seasonal supply and demand**

In countries with highly identifiable seasons, supplies are low at the start of the harvest season and, therefore, prices are high. Prices are at their lowest level just after the crop is harvested in the main production areas. At the end of the season, prices normally increase again, as supply declines. Prices are generally lower when only a small percentage of farmers are able to grow or sell the crop.

Short-term changes in supply and demand may be caused by the weather. For example, during the colder times of the year, a hot period increases the demand for crops like tomatoes, cucumbers, etc., whereas vegetables for cooking are in higher demand during colder weather. In this way, seasonal changes lead to short-term fluctuations in the prices of these products.

**Identifying key buying conditions**

In order for an agripreneur to identify and decide upon a potential buyer, they have to identify the key buying conditions. The key buying conditions are outlined in the following sections.

**Crop type and variety in demand from buyers**

Certain types and varieties of crops will be more in demand at certain points in the seasonal production cycle. The agripreneur
will have to determine which crops buyers are looking for and particularly which varieties are achieving the best prices in order to meet the current demand. The criteria in Table 4 can be used to determine which crop types and varieties are in demand.

**Table 4: Criteria for product/crop type selection**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Rationale</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agri-climatic</td>
<td>A region or country can only produce a low cost and good quality agricultural commodity to compete in the marketplace if the natural conditions in the area are suited to the production of the commodity. These natural conditions include rainfall patterns, underground water, soil quality and the temperature level.</td>
<td>River deltas areas have suitable conditions for rice DQGøVKSURGXFWLRO Many upland areas are appropriate for producing tree crops and non-timber forest products. In many of these areas, the availability of grass may enable the development of livestock.</td>
</tr>
<tr>
<td>Criteria</td>
<td>Rationale</td>
<td>Examples</td>
</tr>
<tr>
<td>---------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Market size</td>
<td>Large markets have a greater capacity to absorb additional supplies than small markets. It is important to avoid a situation where farmers are supported to produce and sell a certain commodity, but end up facing low and declining prices because the market is too small and therefore unable to absorb new supplies. However, market size alone is not enough to ensure absorption capacity. Some markets may be large in size but already oversupplied.</td>
<td>Urban markets and export markets have much greater absorption capacity. The market for most traditional export commodities is saturated, e.g. there is excessive supply and very intense competition in the world market for coffee, tea, and cotton.</td>
</tr>
<tr>
<td>Criteria</td>
<td>Rationale</td>
<td>Examples</td>
</tr>
<tr>
<td>---------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Market growth</td>
<td>Growing markets are better at absorbing additional supplies and creating opportunities that have grown stale. Products sold in medium to high growth markets, therefore, merit special consideration. A product that has a demand that grows at an annual rate of 5% or more can be listed in the high growth category. Products that have a growth rate of 3-5% per annum belong to an intermediate category, while those that have less than 3% growth are in the low growth category.</td>
<td>Global demand for staples (e.g. rice) and traditional export commodities (e.g. cotton, coffee and tea) is relatively stagnant. Export markets for organic and ‘ethical’ products, fresh vegetables and fruits, spices, essential oils, and aromatic and medicinal plants are expanding rapidly. Domestic markets for and vegetables also enjoy high growth rates.</td>
</tr>
<tr>
<td>Criteria</td>
<td>Rationale</td>
<td>Examples</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Potential for targeting high value market opportunities</td>
<td>Products that can be sold in high value markets should be considered. Even if the overall demand for the product has stagnated, there may growing opportunities in certain market segments, like the organic and ethical trade niches. However, some high-value markets may be small and have very high entry barriers. This would include the need to grow the right varieties that meet stringent and standards. The product might have buyers and consumers would have to be able to trace its origin and source down the market chain.</td>
<td>Examples of high value markets include organic and ethical trade products, medicinal herbs, spices, and exotic fruits and vegetables.</td>
</tr>
<tr>
<td>Criteria</td>
<td>Rationale</td>
<td>Examples</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Potential for import-substitution marketing</td>
<td>Some products may enjoy good market prospects, even when overall demand is stagnant. For example, there may be opportunities for substituting imports with locally grown produce. Likewise, there may be season production and marketing.</td>
<td>2% import opportunities are more obvious in the case of seasonal and perishable produce, provided the required production technologies (e.g. seed) are available.</td>
</tr>
<tr>
<td>Criteria</td>
<td>Rationale</td>
<td>Examples</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Potential for diversification</td>
<td>Agri-climatic conditions, the availability of labour and skills, access to inputs, and links to potential markets could enable farmers to adopt new products that have the potential to generate employment and income and contribute to poverty reduction. However, new commodities is generally riskier and more challenging than developing existing production, especially as far as the poor are concerned.</td>
<td></td>
</tr>
<tr>
<td>Potential for value addition</td>
<td>In some cases, an agricultural commodity is produced locally but processed in other regions. There could be potential for income generation through the development of local processing.</td>
<td>Milk production, cassava starch or the development of local honey brands are all examples of local processing activities that add value.</td>
</tr>
</tbody>
</table>


Module 11: Agricultural Entrepreneurship

### Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Rationale</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential contribution to the conservation of natural resources</td>
<td>Sustainability and environmental conservation issues should also be considered. Products directly or indirectly related to conservation may have good market potential and economic feasibility.</td>
<td>Live barriers of forage grasses may be economically feasible due to strong demand for livestock and animal products.</td>
</tr>
</tbody>
</table>

### Rationale

7KHSULFHRSURGXFWKDVDELJQLQXHQFHRQKRZZHOODIDUPHA\uV business performs in the market. Buyers will almost always go for a cheaper product or one they believe brings them value for their money. A well-priced product can give your client’s business an advantage over other farming enterprises in the market. If their competitors, then buyers are more likely to choose their products over the other businesses.

The price should never be so high that buyers cannot afford them; otherwise, your client will not generate sales. At the same time, the price should not be too low so that the business can meet the cost of producing its products. In other words, products should be priced so that the business can make a profit by selling them.

The **market price** of a product refers to the unique price that buyers and sellers agree on to trade in a particular market. Prices may be controlled by rules and government regulations. These regulations often set maximum prices for certain products, in order to protect customers from being overcharged when buying these products.
When entering the market with a new product, there are two main pricing strategies that you can apply, namely market skimming and market penetration.

**Quality criteria**

The quality of products in the agricultural market is regulated by production and food safety standards and product grading and, therefore, quality would be one of the buying conditions. One of the internationally recognised standards that govern food production and safety is the Codex Alimentarius. The buyer may insist on the product meeting these food production and safety standards.

Buyers who are aware of the risks of unregulated them standardised goods. The most important driver in improving production and food safety enforcement is based on trade agreements. If your client wants to sell their products to buyers operating in regulated markets, they must meet international conditions and trade agreements.
Product grading: The process of sorting units of a product into defined classes or grades of quality according to specified standards.

Codex Alimentarius: A collection of internationally recognised standards, codes of practice, guidelines and other recommendations relating to food, food production, and food safety.

Trade agreement: An agreement between two or more countries that stipulate the terms according to which goods and services can be exchanged.

Volume of sales by buyers

The agripreneur/farmer has to identify how much of a particular product the buyer is prepared to buy for a particular period. The volume of sales is influenced by factors such:

- The quality and grading of the product;
- Product price (e.g. the buyer may choose to buy more products from a competitor whose products are selling at a lower price);
- Distribution channels and market access: if a product is not easily accessible, it will not be sold; and
- Conditions and purchasing power in the economic environment.

Frequency of purchase

Frequency of purchase refers to the number of times that a buyer makes a purchase from a supplier. Apart from the nature and quality of the product, frequency of purchase is influenced by factors such as consumer needs and requirements, market supply and demand.

Interviewing buyers

Once the agripreneur has spotted the gaps in the market, conducted a market visit, assessed seasonal supply and demand and has identified the buying conditions, they have to approach...
potential buyers for their products. One way of interacting with buyers is by conducting interviews.

An interview involves an interaction between the agripreneur (the interviewer) and the buyer (the interviewee). The agripreneur asks questions about the market, products and customer needs and preferences and the buyer replies.

Based on the type of questions that are asked, interviews may be conducted in the following three ways:
y Structured interview with set questions;
y Casual and open interview with unstructured questions asked in an informal setup; and
y Semi-structured interview, which is a combination of structured and unstructured questions.

Due to the fact that most agri-businesses are informal in nature, your extension client will most likely use a casual and open interview in an informal setup.

As an extension agent, you can teach your agripreneur clients that the following steps are usually followed when conducting an interview:
y Always start with a greeting;
y Explain to the respondent what the information will be used for and point out the value of the interview;
y Keep the atmosphere relaxed, even if you are conducting a structured interview;
y Try to adopt the language of the interviewees;
y Make your questions clear, so that the respondent understands exactly what is being asked; and
y It is important to keep the interview short.

If the respondent asks you not to reveal their identity then you need to be able to assure them that their identity will not be revealed. Conduct the interview and keep to matters that are relevant to the research topic. Once the interview is done, you...
Table 5: Interview guidelines

<table>
<thead>
<tr>
<th>Do</th>
<th>Do not</th>
</tr>
</thead>
<tbody>
<tr>
<td>Be courteous;</td>
<td>Continue an interview unnecessarily;</td>
</tr>
<tr>
<td>Listen carefully;</td>
<td>$VVXPHWKDWQDVZHUULVQQLVVKHG or is leading nowhere;</td>
</tr>
<tr>
<td>Maintain control;</td>
<td>Use jargon;</td>
</tr>
<tr>
<td>Probe;</td>
<td>Reveal your personal biases;</td>
</tr>
<tr>
<td>Observe signals of nonverbal communication, such as body language;</td>
<td>Talk instead of listening;</td>
</tr>
<tr>
<td>Be patient;</td>
<td>Assume anything about the topic and the interviewee;</td>
</tr>
<tr>
<td>Keep the interviewee at ease; and</td>
<td>Use a tape recorder: it is an indication of poor listening skills.</td>
</tr>
<tr>
<td>Maintain self-control.</td>
<td></td>
</tr>
</tbody>
</table>

Creating the sales agreement

The sales agreement has to include terms for the following elements:
- Scope and duration of the agreement;
- The obligations of each party to the agreement;
- Quality and grading of the product;
- Scope and duration of the agreement;
- The obligations of each party to the agreement;
- Quality and grading of the product;
Prices and taxes;
Invoicing and terms of payment;
Delivery, risk of loss, handling and packaging terms; and
Terms of product return, if necessary.

Study the following example of a sales agreement between a sample farmer and an enterprise for the cultivation of green beans.

Sample farmer to enterprise contract for the cultivation of green beans

1. General:

(1) Farmers of Village --------- (the Farmers) wish to grow green beans and enterprise -------------- (the enterprise) wishes to promote and buy their production and market it overseas.

(2) This contract specifies the terms and conditions under which the Farmers will grow green beans and the enterprise will promote, purchase, process and market the product.

2. The enterprise agrees to:

(1) Measure and assess the suitability of the plot proposed by the Farmer for planting green beans.

(2) Provide high quality seed to the Farmer in good time for planting, in the quantity required for planting the accepted area of land.

(3) Supply on cash payment (or on credit once the Farmer qualifies as an established and reliable contract grower) the type and quantity of fertilisers and agri-chemicals required for the area of green beans planted by the Farmer.

(4) Advise the Farmer on all technical aspects of growing green beans.
(5) Buy all green beans of acceptable quality grown by the Farmer, for a price announced at the start of each growing season. The quality requirements will be as described in Schedule 1.

(6) Pay the Farmer his/her dues as described in Paragraph 4 below.

3. The Farmer agrees to:

(1) Use the part of his/her farm that has been surveyed and approved by the enterprise, for the purpose of growing green beans for the duration of this agreement.

(2) Plant the bean seeds supplied by the enterprise on this land, on the dates and following the procedures advised by the enterprise.

(3) Follow all technical recommendations made by the enterprise with regard to planting, irrigating, weeding, fertilising, controlling pests and diseases, picking, sorting and packing green beans.

(4) Sell all green beans of acceptable quality grown on the farm to the enterprise, for the price and following the procedure outlined in paragraph 4 below.

(5) Become a member of ------------------- Farmers’ Group, and to contribute to the maintenance of common facilities for irrigation, input distribution, sorting, packing, etc., as agreed by the group.

4. Payment for green beans and production inputs shall be determined as follows:

(1) The base price at which each grade of green beans will be bought will be announced by the enterprise at least one month before the start of each planting season.

(2) The prices at which fertilisers and agro-chemicals will be sold will be announced at the same time, but may fluctuate during the year in line with exchange rate fluctuations.
(3) Payment for green beans delivered each month, less the cost of fertilisers and agri-chemicals taken on credit, will be made before the 15th of the following month.

5. Penalties and bonuses:

(1) If the Farmer delivers green beans which do not meet the agreed quality standards, the enterprise will reject them. The Farmer may re-submit them after sorting, but the enterprise is under no obligation to accept beans which do not meet the agreed quality standards.

(2) If the Farmer fails to follow the procedures detailed in this agreement, he/she will be warned verbally and in writing. After three written warnings the enterprise has the right to terminate the agreement.

in paragraph 2 above, the Farmer has the right to claim compensation to the value of the services foregone or to the value of the crop lost, at rates agreed between the enterprise and the Farmers’ Group.

(4) If the Farmer delivers green beans which exceed the required quality standards or the expected level of production, he/she shall be eligible for a bonus payment at a level agreed between the enterprise and the Farmers’ Group.

6. Duration of the agreement:

(1) This agreement will last for one growing season from the date of signing to the end of the economic harvest of the green bean crop.

agreement it may be renewed for a further season, but there is no obligation on either party to renew the agreement.
7. Dispute settlement:

(1) Any dispute arising as result of this agreement will be settled wherever possible by discussion between the enterprise, the Farmers' Group and the Farmer.

(2) Any dispute which cannot be settled by this process will be referred to an independent arbiter acceptable to all the parties involved.

8. Signature:

I have read and understood the contents of this agreement and I sign it of my own free will.

----------------------------------------------- (Farmer)
----------------------------------------------- (Enterprise)
----------------------------------------------- (Witness)
----------------------------------------------- (Date)

Schedule 1: Grades and quality requirements of green beans

1. Grade specifications:
(1) Grade 1 beans (extra fine) are from 6.5 - 9.5 cm in length.
(2) Grade 2 beans (fine) are from 9.5 - 11.0 cm in length.
(3) No other sizes will be accepted.

2. Quality requirements: Acceptable beans must be:
(1) Free from pests, wounds, scars, bruises;
(2) Free from mud, dust or other debris;
(3) Not broken or damaged in any manner;
(4) Not bent;
(6) Fresh and not pre-wilted by sunburn or other sources of heat;
(7) Naturally green, not tainted by disease, smoke, etc.

Complete Activity 3.1 in your workbook.
Session 3.2: Managing key activities and partners in a business

Session outcomes
After completing this session, you should be able to:

- Map out the key activities in the production or development of a product;
- Identify key partners;
- Design an implementation plan; and
- Monitor progress.

Introduction

Once the agripreneur/farmer is familiar with the process of identifying market opportunities and interviewing buyers and understands the key buying conditions, they should map out the key production activities and key partners involved in their business. In this session, you will learn how to manage key partners and key activities involved in the agripreneur and design and implement a strategy to monitor the progress of the enterprise.

Mapping key activities in the production cycle

The key activities involved in production or development includes all the activities or tasks that are performed from the point of selecting a product to the point of selling it to a suitable buyer. These key activities may include:

- Land preparation;
- Planting;
- Crop production and management;
- Pest and disease management;
- Soil and water management;
Harvesting and drying; and
Sales management.

Identifying key partners

Key partners in an agripreneur include:
- Local agricultural research stations which can give ideas and help with new technologies;
- Farmers, lead farmers, farmer groups and cooperatives;
- Input suppliers who provide the products necessary for agricultural input, such as seeds, fertiliser, pesticides, etc.;
- Collectors, who are small, local traders, who buy directly from individual farmers;
- Processors, who transform the product, e.g. feed manufacturers and companies that package frozen food, etc.;
- Companies and retailers that buy the product, e.g. wholesalers (such as supermarket chains), which sell products to consumers;
- Financial institutions, e.g. commercial banks, agricultural banks and savings and credit cooperatives (SACCOs);
- Extension and business development services;
- Regulatory agencies who are responsible for the application of policies, regulations and standards in the market; and
- Customers who buy the final products.
Microfinance institution: A financial institution that is designed to work with households with smaller borrowing capacity than clients of commercial banks.

Agricultural bank: A bank that started as a government-owned institution that provides credit for investments in agriculture and other production activities.

Savings and credit cooperative: A member-owned and member-governed savings and credit institution that was developed to empower poor communities to manage their own financial resources.

## Designing an implementation plan

The implementation plan can be designed according to the template in Table 6.

**Table 6: Implementation plan template**

<table>
<thead>
<tr>
<th>Area</th>
<th>Activities</th>
<th>People responsible</th>
<th>Timeframe</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post-harvest</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>processing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Monitoring progress

It is important to measure the progress of the agripreneur to establish whether production, financial and sales objectives and targets have been met and to plan for the next season. Monitoring and recording progress provides the following information:

- Whether production targets were met;
- If cost and price targets were met;
- Whether the enterprise made the expected income and profits;
- If anything should be done differently.

Table 7 shows a template that you can use to monitor progress.

**Table 7: Progress monitoring template**

<table>
<thead>
<tr>
<th>What went well?</th>
<th>What needs improvement?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business plan</td>
<td></td>
</tr>
<tr>
<td>Pre-production</td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td></td>
</tr>
<tr>
<td>Post-harvest</td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
</tr>
<tr>
<td>3URøWQDO\VLV</td>
<td></td>
</tr>
<tr>
<td>Recommended changes</td>
<td></td>
</tr>
</tbody>
</table>

Complete Activity 3.2 in your workbook.
Session 3.3: Business planning: From canvas to business plan

Session outcomes
After completing this session, you should be able to:
y Use the business canvas to help design your client’s business;
'y 'HøQHW KHY DOX HSURSRV LWRQ
'y 'HøQH\RXUFOLHQW\VF\XVWRPHUV
'y Use calculators and digital applications in cost and revenue calculations; and
'y Identify your client’s investment needs.

Introduction
The focus area in this session is the business plan. You will learn how to use the business canvas to help your agripreneur clients design a business plan, after which the definition of the value proposition and how to identify customers will be discussed.
The session is concluded with a discussion on how to identify investment needs and how to use calculators and digital applications to help with costs and revenue calculations.

Using the business canvas to design your business plan

A typical business plan consists of three parts, each with several subsections:

Part 1: An outline of the business:
1. Introduction;
2. Business organization;
3. Product;
4. Marketing strategy;
5. Risks; and
6. Business operation plan;

**Part 2: Financial data and analysis:**
1. Marketing costs;
2. Income streams; and
3. Financial requirements.

**Part 3: A loan analysis (if the group wants to borrow money):**
1. Financial requirements.

**Purpose of the business plan**
The main purpose of a business plan is to:

**Guide the enterprise over the long-term**
A business plan brings ideas and decisions together and puts them in concrete form in one document to guide the direction of the agripreneur or farmer group.

**Facilitate understanding and agreement**
Despite intensive discussions, members of the farmers group aims to do. A business model canvas session a business plan which will clarify the strategy and remove any misunderstandings.

**Improve organization and decision making**
Because a business plan follows a certain structure, it helps the group to make sure it has collected and organised all the
information that it needs in a suitable way, which makes decision-making easier.

**Test and strengthen financial feasibility**

The business plan requires the farmer group to compare its resources and income to its costs and expenditures and it shows whether the enterprise can make a profit.

**Measure performance**

The business plan gives the group clear targets and group members can use these targets to monitor their performance and make changes in the production season, if the original plan needs to be amended.

**Ensure continuity**

A business plan ensures that a new group of managers can take over operations smoothly, reducing the risk of disruptions and abrupt changes in direction.

**Sell the enterprise**

Business partners, such as major suppliers, contract partners, big customers and business services, may want evidence that the group has thought its business plan through and that the business will be a viable concern. A business plan gives them the information and assurance they need.

**Convince lenders and donors**

Banks and microfinance institutions want evidence that the group’s enterprise will be profitable before they will agree to lend it money. They usually require a business plan as a condition for a loan. Donors also want to be confident that the group is viable, and a business plan can be evidence of this.
**Guide implementation**

The business plan shows what the group needs to do to achieve its goals. It keeps the members and the management focused on what has been agreed upon and it acts as a framework for the group’s implementation plan (i.e. the list of tasks and activities the group members have to do each year or production cycle).

**Visualising a business plan**

Before asking farmers to design and compile a formal business plan, it is helpful to give them some tools to visualise their business plan and to define the different parts of a business plan. This will help them to understand how a business plan is built from basic parts and to understand how the components/parts of a business plan fit together. This visual method to help design a business plan is the model canvas, shown in Figure 19.

![The business canvas](image)

**Figure 19:** The business canvas

This method has been adapted to fit the situation of small-scale farmers in developing countries and is shown in Table 8.
**Table 8: The nine areas of the model canvas**

<table>
<thead>
<tr>
<th>Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Customers</td>
<td>These are the buyers of the product, such as traders or consumers. For most products, there is more than one type of customer. For example, a supermarket may buy the highest grade output, but the lower grades will have to be sold in a local wholesale market and lowest quality used to feed animals.</td>
</tr>
<tr>
<td>2. Value proposition (product)</td>
<td>This is a statement that clearly and concisely describes the unique value of a firm or group’s products. It states the firm/group’s core objectives, which set it apart from the competition. In most cases, the value that the farmers plan to produce. Products may include things like maize or milk.</td>
</tr>
<tr>
<td>3. Channels</td>
<td>These are indications of the way in which the group plans to deliver the product to the buyer, e.g. by having members deliver to a village collection center ready for pick-up.</td>
</tr>
<tr>
<td>4. Customer relationships</td>
<td>These indicate how the group plans to identify buyers and create and maintain relationships with them, through basic agreements, alliances and or contracts.</td>
</tr>
<tr>
<td>5. Income</td>
<td>This is the money the group earns from selling the product.</td>
</tr>
</tbody>
</table>
### How to use the business model canvas

The canvas consists of a large sheet of paper divided into nine areas, shown in Figure 20. Each section represents RQHDFWR/LKHQSULVHDVGHøQHGLQ7DEOH8VLQJ the canvas with their business advisor is a helpful way for farmers to think about and plan their enterprise. The farmers can debate ideas and then using sticky notes IDUPHVDFQZULWHGRZQWKHULUGHDVDQGøOOWKVLQIRUPDWRQ into the corresponding section on the canvas. For example, the øUVWDUHDWRøOOLVWKHFVWRPHUVFHFWLRQ:KRDUWHFKFXVWRPHUV DQGZKUHDUHUKH\0RDWHG"7KHQWKKHDPNZ\0OOLQWKHLUGHøQLWLRQRWKHLUVDXHSURSRVLWLRQKWKLVLQIRUPDWRQJRHLQV FHQWUHIWKHFDQYDV\RORZLQJWKLVSRHVWKKHHIDUPHVDFQøO in the canvas and then make decisions about how to improve the parts of the business plan, to make their best strategy.
### Figure 20: A model canvas

A partially completed example is shown in Figure 21 below from an example in the LINKS methodology book. For many farmer groups, this level of information along with a strong implementation plan is sufficient to launch their agripreneur.

#### Business Model of APROCA, Ecuador

<table>
<thead>
<tr>
<th>Partners</th>
<th>Key activities</th>
<th>Value proposition</th>
<th>Relations</th>
<th>Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFAD</td>
<td>Technical assistance for producers</td>
<td>PROPOCA supports associative farms in improving their livelihoods</td>
<td>Clients pay an approximate price for the product</td>
<td>VLA HOUSE COMPACTES</td>
</tr>
<tr>
<td>giz</td>
<td>Project management with partner of International cooperation</td>
<td>PROPOCA = Registered brand</td>
<td>Payments are not always happen on due date</td>
<td>Pradam</td>
</tr>
<tr>
<td></td>
<td>Marketing</td>
<td>Unique characteristics in terms of quality and environmental conditions</td>
<td>Improve customer service</td>
<td>Coca</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key resources</th>
<th>Key activities</th>
<th>Value proposition</th>
<th>Relations</th>
<th>Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parsons provide support for: Product evaluation Infrastructure Organization Marketing Financial</td>
<td>Technical equipment and infrastructure</td>
<td>PROPOCA = Registered brand</td>
<td>Payments are not always happen on due date</td>
<td>Coca</td>
</tr>
<tr>
<td></td>
<td>Know-How</td>
<td>Unique characteristics in terms of quality and environmental conditions</td>
<td>Improve customer service</td>
<td>Coca</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost structure</th>
<th>Revenue structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost for human resources is partly covered by partners</td>
<td>Sales emerge on GIZA</td>
</tr>
</tbody>
</table>

![Business Model Canvas](image)

### Figure 21: Example of a partially completed business model canvas

,ILQSUHDULQJWKHEXVLQHVVFDQYDVWKHWDHPoQGVWKDVWKHUH DUHJDSVLQWKLUNQRZOHGJHWKH\PD\KYHWRoQGDZD\WR\OO
in the gaps, by collecting missing information from additional interviews or seeking advice from other people with knowledge and experience in this market.

A more formal business plan is required, as this will be used to

Writing a business plan

Once your clients have collected all the information they need, for example, using the information gathered in the market survey and the information from the business canvas, the next step is to write a business plan. Having prepared the business canvas, all the teams need to do is to put the right pieces of information in the right place. The business plan is more detailed than the canvas and if in the process of writing a business plan, the team may have to stop writing in order to discuss these issues and either collect missing information and/or make the necessary decisions.

Table 9 provides the basic sections of a business plan with the basic information and explanatory questions that are associated with each section. If your clients have used the business canvas to organise the information, they can now write down the information into the standard format, as outlined in Table 9.
### Table 9: Content of the business plan

<table>
<thead>
<tr>
<th>Subsections</th>
<th>Key questions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Introduction</strong></td>
<td></td>
</tr>
<tr>
<td>Project Name</td>
<td>Name of the agri-enterprise team and goal of the business</td>
</tr>
<tr>
<td>Address</td>
<td>What is your contact address?</td>
</tr>
<tr>
<td>Phone number</td>
<td>What is your phone number?</td>
</tr>
<tr>
<td><strong>Business</strong></td>
<td></td>
</tr>
<tr>
<td>Vision and sales goal</td>
<td>What is the vision of the enterprise? Goal = Sales targets</td>
</tr>
<tr>
<td>Describe the business</td>
<td>How long has this group been in existence? Is the group registered?</td>
</tr>
<tr>
<td>Name the key positions in the business</td>
<td>Chair person; Treasurer; Secretary; Lead farmer; and Market agent, etc.</td>
</tr>
<tr>
<td>Number of members by gender</td>
<td>What is the number of men and number of women in the group?</td>
</tr>
<tr>
<td>Current savings/ bank statement</td>
<td>/DWHVW\oQDQFLDOVWDWHPHQW and savings levels (if any).</td>
</tr>
<tr>
<td>Subsections</td>
<td>Key questions</td>
</tr>
<tr>
<td>-------------</td>
<td>--------------</td>
</tr>
<tr>
<td><strong>Value proposition</strong> (Product)</td>
<td><strong>Product name</strong></td>
</tr>
<tr>
<td>Existing/new</td>
<td>Is this an existing product or a new product being offered by your group?</td>
</tr>
<tr>
<td>%HQHọWVWR buyer</td>
<td>Why is the buyer(s) interested in product?</td>
</tr>
<tr>
<td></td>
<td>What is unique: Is it cheaper, better quality, local, or are there other benefits, or advantages?</td>
</tr>
<tr>
<td><strong>Marketing strategy introduction</strong></td>
<td>'HọQHWĐUĐHW market</td>
</tr>
<tr>
<td>Location</td>
<td>How far is this market from the production site (km)?</td>
</tr>
<tr>
<td>Market type</td>
<td>Is this an existing market or a new market for your group?</td>
</tr>
<tr>
<td>Describe customers</td>
<td>Who is your buyer—type of trader, or processor?</td>
</tr>
<tr>
<td><strong>Product</strong></td>
<td>Describe the key product attributes</td>
</tr>
<tr>
<td><strong>Price</strong></td>
<td>Describe price setting</td>
</tr>
<tr>
<td></td>
<td>:KDWLVWKHR%JSULFH contract price?</td>
</tr>
<tr>
<td>Subsections</td>
<td>Key questions</td>
</tr>
<tr>
<td>-------------------</td>
<td>----------------------------------------------------</td>
</tr>
<tr>
<td>Place</td>
<td>How will you get product to market?</td>
</tr>
<tr>
<td></td>
<td>Sales team;</td>
</tr>
<tr>
<td></td>
<td>Street vending;</td>
</tr>
<tr>
<td></td>
<td>Carry;</td>
</tr>
<tr>
<td></td>
<td>Pick up;</td>
</tr>
<tr>
<td></td>
<td>Cycle; and</td>
</tr>
<tr>
<td></td>
<td>Lorry, etc.</td>
</tr>
<tr>
<td>Promotion</td>
<td>How will you promote your product?</td>
</tr>
<tr>
<td></td>
<td>Voice;</td>
</tr>
<tr>
<td></td>
<td>Phone;</td>
</tr>
<tr>
<td></td>
<td>Through a trader;</td>
</tr>
<tr>
<td></td>
<td>and Person-to-person contacts, etc.</td>
</tr>
<tr>
<td>Market risks</td>
<td>Identify key risks to plan</td>
</tr>
<tr>
<td></td>
<td>What are the key risks to the action plan?</td>
</tr>
<tr>
<td></td>
<td>How can the risks be overcome?</td>
</tr>
<tr>
<td></td>
<td>Risk mitigation plans</td>
</tr>
<tr>
<td></td>
<td>Are there ways of minimising the risks?</td>
</tr>
<tr>
<td>Subsections</td>
<td>Key questions</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Business operation plan</strong></td>
<td>Describe your business flow in detail from production to sale.</td>
</tr>
<tr>
<td>Pre-production activities</td>
<td>Input procurement and nursery.</td>
</tr>
<tr>
<td>Production activities</td>
<td>Ploughing, sowing, and weeding.</td>
</tr>
<tr>
<td>Post-harvest activities</td>
<td>Drying; Sorting; and Storage, etc.</td>
</tr>
<tr>
<td>Marketing activities</td>
<td>Buyer linkage; Negotiation; and Transport, etc.</td>
</tr>
<tr>
<td>Key partners</td>
<td>Partners may include extension agents, input supplier, transporter, etc.</td>
</tr>
<tr>
<td>Key resources</td>
<td>Land; Crops; and Processing methods, etc.</td>
</tr>
<tr>
<td><strong>Production costs</strong></td>
<td>Total material costs: Calculate costs per season/year</td>
</tr>
<tr>
<td></td>
<td>Total labour costs: Calculate costs per season/year</td>
</tr>
</tbody>
</table>
### Income streams

<table>
<thead>
<tr>
<th>Subsections</th>
<th>Key questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned sales volumes</td>
<td>Give clear units of sale, e.g. 100 kg bag.</td>
</tr>
<tr>
<td>Selling price of product</td>
<td>Give dollar conversion: 250 shillings/bag = $1/bag.</td>
</tr>
<tr>
<td>Estimate seasonal sales</td>
<td>Estimate seasonal sales.</td>
</tr>
</tbody>
</table>

### Gross margin

| Gross margin                         | Calculate gross margin and net income.                                      |

### Strategies to increase profit

| What changes can be made to increase gross margin? |

### Startup capital requirements

| How much capital do you need to start the business? |

### Capital funds available

| How much capital do you and your members/partners have? |

### Capital funds required

| How much capital are you lacking? |

### Method to raise funds

| How can you raise the funds that you are lacking? |

---

**Using calculators and digital applications in cost and revenue calculations**

Financial calculations such as costs of production and sales revenues can all be calculated by hand using basic mathematics. However, to speed up the calculations and help the farmers, in terms of accuracy, an extension worker should show farmers how to do basic calculations using a calculator. Most mobile phones have a basic calculator that will perform functions such as adding,
subtracting, multiplication, division and percentages. These functions are normally all that is needed to add up all the costs and subtract the total from the total revenue figures to arrive at a gross margin.

There are also some financial applications that will allow farmers or field agents to make calculations using mobile financial applications. If farmers use this type of application, they can share the information with others and their extension agents by saving their calculations and sharing them, using their phone.

**Identifying investment needs**

When starting a business, one of the key decisions that an entrepreneur has to make is deciding whether they would need external financial assistance of some sort, such as investments. In terms of investment needs, an agripreneur needs to determine:

- How much money is required to start the enterprise?
- How much money does the enterprise team have?
- How much does it need?
- When will it see its first revenue?
- When will it break even?
- When does it see profit?

The key concepts in determining investment needs are income and expenses. Your clients need to determine how much money they earn in a typical season from a specific product (i.e. income) and how much they need to spend on a product during the season (i.e. expenses).

See Session 4.1 for more information on investors.

- Complete Activity 3.3 in your workbook.
- Complete Activity 3.4 in your workbook.
- Complete the summative assessment in your workbook.
Study unit 4: Financial management, sales and risk management

Study unit outcomes
After completing this study unit, you should be able to:
- Identify sources of finance, including:
  - Savings;
  - Self-help groups;
  - SACCOs;
  - Family lending;
  - Local money lenders;
  - Micro-finance institutes;
  - Banks; and
  - E-money/e-credit;
- Manage financial resources and insurance;
- Perform sales operations; and
- Conduct a risk assessment.

Study unit overview
This study unit is designed to provide extensionists with knowledge about sources of finance and how to match specific types of finance with required levels of investment, explore sales strategies and help farmers to assess risks in managing their financial resources.

Study unit introduction
Completing this module will allow you to identify and match resources and link these ideas to sales. The module will also provide you with a basic guide to risk assessment. These skills will enable you, as an extensionist, to identify the most support investments for farmers and farmer groups.
Session 4.1: Identifying sources of finance

**Session outcomes**
After completing this session, you should be able to:
- Savings;
- Self-help groups;
- SACCOs;
- Family lending;
- Local money lenders;
- Micro-finance institutes;
- Banks; and
- E-money/e-credit.

**Introduction**

The agripreneur has access to a number of finance sources, which will be discussed in this session.

**Bank loans**

Getting a loan from a local bank is the first choice that most people consider when funding a new business. However, on many occasions it is tough to attain a bank loan on the root of a business plan alone. This is because banks can’t use your idea as collateral.

**Apply for grants**

Finding a grant to fund your young business isn’t easy. That’s why it doesn’t happen often. You could be able to get a grant from a
number of sources, including, grant programmes, or state and local government grant programmes.

**Personal Savings**

“This is the most ideal source of fund for most businesses. It comprises inheritance or personal savings created or saved from your preceding happenings. The capacity of money obtainable for usage hinges on your income, your aptitude to save and to consume and the level of taxation. This source of fund institutes no obligation to your company and it is generally interest-free

**Partnership**

A partnership is a legal form of business in which two or more individuals share the management, profits, and liabilities of a business venture. With an outlook to increasing the capital base of a new venture, you may decide to take on a partner or partners.

**Money lenders**

These are individuals or a group of individuals (distinct from banks and financial institutions) who offer small personal loans at high rates of interest.

The entrepreneur highlights that you ought to know and fully understand the terms and conditions of the contract before you borrow money from them. This is because some money lenders give conditions that look good but risky. Some contracts are also constructed in such a way that you end up losing your company if you fail to meet up with the terms and conditions.
Customers

This source of fund is only possible if you have reliably built an exceptional reputation in your field of business. Your customers can help finance or partly finance your business by making advance payment for goods.

Alternatively, you can give the customer goods on credit. You can also generate funds by granting cash discount to customers who make early payments.

Savings and credit cooperatives (SACCOs)

SACCOs provide financial services and savings options to millions of people in many countries; particularly to people in low-income groups. SACCOs are user-owned financial institutions in which members, who have equal voting rights, are from the same geographic area, community, or the same employer. The main services of SACCOs are savings and credit.

Choosing a SACCO as a savings option has the following benefits:

- SACCOs reach clients and areas that are of little interest to commercial banks, e.g. low income clients in rural areas;
- SACCOs often start locally, without any external support;
- The small savings accounts provide a stable and low cost funding source; and
- They have lower administrative costs than other financial services providers.

The main disadvantage of SACCOs is inadequate regulation and supervision, which may result in instability.

Family lending

Family lending is a private loan option in which family members (e.g. parents and children) make loans to one another—often without a formal agreement or interest being paid on the loan.
Interest: Money paid regularly (at a particular rate that is expressed as an annual percentage) for loans or paying debts.

It is important that the family members agree on a repayment plan for these loans. Many farmers take advantage of this to support part of the farming business.

Local money lenders and traders

A local money lender is a non-institutional individual (i.e. non-bank) or a small enterprise that loans money to individuals. Local money lenders are known for granting loans to any individual or small enterprise, if the risk is reasonable, but their loans involve extremely high interest rates.

Many input suppliers and traders double up as money lenders. Farmers often develop long-term relationships with their trader/input supplier to lend them inputs on credit. This credit is generally given on the condition that the farmers sell their produce back to the same trader at the time of harvest and part of the revenue will be withheld to cover the input costs.

On the one hand, this system is a vital source of credit for millions of farmers, but it is also a cause of chronic and persistent poverty as farmers do not receive good prices when they sell back through their lending agents.

Micro-finance institutes

Micro-finance institutes provide financial services and loan options to households and small enterprises with smaller borrowing capacity than clients of commercial banks. Micro-finance systems have made a significant difference to many small business owners in urban situations; probably more so for women than for men. Many organizations working with farmers have not invested in the agricultural sector.
Using micro-credit has the following disadvantages:

- At present very few micro-finance institutions lend in rural areas, and it is rare that they lend to farmers;
- The costs involved in microcredit is high, partly because one is dealing with a large number of small loans;
- The lending conditions are limited, in that the loans are short-term and for small amounts only, which makes micro-credit a less suitable option for agri-business management; farmers need multi-disbursement loans, which few MFIs offer;
- Some micro-credit systems offer loans only and the importance of local savings is sometimes underestimated; and
- Some people (particularly the poorest people) are excluded.

**Commercial banks**

Commercial banks are profit-based, financial institutions that are legally authorised to offer various financial services, to receive money from, and to lend money to individuals and businesses. Commercial banks are authorised to provide the following:

- Accept deposits from customers into savings and cheque accounts (current accounts), as well as fixed deposits in which an amount of money is deposited with the bank for a fixed period;
- Grant different types of loans to customers, e.g. short-term loans and demand loans, which the bank can recall on demand at any time;
- Grant overdrafts on current accounts; and
- Provide bonds, which help clients buy property.

**Overdraft:** A short-term loan that allows a client to draw more money than what is available in his/her current account up to a certain limit.
There are some banks that lend to farmers, but these are mostly specialised banks who lend to more commercial farmers and often need collateral to cover the loan payment. Few smallholder farmers access credit through commercial banks. Their loans are too small to be viable for most banks and the risks are too high.

**E-money/ e-credit**

E-money—also referred to as electronic money, electronic cash and digital cash—is electronic money that is exchanged electronically using a mobile phone. M-Pesa (e-cash) is an example of an e-money system.

7KH03HVDQDQFDVHUYLFH0IRUPRELC peza is the Swahili word for money) was ØUVWLQWURGXHGLQHQ\DLQZKUH the service has become the main way of sending millions of small cash transfers from urban centres to rural communities. The service allows users to deposit money into an account stored on their cell phones and send balances by using SMS technology to other users, who could redeem these deposits for regular money

DWSD\PHQWLRLRVNDFUVRVRWKHFRTQWU\QLWVØUVWZ years of operation, M-Pesa reached nearly 40% of the adult Kenyan population. The M-Pesa service currently operates in several countries and supports more than 9 million users. By facilitating the safe storage and transfer of money, it supports mass remittance trade, by making it easier to pay people with security, and to receive secure and rapid payment for goods and services.

`LJLWDOZDOOHVXHYHDRFRPSDQLHVUDUHQRZRHLQJIDUPHUVQ opportunity to save electronic money in e-wallets.`
Investors

An investor is an individual or an institution who places money into a particular business in return for an ownership, partner

Investors in the agricultural sector

The agricultural sector plays an important role in economic growth and development and investment in this sector has

improving food security. The following factors contribute to the increase in the demand for agricultural products and, therefore, investment opportunities in the sector:

- The increasing demand for food produce, which can partly be seen as the result of population growth and longer life expectancies; and
- Increases in the purchasing power of populations in emerging economies as countries urbanise.

These combined factors have caused increases in food demand and changes in food consumption towards higher value products. Agriculture and rural development investments come from a variety of sources, including governments, donors, foundations and the farmers themselves. Extension agents may be able to find investors in your local community, business and trade organizations and increasingly from richer urban people who want to invest in farming operations and enterprises. The local Chamber of Commerce and regional and state economic development agencies can provide resources. If you have a Small Business Development Centre in your area, they may be

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Investment Centre website via this link: http://www.fao.org/investment/investmentcentrestaff/en
In addition to the traditional types of investors, there is now a new class of investors, who want to focus on impact in their investments. The new type of ‘social investor’ is looking to invest funds in social businesses or socially minded enterprises helping under-privileged people, but also gaining an economic profit. Impact investors typically seek a social rate of return, rather than a market rate of return. This distinction is sometimes difficult to determine, but it could be that a social rate of return is set at 1–3% as compared to an expected market rate of return of 5–15%.

For the agricultural sector, **impact investing** is of interest, as it may offer a new source of investment in both short-term trade finance and longer-term infrastructure investment. The aim of the investment is to find new ways of capitalising a sector to accelerate and scale growth, in comparison with the failure of traditional investment and banking support in smallholder/development agriculture.

**Impact investing:** Investments made into companies, organizations and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.
Complete Activity 4.1 in your workbook.
Module 11: Agricultural Entrepreneurship

Session outcomes
After completing this session, you should be able to:
- Separate household and business finances;
- Identify a seasonal calendar for financing needs;
- Calculate the production costs of a product/service;
- Price a product;
- Forecast money needs;
- Explain the concepts of revenue and profit; and
- Manage cash flow.

Introduction
This session focuses on financial management and the tools that the farmer or agripreneur can use to improve their financial management skills. Methods include the seasonal calendar, the budget and money needs forecasting. The concept of pricing products and mark-up levels are also addressed, as well as how to calculate production costs and manage cash flow.

Separating household and business finances

Expenses are money that is spent. It is important that you show your clients how to plan their expenses for a particular period, in order to cover all major expenses and household expenses from their business expenses. The money that is spent on running and managing a household is called household expenses, e.g. housing, food, transportation, school fees, medical needs, telephone accounts, electricity services, etc. All the costs associated with your client’s livelihood are business expenses.
For smallholder farmers, the difference between business and household expenses is not always clear, because they pay all their expenses from the same pool of money. For example, a farmer may have transportation expenses both for his business (to bring the goods to the market) and for personal needs (to visit a relative).

You can show your extension clients how to keep household and business expenses separate in the following ways:

- For individuals, ask them to keep separate records for business and household needs, or, in the rare cases where they have a bank account, keep separate bank accounts for the household statements;
- Give themselves a salary from the income that they earn and do not exceed that when incurring household expenses; and
- Set a budget for the business using the following steps:
  - Step 1: Keep track of their daily income and all their expenses;
  - Step 2: Determine sources of income and estimate their total income; and
  - Step 3: Select expenses and estimate their costs.

Where possible, a farmer group or cooperative should keep in a secure location. The farmer organization should also elect one of its members to be the documentation and statements and share this information on a regular basis with the members.

Farmers and agripreneurs do not usually have a steady income, because they make most of their money after the harvest, which
means that they have a **seasonal income**. Farmers should try to save as much as possible after receiving their harvest income and plan their income and expenses ahead of time.

A seasonal calendar makes it possible for farmers to identify when they will have little work, scarce resources and low income levels. As you learned in Study Unit 2, a seasonal calendar is a record of the expenses and income of a business over a year. The seasonal calendar provides the farmer with a helpful (and YLVXDORYHUYLHZRIWKHLUØQDFLDOVSURGXFWWWKURXJKRXWKH\HDU for an entire year.

$VHDVRQDOFDHOHQDUKHOSVIDUPHUVOLQNWKHVSHFLØFVHDVRQDOH
trends in their income and expenses throughout the year. Recording and comparing expenses to income will give the farmer DJRRGLGHDIWKLUSHUVRQDOØQDFLDOSTDWWHUQVWKURXJKRXWWDHUODNLQJDØQDFLDOVHDRVRSØDOFDOHQDUZLOOKHOSWKHPSODQWKHLUØQDFHFWKURXJKRXWWKHHQWLH\HDUZKLFKŁQWXUQKHOSWthem to save more during months when they have extra income to cover expenses for months when they expect to have a shortage.

**Categories in the seasonal calendar**

The seasonal calendar can be seen as a rough budget for a year that covers the six key categories discussed below.

**Season**

$VHDVRQQLQVSHFLØFSULRGQLQWKH\HDUWKDWLVFKDUDFWHULVHby particular weather conditions and temperatures, such as summer, winter, or hot and dry and rainy seasons. The annual ZHDWKHULVDOVRLOQLQHWHSFLOFDJULFXOWXUDOFWLYLWLHVOplanting season, harvest season and growing season, as shown in )LJXUH\DUHUVZKRJURZPDQ\GL\HQWWSHVRIISRSDQGeral animals on their farms need to plan for the production of GL\HQWSURGXFWWWKURXJKRXWKH\HDU
means that they have a seasonal income. Farmers should try to save as much as possible after receiving their harvest income and plan their income and expenses ahead of time. A seasonal calendar makes it possible for farmers to identify when they will have little work, scarce resources and low income levels. As you learned in Study Unit 2, a seasonal calendar is a record of the expenses and income of a business over a year. The seasonal calendar provides the farmer with a helpful (and visual) overview of their financial situation for an entire year. A seasonal calendar helps farmers link the specific seasonal trends in their income and expenses throughout the year. Recording and comparing expenses to income will give the farmer a good idea of their personal financial patterns throughout the year. Making a financial seasonal calendar will help them plan their finances throughout the entire year, which, in turn, helps them to save more during months when they have extra income to cover expenses for months when they expect to have a shortage.

Categories in the seasonal calendar
The seasonal calendar can be seen as a rough budget for a year that covers the six key categories discussed below.

Season
A season is a specific period in the year that is characterised by particular weather conditions and temperatures, such as summer, winter, or hot and dry and rainy seasons. The annual weather is also linked to specific agricultural activities such as planting season, harvest season and growing season, as shown in Figure 22. Farmers who grow many different types of crops and raise animals on their farms need to plan for the production of different products throughout the year.

Figure 22: Example of a crop calendar for rice production
To improve their financial management, farmers need to plan both their farming activities and record the finances for each of their individual enterprises on the farm. This may include costs for production of coffee in some fields, costs for maize and beans produced in another field and the costs of vegetable production in other parts of the farm. Animal production will also be a part of these separate products.

When starting a financial calendar, it may be more practical for a farmer to start with gathering records for the most important cash crop, such as maize, coffee, or cotton. This will enable the farmer and extension agent to gather information carefully on one product before thinking about multiple cost and revenue streams.

For farmer groups, the financial calendar may be less complicated, as farmer organizations tend to specialise in a limited number of products. The farmer organization, however, has to plan their seasonal calendar several months in advance of the activities, as they may need to pre-order inputs such as seeds, fertiliser and agro-chemicals several weeks ahead of the time that farmers need them.

**Loans**

There are times when it is not possible to earn and save enough money to cover all expenses during low income periods or periods of high expenses. During these times, the farmer may need to take a loan to cover all their expenses. By recording these borrowing patterns, the farmer can foresee their needs in advance and find the most suitable loan for their particular situation.

**Income**

Resulting from selling goods and products or providing services. By writing down how much money comes in during each season, farmers and farmer groups can see when they receive the most...
money and identify the times when there is little or no money coming in.

**Household expenses**

Household expenses are the money that the farmer spends on running and managing their households. Similar to income, household expenses also fluctuate throughout the year. For example, during the dry season, food costs go up.

**Business expenses**

Business expenses refer to all the costs involved in the farmer’s livelihood. During harvest time there are more costs, but there also is more work and, therefore, higher income. Planting season also has additional costs.

**Savings**

In periods when income is high, farming families should try to save money that can be used during low income periods. If farmers are in a savings and loans group or SACCO, they may commit to a more regular savings approach.

**Farmer group costs and revenue**

For a farmer group, there are group costs as well as individual costs. When an extension agent works with a farmer group, the costs for the farmer group will be based on the sum of the 20 farmers.
Revenue for the group will be based on the sale of all the produce that the 20 farmers in the group sell. This aggregate figure may not include all the sales of an individual farmer, as most farmers sell part of their production through a group and part as individuals.

The income for the group will be the aggregate value of all the produce sold through the farmer organization. Generally, the group will get higher unit prices for its sales per unit of product, because it is selling a bulked, cleaned and sorted product, whereas farmers tend to sell small amounts as individuals and small lots generally attract low prices.

One of the other key differences for groups and individuals is the timing of payments. Although individual farmers sell small lots at lower prices, they usually get paid on delivery by small traders. That timely payment has considerable value to farmers who owe debt after a long production season.

When selling through a group, farmers get paid at the end of the season, when the main sales have taken place. It may take several weeks between farmers delivering their goods to a group store and the time they receive payment.

The role of the extension agent is to help farmers fully understand the value of collective marketing and how this approach can help them to increase their revenue. However, this gain in price comes at the opportunity cost of being paid later in the season.

**Inventory credit**

To overcome the frustration that farmers have with collective marketing and the delay in time between delivery and payment, many organizations with access to external credit, set up systems such as an inventory credit scheme. This system is similar to, although less complex than, a warehouse receipt scheme. For inventory credit, the farmer agrees to a part payment for their goods on delivery to the store, e.g. 60% of the market value.
This sum is paid to the farmers, so that they can make good on their debts and prepare for other farm enterprises. The farmer organization provides the farmer with a document that indicates the amount delivered and the partial price paid.

When the group sells their inventory at the HQGRlWKhVHDVRQKWHGleWFGHeHWZHq, the sales price and the part payment is made up to the farmers. In this way, farmers are able to continue with their multiple agripreneurs and the farmer organization avoids loss of product through side selling.

Side selling is a common practice when farmers, who agree to sell their produce through an organization that then forms an agreement or contract with a buyer, feel they can get a better price as an individual. Rather than selling through the farmer organization, they side sell to a second buyer. This can mean that WKHiDUPHUrUJdQLJDLRqGRxVQRWKyHDyHVXÁLHQWSURGXFHW their agreements and so they must default.

Warehouse receipt: A document that provides proof of ownership of goods or products stored in a warehouse.

Household profit

7KHSUrWIRPDjURxSLvPRuHFRPSOLFDWGHGWKDQ household calculations and it typically means that one of the members of the group is responsible for maintaining 0QDFlDjOUHgRVgV7KHSUrWDELOlW\RIWKhIDUPHURXSLV calculated from revenue received from sales of the farmer production, minus the group costs incurred. These may include:

- Costs of any inputs that are procured and offered to members;
- Partial payments made to farmers prior to the main group sales;
- Costs of conditioning the produce, such as drying, cleaning, destoning, bagging, fumigation;
- Storage costs;
Marketing costs; and
Organization costs.

**Calculating the production costs of a product/service**

Production costs are all the costs involved in producing or manufacturing a product or delivering a service. Knowing the production costs of your client’s products or crops is important, in order to:

- Determine how well their business is doing;
- Evaluate how efficiently resources are being used in their farm operations;
- Predict how their business will respond to specific changes; and
- Make decisions for attaining their goals.

It is important to note that production costs refer to direct costs only. Direct costs relate to the production process. An indirect cost may be necessary to make or produce a product, but it includes taxes, rent, electricity services, insurance, etc.
Examples of direct costs are:
- Costs of the materials needed to produce the product (e.g. crop), which may include seed, fertiliser, irrigation water, etc.; and
- Labour costs are the total costs involved in paying workers, who are directly responsible for the production process, e.g. salaries or wages, payroll taxes and pension fund contributions.

You calculate the total production costs of a product by adding all the direct costs involved in the production process.

**Pricing a product**

There are several factors to consider when pricing a product:
- Market prices: find out what customers are paying for a product in the market, (traders, consumers, etc), some countries have regular market price information services;
- When making decisions on the price, it must cover the production costs and the marketing costs of the product;
- The product has to be priced at a price that the buyer is willing to pay;
- Market perceptions play a role in agricultural pricing, e.g. crop failure because of drought may result in traders buying as much as they can store, anticipating scarcity and an increase in price, thereby making the shortage worse and cause further price increases.

There are three main pricing strategies that are used in the agricultural sector: cost-based pricing, value-based pricing and competition-based pricing.

**Cost-based pricing**

In cost-based pricing, the product price includes the operating, manufacturing or production costs of the business. Once the
needs to be achieved to the production sub-total to determine the price. The amount of profit added to the production sub-total is set according to the following three methods:

- Include a profit percentage with product cost (mark-up pricing);
- Add a percentage to an unknown product cost (cost-plus pricing); and
- Price is a blend of total profit and product cost (planned-profit pricing).

**Value-based pricing**

Value-based pricing is based on the customers’ perception of the value of the product. This involves customer preferences, to establish the maximum price that the customer or buyer is prepared to pay for the perceived quality and benefits of the product. In order to determine the attitude of the target customers, the agripreneur may ask the following questions:

- Does my customer assume that price indicates product quality?
- Will customers think that they are getting their money’s worth from my product?
- What are my target customers prepared to pay for my product?

Customer-based pricing methods include:

- Using price to support product image;
- Setting price to increase product sales;
- Designing a price range to attract many buyer groups;
- Setting price to increase the number of sales; and
- Pricing a bundle of products to reduce stock or to excite customers.

**Competition-based pricing**

In competition-based pricing, the farmer or agripreneur focuses on their product and, therefore, on their existing and emerging
competition. Once they know what their competitors are doing, they can decide how to price their products.

Understanding the competition to an agripreneur involves knowing:
- What your clients are buying and selling;
- The types of sellers or companies that your clients compete with (i.e. their direct competition);
- The number and types of substitutes (i.e. their indirect competition); and
- How companies operate in the agricultural industry.

Your client can use the following three strategies in competition-based pricing:
- Pricing their product the same as that of their competition, if they want to make it comparable to the products of the competition;
- Set their price to increase their customer base (i.e. penetration pricing); and
- Set their price to obtain a larger market share by attracting and holding as many customers as possible.

**Working on mark-up levels**

The selling price has to cover the cost of the product as well as the profit and, therefore, mark-up is calculated when the price is determined. Mark-up is the amount added to the cost price of a product to determine the selling price.

The mark-up value, which is expressed as a percentage, is calculated as follows:
Module 11: Agricultural Entrepreneurship

It costs a farmer $245.00 to produce a product and he sells the product at $286.00.

\[
\text{Total profit} = \text{Selling price} - \text{Total costs}
\]
\[
\text{Markup} = \frac{\text{Total profit}}{\text{Total cost}}
\]
\[
\text{Percentage} = \frac{\text{Markup}}{1} \times 100
\]

The mark-up has to be enough to cover all business expenses and keep the business profitable and realistic enough for increased sales and profit. The mark-up range differs from enterprise to enterprise, but it is generally influenced by the following factors:

- The price that customers are willing to pay for a product;
- Expected sales volume: high sales volume with a lower mark-up can still generate the required profit;
- Brand strength: a strong brand requires a higher price and, therefore, a higher mark-up.

A brand is a distinguishing name, symbol or logo that identifies a product and distinguishes it from other products on the market, e.g. Ceres Fruit Growers and Huletts Sugar.
Managing cash flow

Cash flow is the movement of funds or cash in and out of a business. Cash is the lifeline of any business. There are two types of cash flow, namely, positive and negative cash flow.

- Positive cash flow occurs when the cash moving into a business from sales is more than the amount of the cash leaving a business through accounts, monthly expenses, salaries, etc.; and
- Negative cash flow occurs when the outflow of cash is greater than the incoming cash.

Managing cash flow properly ensures that an agripreneur:

- Does not run out of cash;
- Improves its relationships with suppliers as invoices are paid immediately; and
- Spots cash flow problems before they happen.

Use the following strategies to enable your clients to manage their cash flow properly:

- Keep in mind that cash is what keeps a business alive: no cash = no business. Your clients must manage their cash carefully and make sure that they never run out of cash. They must make sure that they know what their cash balance is at all times;
- Determine the breakeven point (i.e. the income needed to cover the total amount of the expenses during a particular
period), so that your clients know when their business

Your clients should try to negotiate payment terms with their suppliers: if they can settle their accounts in 60 days or even 90 days, rather than 30 days, they get to keep their cash for

Your clients should encourage their customers to pay as soon as possible.

Figure 23 is an example of a template that your agripreneur

Revenue is the total income that is generated by an agripreneur, before any costs or expenses have been deducted. It is important to note that revenue can be generated by all operating activities (e.g. the sales of products), as well as non-operating activities (e.g. the sales of assets or money received for interest).
Profit is a financial gain that is expressed as the difference between the money earned (by sales) and the money spent in buying, producing or manufacturing a product. In other words, enterprise during a particular period. It is important to distinguish between gross profit, operating profit and net profit.

**Gross profit**

Gross profit simply refers to revenue minus inventory expenses:

\[ GP = \text{Revenue} - \text{Inventory expenses} \]

Gross profit can be a useful tool to examine the finances of a farming operation to see how profitable it would be if all other expenses were excluded.

**Operating profit**

Operating profit is similar to gross profit, but it takes other costs into account. In order to determine operating profit, the gross profit is calculated first and then operating costs—like rent, labour, transport, storage, utilities such as lighting and phones and other fixed costs—are subtracted. This leaves the total operating profit.

**Net profit**

Net profit is the amount of money that is left in the account at the end of the year or season, after subtracting all business-related costs from the revenue. In order to work out net profit, calculate the operating profit and then subtract any one-time expenses (e.g. advertising costs, legal fees and other irregular expenses).
Forecasting money needs

Financial forecasts are used to predict future business finances. Regular forecasts allow an entrepreneur to monitor their finances and develop strategies to fix problems before they become major issues. Financial forecasts are particularly useful when starting an agripreneurship or when an existing farming operation is experiencing a period of rapid growth or financial difficulty. There are different types of financial forecasts, including sales forecasts (which will be discussed in the next session), expenses forecasts and cost of goods sold. For the purposes of agripreneur you will learn about cash flow forecasting, because it reflects the future money needs of a business.

A cash flow forecast is basically an estimate of the amounts and the timing of receipts (cash inflows) and payments (cash outflows) that a farmer expects over a particular period (usually a season or year), broken down by month. It is an important business tool that enables an entrepreneur or a farmer to estimate income and expenses of their business.

Cash flow forecasts can help identify when an agripreneurship has extra cash available or when there may be shortages, so that the farmer can make the right decisions for their operation.

The following steps are involved to create a cash flow forecast.
Step 1: Estimate potential sales

The first step is to estimate the expected sales for each week or month in the marketing season:

- Use the sales history from the last few years (if any) to get an idea of the level of weekly or monthly sales that can be expected;
- Remember to consider current conditions and trends in the market;
- If a new market opportunity is planned or a new product is launched, include the expected increased sales in the forecast; and
- Remember to plan for seasonality, which is particularly important in the agricultural business, because most sales occur at a particular time of year.

Step 2: Estimate payment timing

Estimate when payment for sales is expected. If a product is sold on credit, include the likely delay in payment into cash flow forecasts, e.g. if the payment terms are 30 days, payment will be received within one or two months after the sale has been made.

Step 3: Estimate costs and loss

Once the expected sales and payment information is in place, the costs involved in running the business must be estimated. These costs may include agricultural input costs (soil testing, seed, fertiliser, pesticides), vehicle and equipment costs, worker costs, loan repayments, bank costs and interest on loans, and marketing and promotion costs.

Step 4: Apply the forecasts

Once the entrepreneur knows their weekly or monthly income forecast template.
Figure 24: Example of a cash flow forecast.
Complete Activity 4.2 in your workbook.

links:
https://www.startuploans.co.uk/cash-flow-forecast/
Session 4.3: The basics of sales

Session outcomes
After completing this session, you should be able to:
- Describe the contract for sales;
- Apply sales forecasting methods;
- Monitor actual sales versus forecasting;
- Review the quality and volume of sales; and
- Identify opportunities for growing sales.

Introduction

In this session, you will learn about different aspects involved in sales. The legal aspects involved in sales will be discussed in sales. The legal aspects involved in sales will be discussed in the nature and content of sales contracts are looked at. Sales forecasting and assessing actual sales are also explored. The session is concluded with a discussion of sales growth opportunities.

Identifying different types of agreements for sales

A buyer and a seller enter into a sales agreement. In most cases, farmers and farmer groups meet with buyers and make a verbal agreement to sell. Generally, farmers know their buyers, since they have a sales history with them and so they work on a handshake agreement and trust. In most cases, farmers do not clearly identify the terms of sale when it comes to the number of bags or tonnes, quality criteria and, especially, price.

However, as farmers make the transition from selling as individuals to selling in larger groups, the volume of sale does go
a larger type of buyer. In this case, the agreement may stipulate the size of the transaction and the buyer may require that certain standards are met.

As trading becomes more standardised and larger transactions take place, there is a movement towards sales being recorded in a sales agreement. This is rarely a binding contractual arrangement with penalties, but it is a step towards a more formal agreement. In this case, the sales agreement may indicate target volumes, basic quality criteria, such as the size of produce, cleanliness, type of bagging by weight, and, in some cases, a moisture content level.

There are different types of sales agreements, including:

- **Cash forward agreement**, which is based on an exchange of produce at a specified time in the future. The agreement specifies the price, quantity and quality of produce to be delivered at an agreed upon post-harvest date;
- **Deferred pricing agreement** where the product price is determined at a later, specified date;
- **Deferred payment agreement** where the current price and delivery of the produce are set, but there is a delay in the receipt of payment: it transfers ownership to the buyer at delivery, while allowing the seller to set the price later; and
- **Minimum price agreement**, which provides the farmer with a floor price for the duration of the agreement, as well as protection against a drop in price below a specified level.

As you can see, the terms in all these sales agreements are based on price. In the case of smallholder farmers and farmer groups, most traders make agreements based on volume and product quality and set prices at the time of the actual sale.
Table 10 outlines the different types of clients and their sales obligations.

<table>
<thead>
<tr>
<th>Type of client</th>
<th>Scale of operation</th>
<th>Market type</th>
<th>Financial lending</th>
<th>Weights, measures, grades and standards</th>
<th>Legal situation</th>
<th>Type of sales agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small-scale individual farmer: Rural world 1</td>
<td>2 acres: rarely mechanised</td>
<td>Highly informal local market</td>
<td>No access or local access</td>
<td>None</td>
<td>None: no legally binding conditions</td>
<td>Hand-shake promise to deliver, not binding</td>
</tr>
<tr>
<td>Individual farmer medium scale: Rural world 2</td>
<td>2–10 acres: either partially mechanised or able to hire power equipment</td>
<td>Transitioning from informal to formal</td>
<td>Possibly some bank loan, mostly informal</td>
<td>Some level of premium on graded goods</td>
<td>Limited: not generally enforced</td>
<td>Hand-shake promise to deliver, not binding</td>
</tr>
<tr>
<td>Large individual farmer: Rural world 3</td>
<td>10 acres plus: mechanised</td>
<td>Formal and commercial</td>
<td>Line of credit from formal bank</td>
<td>Critical and will be enforced with clear price premiums related to grades and measures</td>
<td>Contracts with banks, insurance and buyer: legally binding with sales bonds</td>
<td>Contract with legally binding agreements</td>
</tr>
<tr>
<td>Type of client</td>
<td>Scale of operation</td>
<td>Market type</td>
<td>Financial lending</td>
<td>Weights, measures, grades and standards</td>
<td>Legal situation</td>
<td>Type of sales agreement</td>
</tr>
<tr>
<td>-----------------</td>
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<td>----------------------</td>
<td>-------------------</td>
<td>----------------------------------------</td>
<td>-----------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Farmer group</td>
<td>20–50 farmers</td>
<td>Highly informal</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>Promise to deliver, not binding</td>
</tr>
<tr>
<td></td>
<td>starting a collective marketing business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farmer cooperative local</td>
<td>50–200 farmers</td>
<td>Transitional with level of formality dependent on buyer</td>
<td>Line of credit from mix of formal and informal sources</td>
<td>Use of grades and standards on part of the sales</td>
<td>Limited: not generally enforced</td>
<td>Basic written agreement but mainly based on trust</td>
</tr>
<tr>
<td>Farmer association</td>
<td>500–10,000 farmers</td>
<td>Highly formalised</td>
<td>Credit from bank</td>
<td>Will use grades and standards set by buyers, goods will be packaged and weighed</td>
<td>Formal and in some cases legally binding, particularly with lending agencies</td>
<td>Sales agreement with local buyers, contract with international or formal buyers</td>
</tr>
</tbody>
</table>

**Understanding the contract for sales**

A contract is an oral or a written agreement where two (or more) parties bind themselves to certain obligations that they agree to fulfill, in some cases these contracts are legally binding.

Given that most smallholder farmers work in a highly informal world, the idea of a legally binding contract with a buyer is
somewhat alien. For the most part sales agreements are more of a promise to sell and a willingness to buy.

As transactions become more formalised, such as selling produce into an international market, the legal nature of sales agreements and contracts becomes clearer and there are more legal obligations. Legal sales contracts only work if there are legal systems in place that are able to quickly make decisions on liabilities in a trade case and can enforce a legal decision. If these legal structures are not in place, then any written contract has little weight.

Farmers often fail to meet the terms of their sales agreements. This may be because they were not organised enough to follow their implantation plan, because they were unable to buy the right combination of seed and fertiliser, or crops failed due to drought or pests and disease problems. Hence, they were willing but not able to meet their targets. For the most part, buyers are also at pains not to take legal action against the farmers, as these people are typically poor and if they don’t sell their goods, it is often because they don’t have them. Taking legal action against them would not help.

A contract usually contains the rights and obligations of the parties involved, as well as the rules that the parties must such as:
- Production contracts;
- Marketing contracts;
- Financing contracts; and
- Personal services contracts.

In this section, you will learn about the sales contract. A sales physical or chemical content and that is produced according to a set of obligations imposed on one or more of the parties. Failure
A condition is a contractual term. If a condition or contract is breached, it gives the injured party the right to cancel the contract and claim damages.

**Interpreting the elements in a sales contract**

When your client is considering or negotiating a sales contract, you should be able to help them interpret the content of the contract. Therefore, you should be familiar with the elements involved the contract. These essential elements are outlined in the following sections.

**Purpose**

The purpose of the contract generally involves securing income for the agripreneur and delivering the product to the customer. You should take note of the following, more specific considerations.

- Economic considerations and advantages: You and the agripreneur need to consider the following economic elements:
  - Is there a set quantity requirement?
  - Is there a penalty if the set requirement is not met?
  - Is the producer (farmer) responsible for unforeseen events?
  - Can the location and quantity be adjusted to accommodate bad planting weather?
  - Could the requirements of the contract have an effect on the cost of production?
  - Is there an input restriction, does the contract require that inputs are bought from a certain source?
  - Are the production inputs or techniques required by the contract more expensive than those that are currently being used?

- Financial considerations in contracts: Use the farmer’s cash flow budgets to determine the financial feasibility of the contract arrangement. A contract is feasible if it produces enough cash inflow to meet all input costs;
Payment terms need to clarify the following:
- How will payments be made?
- Is there a schedule of payments?
- When should a party be paid?
- Are there penalties for late payments?
- Will payments be made before delivery? and
- Are there provisions for minimum or maximum payments?

Crop conditions: Consider the following in terms of crop conditions:
- What are the condition requirements?
- Are the crop conditions reasonable?
- Who conducts quality tests and when are tests conducted?
- How are quality disagreements resolved?
- If a portion of the crop does not achieve quality rating, is the entire crop penalised? and
- If the specialty grain is rejected, can it be sold on the open market?

**Delivery site and date**

You and your client will have to look at the contract and see if it specifies:
- Where the delivery must be made;
- Any special handling procedures;
- Who will pay for delivery to the site;
- When the delivery must happen;
- A date for delivery in the contract and, if not, who sets the date; and
- Any penalties for early or late delivery.

**Facilities and equipment**

You will also need to consider if the contract:
- Requires an investment in equipment or facilities;
- Requires specialised equipment, additional labour or additional management;
- Will last long enough to recover the cost of the investment in new facilities;
y Can be terminated before the investment is fully recovered;
y Requires facilities or equipment that need approval or
FHUWL0FDWLQR0DQG
y Needs buildings and facilities to be standardised.

Production requirements

When you look at the production requirements, must the farmer follow any special health care practices and procedures and standards of husbandry practices? You will also need to look at whether there are any limitations on the producer’s management control. The contract needs to state who will provide the labour for the production process, if production records are needed and who will be responsible for keeping these records. The contract must outline who determines the feed requirements and rationing, sourcing, pricing, processing and handling of the feed. Lastly, the contract must state who bears the risk of loss in the production and who pays for liability and other types of insurance.

Interpreting the legal elements in a contract

A contract must include a number of key legal elements in order for it to be enforceable by law. These elements are addressed in the following sections.

Acceptance

Once they have accepted the terms, conditions and obligations set out in a contract, the farmer organization VKRXOGDLPWRIX0OOLVWREOLJDLRQV,ILWEHPHVDLQG contract, it ends any negotiation over the terms of the contract. Important legal considerations in terms of acceptance are:
y Acceptance must be communicated to the party making the RFWUDQG
y $FFHSDQFHRKHLQWKLHFRQWUFWVWFRUUVSRQGWRKHP contract.
Consideration

The promises exchanged in the contract must have some value in
the eyes of the law. Therefore, in order to be binding, a contract
must show consideration, meaning that each party exchanges
something of value. Given the informal nature of most trading
environments in smallholder agriculture, there are few ways to
enforce agreements or contracts. However, when trading coffee
into an international market, for example, the situation changes,
as the farmer organization then shifts from the informal into the
formal world. In this case, contracts may require that sellers place
a 10% sales stake into an account that is forfeit if the contract is
not honoured. The same is done by the buyer.

Some issues relating to consideration include:
y A promise to perform an existing obligation is not adequate
consideration for entering into a contract; and
y Past consideration is not considered for a promise and so
a promise that relates to past consideration is not legally
binding.

Terms of the contract

Each party. In order for a contract to be binding, certain
terms that are significant to the deal are missing, then there is no
valid contract. You and your extension client need to
ensure that a sales contract covers all the items that it is
supposed to and that the terms in the contract are clearly

y Contract length;
y Conditions for contract renewal;
y Pricing arrangements;
y Quality agreements and grades or premiums for quality;
y Payment schedules;
y Delivery and marketing terms;
y Production requirements;
Facility requirements;
Management requirements;
Default provisions; and

The following link will give you an example of a sales contract:

Conduct sales forecasting

The sales forecast is a month by month forecast of the expected level of sales. Accurately forecasting sales gives a business GLUHFWLQRQDQGKHOSVWRDYLRLGXRQIRUHVHQFDVKRZSUREOHPV$VDQHIVRUHFDFVWFDQDOVRKHOSPDQDJHSURGXFWRQVWDLQGRPH

Advantages of sales forecasting

$SDUWIURPHQKDJFLQJFDVKRZVDQHIVRUHFDFVWLDQJLYHWKH
agripreneur in-depth knowledge of their customers and the products that the customers buy. It also enables the agripreneur or the farmer to plan for production and gives them accurate information to identify sales patterns and trends. Most importantly, sales forecasts enable the farmer to work out their expected return on investment.

Return on investment: $PHDVXUHWRSURWRIDQLQYHVWPHQWH[SUHVHGVDUHFWHQWDJHRIFKHKULQLQDOFRV

Although it is possible to forecast sales to a certain degree of SUHFLVLRQWHUHUHLQWHUQDODQGH[WHUQDOHOPHQWVWKWDQV sales. These should be considered when doing a forecast.

The following internal factors related to sales may impact the sales forecast:
y Seasonality: most crops and animals are only sold at a particularly time of the year;
y Labour problems;
y Stock or product shortages;
y Working capital shortage;
y Changes in the product price;
y Production capability shortage; and
y Introduction of new products.

The following external market and economic factors, which are beyond your clients’ control, may also affect sales:
y Relative state of the economy;
y Political events and changes in legislation and regulations governing the industry;
y Weather conditions, patterns and changes;
y Pests and disease; and
y Changes in productivity.

**Sales forecasting technique**

In order to get started on sales forecasting, the extension agent and their client may consider asking the following questions:
y How much can you realistically sell next year?
y How much will it cost to produce your product?
y What are your operating expenses?
y Do you need to hire workers and, if so, how many and how much will you pay them?
y How much will you pay yourself?
y Do you need to pay tax?
y How much money do you need to borrow and how much will your monthly loan payments be?

The following steps are involved in making a sales forecast:
y Divide the products into categories or groups of similar products;
y ‘HWHUPLQHWKHPDMRULQWHUQDODQGH[WHUQDOIDFWRUVD6EWLFWsales of each product group and their relative importance;
y Collect and analyse all necessary data;
Make assumptions regarding any effects of the various factors that cannot be measured or forecast;

Convert assumptions into specific product forecasts and portions;

Apply the forecasts to business operations; and

Periodically review performance and revise forecasts.

For example, if your client does an annual sales forecast for their business, they can base their calculations on the following financial data:

<table>
<thead>
<tr>
<th>Financial data</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last year’s sales</td>
<td></td>
</tr>
<tr>
<td>Total value of additional contracts expected during the next year</td>
<td></td>
</tr>
<tr>
<td>Total value of sales contracts that may not be renewed during the next year</td>
<td></td>
</tr>
<tr>
<td>Projected sales subtotal</td>
<td></td>
</tr>
<tr>
<td>Percentage of increase in industry growth as projected by industry experts</td>
<td></td>
</tr>
<tr>
<td>Percentage of decrease in industry growth as projected by industry experts</td>
<td></td>
</tr>
<tr>
<td>Sales forecast for current year</td>
<td></td>
</tr>
</tbody>
</table>

**Monitoring actual sales versus forecasting**

At its most basic level, farmers and farmer groups should set a target for their sales, e.g. 10 metric tonnes (mt), and then, at the end of the season, assess whether they achieved their targets in terms of volume and price. The group needs to carefully think about issues such as links between their production plan and the financial data. Having good records on production areas, production yields
and sales through the group are important to measure their performance.

For the more formal agripreneurs, having reliable data for the sales forecast reduces the amount of guesswork and the accuracy of the sales forecast will increase. However, any sales forecast holds an element of uncertainty and, therefore, it is not possible to predict sales with 100% accuracy.

Variance is the key factor in monitoring actual sales versus the sales forecast. This is determined by comparing the value of the actual sales quantity to the value of the forecast quantity. A non-compliant variance means that the actual sales quantity is lower than the planned sales quantity. A compliant variance means that the actual sales are higher than the planned sales value.

Problems may occur if the variance is too high or too low. If the variance is too high, cash is often tied up in slow-moving stock. On the other hand, if the variance is too low, the agripreneur or farmer runs shortfalls in income because of limited product availability. In order to correct future forecasting, the agripreneur must look at the trends in past forecasts and actual sales performance.

There are a number of reasons why there would be slight differences between the projections and the actual sales performance. These include:

- Viewing the forecasting process as separate from the rest of the business; or
- Not taking external factors into consideration.

If there are significant differences between the forecast and the actual sales, the agripreneur must do a more detailed analysis.
**Reviewing the quality and volume of sales**

In order to understand the links between production, marketing, sales and income, your clients will need to establish clear targets for each part of their business process and then collect information around targets and actual performance. Unless they improve and optimise their approach. This means that they will have to review their sales statistics, like the quality and volume of sales.

Methods to analyse and review sales data involve the following steps:

- Calculate the values (sales or profit) of each product of a particular period (e.g. a year) and add the values to get a total;
- Calculate the value of each product as a percentage of the total sales value for the period;
- Arrange the calculated values and percentage of the products from high to low; and
- Analyse the results and try to determine the **variables** that distinguish the products with high sales volume from those with low sales volume.

The analysis can be repeated with the sales information for customers, instead of the products. In this way, the agripreneur should be able to tell which customers are involved in their highest sales volumes, more customers in that category.

**Identifying opportunities for growing sales**

As outlined earlier, there are four main strategies to identify opportunities for growing sales:

- Producing more of the same product in the same market;
- Producing the same product in a different market;
- Variable: A characteristic or a number that increases or decreases and, therefore, takes different values in different situations and times.
Producing a new product in an existing market; and
Producing a new product in a new market.

Pipeline analysis and customer-spend analysis can help the extensionist, the agripreneur or farmer can also use the pipeline analysis to determine which sales resources hold the potential for the largest revenue. The farmer needs to determine which geographical area, market and product represent their short-term wins and opportunities.

Find new opportunities if there is someone with a need for their product. This means: If the target is other businesses or individual buyers; What the customer is trying to achieve by buying the product; Where the new customer is located; and What concerns they have about price, quality and after-sales service before they buy the product.

Complete Activity 4.3 in your workbook.
Session 4.4: Assessing risk

Session outcomes
After completing this session, you should be able to:
• Identify the key risks a particular business will face;
• Mitigate the identified risks; and
• Conduct risk planning/risk management.

Introduction

Every business owner faces risks, such as financial risks, production risks and market-related risks. It is important to conduct risk assessment in order to identify the key risks in a business, decide how to mitigate the risk and know how to conduct risk management.

Identifying key risks in agriculture

The agricultural sector and particularly smallholder rain-fed agriculture is known as a high-risk business environment, mainly because agripreneurs are faced with uncontrolled elements, such as irregular weather conditions and pests and diseases and also major economic constraints. These economic constraints often mean that activities such as planting and weeding are not done on time which has a major effect on yield and also farmers buy low quality inputs with further reduces productivity. Table 11 outlines a number of the risks that may occur in the agricultural industry.
<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Risk affecting individuals or households</th>
<th>Risk affecting groups or communities</th>
<th>Risks affecting regions or nations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market/prices</td>
<td>Access to quality inputs and labour at the right time; and Volatile market conditions such as under- and oversupply.</td>
<td>Changes in availability and price of inputs. Rapid changes in market prices; Access to labour and credit.</td>
<td>Changes in input/output price, due to trade policy or new markets.</td>
</tr>
<tr>
<td>Production</td>
<td>Poor quality seed, low quality inputs, drought, pests and diseases; Personal hazards; and assets risks.</td>
<td>Low quality inputs. Lack of access to labour; of planting and weeding on time; Drought, erratic rainfall; and Pests and diseases.</td>
<td>Floods; droughts; and pests and diseases.</td>
</tr>
<tr>
<td>Type of risk</td>
<td>Risk affecting individuals or households</td>
<td>Risk affecting groups or communities</td>
<td>Risks affecting regions or nations</td>
</tr>
<tr>
<td>--------------</td>
<td>------------------------------------------</td>
<td>-------------------------------------</td>
<td>----------------------------------</td>
</tr>
</tbody>
</table>
| Financial    | In debt to trader which reduces negotiating power.  
Lack of cash to pay for inputs and labour on time.  
Changes in income from other sources. | Access to credit on time;  
Lack of insurance; and  
Accepting low prices at time of sale due to need for cash. | Changes in interest rates and access to credit. |
| Institutional/legal | Access to water and land depending on market formality; and  
Liability risk. | Changes in local policies and regulations; and  
Changes in good agricultural practices to meet market needs such as pesticide use. | Changes in regional or national policies and regulations;  
Environmental law; and  
Agricultural payments. |
Categories of risk

Agricultural risks are often classified into the following four categories: production risks, market-related risks, financial risks and institutional risks.

Production risks

Climatic and environmental risks that are not predictable—such as delays in rain, droughts, floods and diseases—have a major influence on the amount and the quality of agricultural production. Farmers often use low quality seeds and inputs and they have limited access to labour at the critical periods in the farming calendar, which further reduces production. Therefore, agricultural production is often characterised by low and varying production outcomes. Climatic factors may lead to a total or partial loss of crops or herds, which may have long-term implications for the farmer.

Farm equipment may also hold a production risk. For example, if a farmer’s tractor breaks down during the production season, they may not be able to harvest in time, which may affect their output, profit and income.

Financial risks

Farmers who sell to traders who have provided them with credit for their inputs are unable to negotiate good prices for their produce and this traps them in a cycle of financial debt and low income.
fact that agricultural production cycles are characterised by long periods of low sales income. In addition, problems may arise from limited access to financial sources.

**Market-related risks**

Smallholder farmers often face difficult choices, particularly about which markets to serve. When advising farmers on market opportunities, it is important that they are matched with appropriate types of markets and risk is a key factor in making decisions on the suitable market. Extension agents should not try to link the most vulnerable farmers with the highest risk, highest return markets.

**The use of the Ansoff matrix in risk analysis**

The use of the Ansoff matrix is a helpful guide to matching risk with farmer skills, aspirations and capacity to take on risk. The Ansoff matrix is a tool that is used to help a business determine its product and market growth strategy. The matrix is based on the assumption that growth possibilities depend on whether it is an existing or a new product in new or existing markets.

In extension services, the Ansoff matrix is used to help the farmer think about and identify the risks involved in each growth opportunity. By placing products into the Ansoff matrix, farmers and field agents can gain an idea of the type of marketing strategy they need to develop to be successful with the target product, as well as the level of risk involved in each strategy. The risk increases from 1 to 4, with 1 being the least risky market option and four being the highest risk option. Table 12 outlines the Ansoff matrix with risk levels.
Markets—whether they are local markets, national markets or international export markets—represent a range of risks. All markets suffer from high levels of volatility in prices, particularly during peak periods of harvest, when prices for goods fall rapidly. Many farmers face problems in international markets when world market prices suddenly fall, perhaps due to overproduction in another country. However, this problem also exists in local markets, which can often be over supplied, which results in low prices and, therefore, low profits.

**Institutional risks**

The agricultural sector is characterised by strong government interventions and regulations, e.g. subsidies and price control. Changes in government regulation may affect agricultural producers unexpectedly and may, for example, lead to changes in import/export conditions. Export bans are a commonly used government policy when production falls within their own borders, or in a neighbouring country, and may lead to considerable loss of income for farmers. Cooperatives that do not manage their resources carefully can also have dire consequences on farmers who have invested in the cooperative for either inputs or market access. There are many cases where farmers have lost their investments because of poor management in cooperatives.
Conducting risk mitigation and risk management

Understanding the basic costs and potential for loss with any market needs to be very clear to farmers. A general rule is that higher profits means higher risk, for example selling a known product into a known market is less rewarding but also has less risk than selling a new product into a new market. Risk management involves the following two aspects:

- Anticipating when an unfavourable event may occur and, if possible, acting to reduce the chances of it happening; and
- Taking actions that will reduce the unfavourable consequences should the event occur.

Steps in the risk management process

The agricultural risk management process has five steps, which are discussed below:

- Step 1: Identify possible sources of risk, such as environmental factors, unstable market conditions and price changes;
- Step 2: Identify possible outcomes resulting from the sources of risk, including low production and low income periods in the production cycle;
- Step 3: Decide on alternative strategies;
- Step 4: Assess the consequences of each possible outcome of each strategy; and
- Step 5: Evaluate the results between the cost of risk and the gains that can be made.

As you can see, decision making is at the core of the risk management process.
Example of decision making in agricultural risk management

A farmer needs to decide how to cope with a possible infestation of pests. Should he spray early as an ‘insurance’ against the infestation occurring, or should he wait for indications of infestation before deciding when to spray? When market prices are low and the cost of pesticides is high, the benefit of using pesticides during years of high pest infestation will be lower. In this case, the farmer will be hesitant to buy expensive inputs, such as pesticides.

Risk management approaches and strategies

There are a number of strategies that farmers and agri-enterprises may consider to minimise risk. It is important to note that whatever strategy you choose, it is not possible to avoid the risk entirely and there are always direct or indirect costs involved in implementing a risk management strategy. The risk management strategies are outlined in the following sections.

Production risks

Production risk may be managed by implementing:

- Risk reducing inputs: Farmers can improve the chances of better yields if they buy higher quality inputs such as quality seed, fertilisers, pesticides, compost and make investments in water management such as irrigation;
- Risk-reducing technologies; such as drought-resistant varieties and disease and pest-resistant varieties for crops, irrigation technology for high value crops and livestock;
- Low risk operations, e.g. smallholder farmers planting a drought-resistant sorghum, rather than other varieties that may fail in a drought;
System flexibility: Makes it possible to make quick and short-term decisions and changes to production and sales; and

- Managing multiple farm enterprises together at the same time or in the same season;
- Engaging in the same farm enterprise in different locations;
- Engaging in the same farm enterprise over successive periods or seasons; and

Marketing risk

Marketing risk is a result of the variability of product prices and the uncertainty of future market prices. It can be addressed by using the following risk management strategies:

- Spreading sales by storing a crop after harvest until it can be sold at different times and for better prices;
- Enhancing profitability by selling directly to the final consumers;
- Making contractual agreements with buyers in advance, thereby ensuring a fixed product price;
- Developing trust with the buyers in order to obtain the best deal and maximise profits; and
- Keeping track of market prices relevant to their products.

Financial risk

Financial risk is caused by uncertainty and borrowing addressed by using the following strategies:

- Farmers who save for future investments are able to buy inputs with less need to borrow capital, this reduces their exposure to debt.
- Increasing the capital available to farmers through loans, which enables them to expand their operations, bearing in mind that they have to meet the financial obligations of paying back the loan;
- Improve liquidity by selling assets that are most easily converted into cash;
y Generate additional income by leasing assets (e.g. land, machinery and equipment), which allows the farmer to use equipment that might not have been profitable to buy;
y Managing the timing of investments, e.g. by spreading purchases over several months, rather than buying all equipment at the same time; and
y Where possible, farmers should insure operations against major risks, such as death, accidents and sickness, as well as death, accidents and sickness.

**Institutional risk**

Institutional risk can be minimised and managed by:
y Forming farmer producer groups that work together in terms of saving, credit mobilisation, service delivery and bulk buying and marketing; and
y Establishing cooperatives, which provide:
  - Buying inputs and supplies in bulk;
  - Sharing transport to reduce costs;
  - Negotiating collecting with buyers; and
  - Mobilising savings and credit with members.

**Managing insurance**

Another means of reducing risk is through insurance. At present very few farmers in the developing world, and especially those who work in rain-fed farming, have access to insurance. This means that farmers are reluctant to invest too much in any one business due to the risk of failure and loss. The financial sector is making an effort to invest in weather indexed insurance systems, but to date, the premiums are typically high and the payout systems have limitations based on the resolution of the data available. Despite these challenges, the use of insurance will be an important part of the risk reduction approach for farmers in future.
**Weather indexed insurance:** An insurance system in which the payout is linked to measured environmental conditions by using indices (closely related to agricultural production losses), such as rainfall, wind speed, temperature and vegetation levels.

You may find additional resources and the latest information on agricultural risk management on the Forum for Agricultural Risk Management in Development’s (FARM) website, which is available via the following link:

http://www.agriskmanagementforum.org/

Complete Activity 4.4 in your workbook.
Concluding remarks

In this study unit, you learned the main sources of finance that are available to the farmer or agripreneur include savings, self-help groups, SACCOs, family lending, local money lenders, micro-finance institutes, commercial banks and e-money. You also learned the essential practices that the farmer can use to also learned the essential practices that the farmer can use to

You also learned the basic principles and practices of sales familiarised with the basic sales forecasting methods, as well as the way in which to monitor actual sales versus forecasting and to review the quality and volume of sales.

Finally, you learned about the main risks involved in smallholder farming, which are rain-fed and, therefore, high-risk market-related risks. You also learned how to apply the risk management process.

Complete the summative assessment in your workbook.
Study unit 5: Record keeping

Study unit outcomes
After completing this study unit, you should be able to perform the following record keeping:
- Operations record keeping; and
- Financial record keeping.

Study unit overview
This unit is designed to introduce extensionists to basic methods of record keeping for both production operations and finances, which can be used to facilitate the smooth running of a business. Completing this module should allow you to strengthen your extension tool kit by becoming familiar with methods of record keeping and helping your clients to maintain reliable records as their businesses develop.

Study unit introduction
An agripreneur will need a complete and accurate records system in order to make informed decisions that will support the maintenance, growth and expansion of their business. An agripreneur can also use reliable records to measure the progress of the business and plan for the future.
Session 5.1: Operations record keeping

Session outcomes
After completing this session, you should be able to keep different types of production records, including a:
- Soil conditioning record;
- Seed-starting record;
- Planting record; and
- Harvesting schedule record.

Introduction

A record is basically a document that systematically records all activities and aspects of daily farm operations. In extension services, these operations include the following four areas:
- Pre-production (soil, tillage seed);
- Production (activities to produce);
- Post-harvest (harvest, store, clean); and
- Marketing (transport, sales).

Keeping operations records makes it possible for an agripreneur or a farmer to evaluate the performance of their operation during a particular period and to check that their operation is running according to plans and records, which are outlined in the following sections.

Production records

Production records are records of quantities of inputs used in production records are outlined in the following sections.
Soil conditioning record

Whether your clients are working with a new piece of land or reviving a spent plot, it is always advised to do regular soil tests to understand the condition of the soil. If they record the results of these soil tests, they can use this information to track the changes made, which should assist them in future decisions and purchases.

Seed-starting record

Not all seeds are started at the same time and, therefore, keeping seed-starting records is helpful, particularly if your extension clients are experimenting with new crop varieties or if they are managing a large amount of seeds. It is also a good idea to record seed sources.

Planting record

Use the planting record to record plot location and planting date. This information will help make future plot-rotation plans and to plan for coming harvests. Make sure that your clients also take note of plant traits, so you can determine what land-management actions to take, such as weeding and implementing pest control.

Figure 25 is an example of a planting record, which includes information on seeds and seed sources.
The harvesting scheduling record gives you and your client the following information:

- The crops and varieties harvested, and the amounts harvested;
- The harvesting techniques used;

**Figure 25:** Example of a planting record

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FARMER’S MARKET</td>
<td>Quantity</td>
<td>Sown</td>
<td>Germinated</td>
<td>Transplant</td>
</tr>
<tr>
<td>Date</td>
<td>Quantity</td>
<td>Sown</td>
<td>Germinated</td>
<td>Transplant</td>
</tr>
<tr>
<td>First Planting</td>
<td>Date</td>
<td>Quantity</td>
<td>Sown</td>
<td>Germinated</td>
</tr>
<tr>
<td>Second Planting</td>
<td>Date</td>
<td>Quantity</td>
<td>Sown</td>
<td>Germinated</td>
</tr>
<tr>
<td>Third Planting</td>
<td>Date</td>
<td>Quantity</td>
<td>Sown</td>
<td>Germinated</td>
</tr>
<tr>
<td>Year Totals</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The crop that is ready for harvest during every month of the year, which is particularly helpful if they are running a larger scale operation;

Post-harvesting handling methods (e.g. washing, packaging, etc.); and

The harvesting record also helps your client to determine if and when they should hire extra labour in the fields for a particular harvesting period.

Figure 26 is an example of a harvest schedule. You will notice that the scheduling record also includes information on planting.

In the same way, you can create production records for:

- Weeding;
- Pest management;
- Irrigation scheduling;
- Delivery scheduling; and
- Equipment cleaning scheduling.
Figure 26: Example of a harvesting schedule
Session 5.2: Financial record keeping

Session outcomes
After completing this session, you should be able to keep various types of financial records, including:
- Invoices;
- Receipts;
- Cash book;
- Sales book;
- Payments;
- Costs;
- Employment records; and
- Accounts and investments.

Introduction
Financial record keeping is a key element in efficient farm and agripreneurship management. Without reliable financial records, it is impossible to determine the financial condition or profitability of a business. Using financial records helps your client understand how and where their business is going, identify the weak links in their business and enable them to take corrective actions to address the weak links. In the following sections, the different types of financial records are discussed.

Invoices
An invoice is evidence of a particular business transaction. The invoice helps in recording expenses and the payment of expenses. Figure 27 is an example of the information that should be recorded in an invoice.
Figure 27: Example of the information that appears on an invoice

Receipts

A receipt is a document that records the following information:
- The date and time of a particular purchase;
- Item(s) purchased and the number of items purchased;
- Purchase price and totals;
y Method of payment; and
y The name of location of the store or supplier where the purchase was made.

Figure 28 is an example of a receipt.

![Cash Receipt](image)

**Figure 28:** Example of a receipt

**Cash book**

In any business, reports on the cash that comes into the business (e.g. by means of product sales) and the cash that is used to pay for daily items during a particular period. Table 13 shows an example.
Table 13: Example of the entries in a cash book

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Cash in</th>
<th>Cash out</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sales book

The sales book records all credit sales made by a business, while the cash sales are recorded in a cash book. Table 14 shows an example of a page in a sales book.

Table 14: Example of a page in a sales book

<table>
<thead>
<tr>
<th>Product name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Customer</th>
<th>Amount sold</th>
<th>Value</th>
<th>Invoice date</th>
<th>Payment date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Employment records

Employment records usually contain the following:
- Name, address and identification number;
- Dates of employment;
- Amounts of salaries or wages and benefits;
- Pension payments; and
- Income tax information or records.

Accounts and investment records

Farmers need to keep all their monthly bank account statements—at least until the next monthly statement has come.
in. The account statements are records of all the **debits** and **credits**. Investment records that should be kept include bank investment account records, and any other investment records that show how much your client has paid for an investment and how much they have earned selling it (if they have sold it).

**Bank account statement:** A record or list of all the items that have been processed through a bank account during a particular period (usually a month).

**Debit:** Any transaction that lowers the balance on the bank account, e.g. cash withdrawals, account payments and any other expenses.

**Credit:** Any transaction that increases the balance on the bank account, e.g. cash deposits, account payments to you, etc.

Complete Activity 5.1 in your workbook.

**Selecting a record keeping system**

There are numerous kinds of farm record keeping systems available on the market. Before your client chooses a record keeping system, they should research the different options. As an extension agent, you can help your clients look for record keeping systems that fit their specific farm operations. Keep in mind that an effective record keeping system is one that will provide the necessary information when it is needed. Your clients can use paper-based records, Excel spreadsheets or other computer software and systems.

**Paper-based records**

Paper-based records meet their needs. The paper-based records related records being kept in separate folders. The advantage of
this system is that it is simple and easy to use. The disadvantage
of this system is that it is simple and easy to use. The disadvantage
is that the information is not always easy to find especially if it
not well organised and it may be difficult to access the relevant
records when your client needs them.

Excel spreadsheets

Using a basic Excel spreadsheet is essentially a compromise
between paper systems and more sophisticated record keeping
software. If your clients are running a small and relatively simple
operation, Excel spreadsheets may serve their needs well for
many years.

Computer programs and systems

Computer programs and software that are being used at scale in
developing country value chains are Farmforce and SourceTrace,
new farming services. The following are examples of computer
programs and systems that can be used for record keeping in
agricultural businesses:

AgSquared

AgSquared is an online program that includes a set of
planning, management, record keeping, and analysis tools
that work together to help farmers run their farms more
smoothly. It allows farmers to turn their seasonal crop
plan into a daily task list, which serves as the starting
point for their records. These records become the
foundation for the next year’s crop plan. AgSquared is
available at the following link:
http://www.agsquared.com/en/about

Agroptima

Agroptima is a simple farm management program that allows
farmers to record their tasks and have an overview of their
business. Agroptima is available at the following link:
Farmforce

Farmforce has been created to help smallholders gain access to formal markets and improve the effectiveness of outgrower schemes. Formal markets can increase the number of potential buyers for smallholder produce but these markets require traceability and compliance to food safety standards; something which has traditionally been challenging and time consuming. Farmforce is helping to change the game by using mobile technology to make traceability and compliance an integral part of smallholder production and to redefine the relationship between growers, manufacturers and markets. Farmforce is available via http://www.farmforce.com/

MapShots AgStudio

AgStudio is agricultural software that farmers can use for:

- Crop record keeping
- Creating field planting maps;
- Tracking and analysing income and harvest inventories;
- Performing in-depth data analysis
- Generating customised reports; and
- Tracking and logging harvest data anywhere.

AgStudio is available at:
https://www.mapshots.com/products/

LandMagic

https://www.landmagic.com/

Quicken

https://www.quicken.com/
Concluding remarks

In this study unit, you have learned about the record keeping involved in a farming operation or agripreneur. You learned that your clients should be able to maintain the following two types of record keeping: operations record keeping, which includes soil conditioning records, seed-starting records, planting records and harvesting schedule records, and financial record keeping, which involves the following records: invoices, receipts, the cash book and the sales book, costs, accounts and investments and employment records.

Complete the summative assessment in your workbook.
Study unit 6: Building a business and managing relationships

Study unit outcomes
After completing this study unit, you should be able to:
- Put plans into action and monitor progress; and
- Manage relationships.

Study unit overview
This study unit is designed to help extensionists support farmers and farmer groups when they have started their business ventures, using a set of tools to help assess the performance of the business and for planning the next steps. Completing this module should allow you to:
- Help farmers plan their business strategies;
- Monitor performance; and
- Manage relationships with their team, service providers, value chain partners and customers.

Study unit introduction
Once you and your extension clients have identified their market opportunities, compiled a business plan, put measures for financial management, sales and risk management in place and designed a record keeping system, you can move forward. Next, you need to put plans into action to launch, run and grow the business, monitor progress, manage change and manage relationships with all the stakeholders involved in the business.

Stakeholder: Any individual, enterprise or organization that is directly or indirectly involved in a business, e.g. customers, suppliers and distributors, government organizations and departments, etc.
Session 6.1: Putting plans into action and monitoring progress

Session outcomes
After completing this session, you should be able to:

- Put plans into action to launch, run and grow a business;
- Put plans into action to monitor progress; and
- Introduce innovations to manage change.

Introduction
Launching a business involves presenting it to the public for the first time. In this session, the business launch, as well as the plans for running and growing the business will be addressed.

Launching and growing business

The following steps are involved in launching a new agripreneurship:

Step 1: Conduct proper planning

Although the business plan is a valuable tool in any business, planning the launch of a business is not limited to the business plan. It is important to include the following four levels in enterprise planning: marketing, business planning, production and post-harvest planning.

On the production and implementation level of planning, you and your client have to consider the following:

- All the requirements that may be needed, e.g. land preparation, seeds, production schedule, labour and capital;
- Potential problems, such as the effects of rain being earlier or later than normal;
y Post-harvest handling, which includes sorting, grading, packing, storing and transporting the crop to the market;
y Getting the product to market, at the right time, place and price; and
y Cost and quality.

Step 2: Test your business idea

It has been established that approximately 60% of all new businesses face major problems or fail during the first three years—this mainly happens because the business owners rush into action without properly checking that there actually is a demand for the idea in the market and they can be competitive. Therefore, it is essential to do proper research about the feasibility of the business idea and to consult with experts and advisors, if necessary.

The farmers need to present their business ideas, after which you, as the extension advisor, and other experts, can ask questions about:
y How logical the business is;
y Any major gaps in the business idea;
y Cost and quality.

The three most important aspects to present for feedback will be the:
y Business canvas;
y Implementation plan; and
y Financial plan.
The appropriateness and acceptability of the risk.

This type of session may help to identify where improvements can be made and also clarify who is leading the process, who is responsible for the various parts of the plan and the level of motivation and energy to put this plan into action.

**Step 3: Make sure that you know the market**

In order to gain enough information on the market that your clients are about to enter, both you and your client may consider whether they have:
- Completed all the research about the market; and
- Consulted the key suppliers, distributors, competitors and customers to obtain different perspectives about the market.

Your clients should also respond to feedback from these stakeholders to refine their business idea and business model.

**Step 4: Make sure that you know the customer**

It is essential to understand the characteristics and buying behaviour of your clients’ potential customers: they are one of the key determinants of a business’ success. You and the agripreneur need to determine:
- The level of commitment to their supplier;
- Level of reliability;
- What drives their buying decisions;
- How they can differentiate their products from that of their competitors; and
- How the farmer can convince the supplier of the value of their product.

**6WHS(VWDEOLVKFDVKDQGRWKHUSQDQFLDOUHVRXUFHV**

Your clients will experience great uncertainty. They have to take steps to ensure they have enough capital for their business and to secure sources of cash for growth. They should determine how
much they can do with existing resources of funding and how much funding they will be able to obtain from savings, partners and external sources.

**Step 6: Select an appropriate business structure**

It is important that your clients select the appropriate business structure from the start. It is advisable to focus on a simple business structure during the early years of the business.

**Step 7: Build the right team**

One of the most critical steps in launching a business is to build a team that has clear roles, works well together and that can deliver the goods. Your clients’ team members should share their ideas about how the business should be run and they should agree on common values that will be applied in conducting business and making decisions. It is important to clarify who is in charge of the key positions in the business or group. The most common positions are outlined in Table 15.

**Table 15: Common positions in a business or group**

<table>
<thead>
<tr>
<th>Position</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairperson/Manager</td>
<td>y Sets strategy and puts plans into action; and y ODNHVQDOGHFLVRQV</td>
</tr>
<tr>
<td>Secretary</td>
<td>y Keeps all records of meetings; and y Reports to the manager.</td>
</tr>
</tbody>
</table>
### Position
### Role

**Finance/Accountant**
- Keeps records of all financial transactions; and
- Manages relations with payments from suppliers, income from buyers and credit lines from lenders.

**Production Manager**
- Keeps records of all planting, production and harvesting plans; and
- Links production schedule to sales targets.

**Marketing Manager**
- Maintains links with buyers and suppliers; and
- Manages links between production and markets, records inventory and sales.

**Member/Employee**
- Supports the production of product; and
- Manages key aspects of the business operations.

This team will need to meet on a regular basis to monitor progress and deal with any challenges or problems that arise.

### Step 8: Be prepared for problems and change

In all business ventures, there are issues that arise and problems to face. One of the most important skills any business team can have is the ability to deal with problems as they arise and to make changes to their plan accordingly. Identifying and managing problems will require the team to meet and discuss issues regularly and these meetings need to be planned.
As many businesses go through periods of problems or even failure, a key trait of a strong entrepreneur is the ability to learn quickly and find ways to overcome them. It is common to find that a first business attempt will fail, but the learning that occurs during this work is invaluable to the success of future business ventures and plans.

The business team needs to go into their investment with a clear understanding that they will inevitably face problems and must be ready to make changes constantly, in order to launch and maintain their business successfully. As the extension agent, you may want to consider the following key aspects, which are involved in the evaluation of change:

- How can the agripreneurship approach be expanded?
- How can decision-making support tools be integrated to develop improved market linkage for farmers?
- What information and technical support do agripreneurs need to make well-informed decisions?
- What enabling institutional and policy arrangements are needed for a more productive and market-orientated agriculture?

**Running and growing a business**

Once the enterprise plan is place, your clients can use a business checklist in order to ensure the proper running and growing of the enterprise. Table 16 gives an example of the business checklist.

**Table 16: The business checklist**

<table>
<thead>
<tr>
<th>Marketing</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Who is the buyer?</td>
<td></td>
</tr>
<tr>
<td>Sales targets</td>
<td></td>
</tr>
<tr>
<td>What is the quality class: A, B or C?</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------</td>
<td></td>
</tr>
<tr>
<td>What are the alternative markets?</td>
<td></td>
</tr>
<tr>
<td>Packaging requirements; and</td>
<td></td>
</tr>
<tr>
<td>Labelling of farm produce.</td>
<td></td>
</tr>
<tr>
<td>Price:</td>
<td></td>
</tr>
<tr>
<td>How will farmers be paid?</td>
<td></td>
</tr>
<tr>
<td>Promotion (What will be attractive to the buyer?); and</td>
<td></td>
</tr>
<tr>
<td>Distribution needs.</td>
<td></td>
</tr>
</tbody>
</table>

**Production target**

Production target to match sales target:

- Schedule of delivery (weekly, monthly, etc.);
- Production inputs needed; and
- Technology requirements:
  - Upgrading of production;
  - Needs in post-harvest.

**Financial targets**

Capital requirements for production target

What needs to be available for start-up?

Operational requirements
<table>
<thead>
<tr>
<th>Sources of capital:</th>
</tr>
</thead>
<tbody>
<tr>
<td>y Local sources;</td>
</tr>
<tr>
<td>y External sources (Grants, loans, etc.)</td>
</tr>
</tbody>
</table>

**Management**

<table>
<thead>
<tr>
<th>Who is responsible for what?</th>
</tr>
</thead>
<tbody>
<tr>
<td>How are they paid?</td>
</tr>
<tr>
<td>What are their incentives?</td>
</tr>
</tbody>
</table>

**Review process**

<table>
<thead>
<tr>
<th>Review the system every 3–6 months.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compare targets and determine if they are well linked.</td>
</tr>
<tr>
<td>Identify changes that may be needed.</td>
</tr>
<tr>
<td>Conduct more regular reviews as the product increases in value.</td>
</tr>
</tbody>
</table>

Growing the business is determined by the following four key elements:

- Past performance;
- Partners;
- Resources; and
- The numbers involved from the outset.

Business processes should only be scaled up when there is something tangible and positive to scale up. Additional training understands their strengths and weaknesses.
Monitoring progress against targets

Progress monitoring or evaluation should be conducted on the following levels:
- Business performance;
- Process performance;
- Equity and wealth; and
- Institutional change.

Business performance

The following elements are relevant to the evaluation of process performance:
- Did the target business formulate a strong business case?
- How well organised was the agripreneur/business team?
- How many people were involved in the business?
- Did the production team meet their targets?
- Did the marketing/sales team meet their targets?
- Will the agripreneur continue in the next season?
- Are there any major changes that need to be made to improve performance?
- Does the agripreneur need any additional capacity building?
Process performance

For the extension agent/the agency supporting the extension agent, the following elements are relevant to the evaluation of process performance:

- Is the agripreneurship development an effective mechanism for empowering resource-poor rural communities to link with markets?
- What was the level of community participation and empowerment in the process of evaluating the market, designing the entrepreneurship and monitoring the outcomes?
- What type of product value or market type combinations work best with the selected communities?
- Does agripreneurship development create new market or business entrances?
- What are the minimum resources and capacities required to participate in agripreneurship projects?
- Does agripreneurship development facilitate better working relationships across development agencies and between public and private-sector agents?
- How does agripreneurship development contribute to changes in rural livelihood strategies on community and administrative levels?

Equity and wealth

Monitoring equity and wealth involves the following criteria and considerations:

- Does agripreneurship improve the livelihoods of vulnerable groups such as women and the poorer social segment?
- Does agripreneurship stimulate innovation cycles and streams?
- Does agripreneurship stimulate greater investment in sustainable natural resource management?

Complete Activity 6.1 in your workbook.
Session 6.2: Managing relationships

Session outcomes
After studying this session, you should be able to explain how you will work with:
- Customers;
- Labourers;
- Service providers;
- Key partners; and
- Financial partners.

Introduction
One way to help the agripreneur support business in the challenging and changing market environment of smallholder agriculture is to ensure that all stakeholders are engaged in ways that enhance their cooperation with the agripreneur.

Internal stakeholders include employees, customers, suppliers and service providers, whereas external stakeholders include the general public, communities and groups and the media. Working with stakeholders refers to your ability to build long-term or ongoing relationships with stakeholders.

Managing business relationships
The term business relationship management refers to the strategies, processes and behaviours involved in creating and
maintaining value-producing relationships between an agripreneur and all its stakeholders, including: employees (labour), service providers, key partners and financial partners.

**Principles of business relationship management**

Business relationship management is based on the following, underlying principles:

- Acknowledge and actively monitor the concerns of all your stakeholders and take their interests into account when making business decisions;
- Listen to, and communicate openly with your stakeholders about their concerns and contributions;
- Implement processes and modes of behaviour that are sensitive to the concerns, opinions and contributions of each stakeholder;
- Recognise the interdependence of the stakeholders' efforts and try to achieve a fair distribution of the benefits among them;
- Cooperate with all stakeholders to ensure that your business risks are minimised; and
- Acknowledge the potential of conflicts between stakeholders and address such conflict (if it does occur) through open communication.

**Steps involved in business relationship management**

The agripreneur should manage their business relationships by taking the following steps:

**Step 1: Identify all stakeholders**

The agripreneur should identify all stakeholders, including suppliers, employees, distributors, financial partners (e.g. commercial banks) and government agencies and non-government organizations.
Step 2: Define the impact of each relationship

As the agripreneur you need to determine how a relationship affects your ability to achieve your goals. By collaborating with role players and stakeholders, you can make significant improvements in operations, production, product quality and financial results.

Step 3: Identify common ground

As you begin the relationship management process, try to identify what the common interests and shared goals are between you and the other stakeholder(s).

Step 4: Develop action plans

Once you have identified all your stakeholders and you are aware of the impact of each of these relationships, you need to prioritise important relationships to start the process. Identify three or four specific steps that you can take to implement strategies for managing the relationship. Communication strategies are particularly important and you should consider communication methods such as regular face-to-face meetings, e-mail updates, or other ways of sharing information with stakeholders.

Step 5: Identify measurable results

Identify indicators that you can use to measure the results and success of your business relationship.

Managing customer relationships

At this point, the agripreneur should be fully aware of the importance of the customer in the agripreneur and they would understand that the management of customer relationships is a key element in the growth and business success of their enterprise or operation. The main purpose of managing customer relationships...
relationships is to analyse customer-related information in order to:

- Understand customer needs (buyer needs) and buying patterns, based on reliable information;
- Identify buying patterns and the high-value customers who produce the greatest profit for a business;
- Retain existing customers or buyers by improving their overall experience with the agripreneur;
- Improve the customer's experience with the agripreneur and ensure customer satisfaction and customer loyalty;
- Attract new customers and buyers and enter into new sales contracts;
- Drive the sales effort; and
- Increase sales growth and profitability.

Customer relationship management in agriculture

Customer relationship management (CRM) involves the application of practices, strategies and technologies to analyse and manage the interactions and relationships between a business and its customers. One of the main issues that new agripreneurs face is how to increase their sales in a risky and highly competitive market environment, which leads to the focus on customers, retaining existing customers and obtaining new customers. CRM as a way of improving the performance of agricultural organizations and businesses has been receiving a great deal attention.

Successfully implementing CRM in agricultural

- Increase in sales and profitability;
- Improved placement of products;
- Increased customer satisfaction;
- Increased retention of the existing customer base, particularly during the times of economic uncertainty; and
- Increased chance for attracting new customers.

agricultural businesses the opportunity to obtain or maintain
the advantage over their competitors. Agri-businesses have to create a knowledge base about their customers, so that their products can meet the current needs and requirements of their customers. Agri-businesses should also consider the potential and unknown customer needs, in order to obtain information about them and use the information to adapt its product offerings, so as to improve customer satisfaction.

The following six key elements and activities should be included in CRM programmes for agricultural business and entrepreneurship.

**CRM goals**

It is important to align CRM goals to the essential goals of the agricultural enterprise, which directly affect their performance. These goals include:

- Increasing customer satisfaction with products or services;
- Providing value to customers and increasing customer loyalty;
- Maintaining long-term relationships with customers/buyers and retaining existing customers;
- Gaining a reputation of fairness among customers; and
- Achieving mutual trust with customers.

**Customer information**

One of the key elements in the success of both the agripreneur and the CRM programme is to collect, analyse and use reliable customer-related information and customer behaviour during the customer lifecycle.

A customer lifecycle is the different stages through which a customer goes, from considering a product to the point of actually buying it.
**Market approach**

When approaching the market, agricultural businesses should use strategies such as:

- Superior product quality;
- Superior customer service;
- Lower prices;
- Product differentiation; and
- Customised offering of products as well as lower prices.

**Maintaining and developing customer relationships**

One advantage that agricultural businesses have over other business models is that they can gain complete trust of their targeted group.

**Assessment of technological infrastructure**

CRM solutions are designed to provide the information that is needed to develop and implement a strategy to maximise competitive advantage. Analysis of CRM technology can help businesses to understand the customer and find hidden opportunities for meeting the increasing customer demands.

Complete Activity 6.2 in your workbook.
Concluding remarks

In this study unit, you learned how agripreneurs should launch and grow their enterprises or operations by conducting proper planning, testing their business idea, making sure that they know the market and their customers, establishing financial resources, selecting a proper business structure and building the right team.

You also learned how you, as the extension agent, can assist the farmer run and grow their business and how to use the business checklist to do so. Once an agripreneur is running and growing, the progress should be monitored. In this study unit, you learned how to support the farmer in monitoring progress on the levels of process performance, equity and wealth and institutional change.

Finally, you learned the principles and practices involved in managing business and customer relationships in an agripreneur.

✏ Complete the summative assessment in your workbook.

✏ Complete the post-assessment in your workbook.
**Glossary**

<table>
<thead>
<tr>
<th><strong>Word</strong></th>
<th><strong>'HQLWLRQ</strong></th>
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</thead>
<tbody>
<tr>
<td>Active listening</td>
<td>A structured form of listening and responding in which the listener focuses attention on the speaker, thereby improving mutual understanding.</td>
</tr>
<tr>
<td>Agripreneurship</td>
<td>Entrepreneurship that relates to the marketing and production of various agricultural products, as well as agricultural inputs.</td>
</tr>
<tr>
<td>Agricultural bank</td>
<td>A bank that started as a government-owned institution that provides credit for investments in agriculture and other production activities.</td>
</tr>
<tr>
<td>Agricultural entrepreneurship</td>
<td>See: Agripreneurship.</td>
</tr>
<tr>
<td>Agricultural inputs</td>
<td>Products or resources that farmers use in farm production, e.g. seed, fertilisers and agri-chemicals.</td>
</tr>
<tr>
<td>Agronomic thinking</td>
<td>Thinking related to agronomy, which is a branch of agriculture that deals with crop production and soil management.</td>
</tr>
<tr>
<td>Asset</td>
<td>An economic resource with economic value.</td>
</tr>
<tr>
<td>Balance sheet</td>
<td>$\text{$}^\text{\textbackslash DQFLDO\textbackslash VWDWHPH\textbackslash HQ\textbackslash WKW\textbackslash DSUHV\textbackslash HQ\textbackslash WVWKH}$ $\text{$}^\text{\textbackslash DQFLDOSRVLWLRQRIDEXV\textbackslash HQ\textbackslash VWDW\textbackslash KHHQG}$ of a particular period.</td>
</tr>
<tr>
<td>Word</td>
<td>Definition</td>
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</tr>
<tr>
<td>Bank account statement</td>
<td>A record or list of all the items that have been processed through a bank account during a particular period (usually a month).</td>
</tr>
<tr>
<td>Barriers to entry</td>
<td>Factors that may prevent a new business owner from entering a particular market.</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>A group of individuals, who are elected (chosen) as representatives of the shareholders and who oversee the activities and operations of an enterprise.</td>
</tr>
<tr>
<td>Bookkeeping</td>
<td>The process of recording, classifying and maintaining the financial transactions and activities of a business.</td>
</tr>
<tr>
<td>Brainstorm</td>
<td>A group discussion that is conducted in order to produce solutions to problems or develop new ideas.</td>
</tr>
<tr>
<td>Brand</td>
<td>A distinguishing name, symbol or logo that identifies a product and distinguishes it from other products on the market.</td>
</tr>
<tr>
<td>Breakeven point</td>
<td>The income that is needed to cover the total amount of the expenses of a business during a particular period.</td>
</tr>
<tr>
<td>Budget</td>
<td>Estimated future income, costs, expenses and resources of a business for a particular period, e.g. year.</td>
</tr>
<tr>
<td>Bulking</td>
<td>Storage of a large quantity or volume of a product.</td>
</tr>
<tr>
<td>Business enterprise</td>
<td>See: Enterprise.</td>
</tr>
<tr>
<td>Word</td>
<td>Description</td>
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</tr>
<tr>
<td>Business plan</td>
<td>A document that outlines the financial and operational goals of a business enterprise or unit for the near future.</td>
</tr>
<tr>
<td>Business process map</td>
<td>A visual representation of the activities involved in the operations and processes in a particular business.</td>
</tr>
<tr>
<td>Business relationship management</td>
<td>The strategies, processes and behaviours involved in creating and maintaining value-producing relationships between an agripreneur and all its stakeholders.</td>
</tr>
<tr>
<td>Business structure</td>
<td>The arrangement of authority lines, communication lines, roles and responsibilities within a business.</td>
</tr>
<tr>
<td>Capital</td>
<td>Money or other assets that farmers have available and that they can use to contribute to a particular cause or invest in DEXVLQHVWH.</td>
</tr>
<tr>
<td>&amp;DVKRZ</td>
<td>The movement of funds in and out of a business.</td>
</tr>
<tr>
<td>&amp;DVKRZ forecast</td>
<td>An estimate of the amounts and the timing RIFDVKLQZRZVDQGRXWBRZVWKDW\RX expect over a particular period (usually a year), broken down by month.</td>
</tr>
<tr>
<td>&amp;DVKRZ statement</td>
<td>$ØQDQFLDOUSHRUWWKDWJLYHLQIRUPDWRQ on the cash generated and used in the following categories: operations, LQYHVWPHQWVØQDQFLQJDQGVXSSOHPHQWDU\ activities, such as income tax and interest.</td>
</tr>
<tr>
<td>Chief executive RÂHU</td>
<td>The highest-ranking executive manager (general manager) in an enterprise.</td>
</tr>
<tr>
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<tr>
<td>Codex Alimentarius</td>
<td>A collection of internationally recognised standards, codes of practice, guidelines and other recommendations relating to foods, food production, and food safety.</td>
</tr>
<tr>
<td>Collective marketing</td>
<td>A marketing approach in which a number of farmers, producers or growers work together to sell their combined crops.</td>
</tr>
<tr>
<td>Commercial activity</td>
<td>Activity that involves trade and trading.</td>
</tr>
<tr>
<td>Commercial bank</td>
<td>$SUR\text{ό}WEDVHG\text{ό}QDQFLDOLQWLWXWLQKWKDWLV OHJDODQWXKRULVHGWRRUH YDLRXVQDQFLDO services.</td>
</tr>
<tr>
<td>Commodity</td>
<td>A raw material (e.g. copper) or an DJULFXOWXUDOSURGXFWFHJFRHWHKDWFDQ be bought and sold.</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>The factors that allow a business to GLHUHQWLDWHLWVSURGXFWVRUVHYULFHV from those of its competitors, in order to increase its market share.</td>
</tr>
<tr>
<td>Competitor analysis</td>
<td>A tool that is used to evaluate the strengths and weaknesses of the competitors of a business in a particular market.</td>
</tr>
<tr>
<td>Condition</td>
<td>A contractual term and if breached, it gives the injured party the right to cancel the contract and claim damages.</td>
</tr>
<tr>
<td>&amp;RQFW</td>
<td>A strong disagreement between individuals or groups regarding ideas or interests that may result in an argument.</td>
</tr>
<tr>
<td>&amp;RQFWUHVROX</td>
<td>WKQRHWKRGRIGQGLQJDVROXWLQWRD disagreement between two or more parties.</td>
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<tr>
<td>Contract</td>
<td>An oral or a written agreement according to which two (or more) parties bind themselves to certain obligations of which WKHIX08OPHQWLVOHJDOO\ELQGLQ</td>
</tr>
<tr>
<td>Contractual marketing</td>
<td>A marketing approach in which companies DWGL PHHQWOHYHOVRIWKHYDOXHFKDLQHJ production and distribution) work together WRDFKLHYHJUHDFWHUQDQFLDODGYDQWDJHV than they would have on their own.</td>
</tr>
<tr>
<td>Credit</td>
<td>Any transaction that increases the balance on the bank account, e.g. cash deposits, account payments to you, etc.</td>
</tr>
<tr>
<td>Customer life cycle</td>
<td>7KHGL PHHQWVWDJHVWKURXJKZKLFKD customer goes, from considering a product to the point of actually buying it.</td>
</tr>
<tr>
<td>Credit mobilisation</td>
<td>Pooling the capital or savings of a group together in one common fund.</td>
</tr>
<tr>
<td>Customer relationship</td>
<td>The application of practices, strategies and technologies to analyse and manage the interactions and relationships between a business and its customers.</td>
</tr>
<tr>
<td>Customer management</td>
<td>Customer relations</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>The process by means of which a business interacts with and develops, establishes and maintains relations with its customers.</td>
</tr>
<tr>
<td></td>
<td>A term that is often used in marketing and that points to the extent to which the products or services of a business meet or exceed customers' expectations.</td>
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<tr>
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<tr>
<td>Customer service</td>
<td>The process of ensuring customer satisfaction with a product or service by taking care of customer needs and providing professional and helpful assistance to the customer.</td>
</tr>
<tr>
<td>Debit</td>
<td>Any transaction that lowers the balance on the bank account, e.g. cash withdrawals, account payments and any other expenses.</td>
</tr>
<tr>
<td>Decision making</td>
<td>The thought process of making a sensible choice from available options.</td>
</tr>
<tr>
<td>Demonstration plot</td>
<td>$9 H OGRUDVPDOODUHDRIOGDQGWKDWLVXVHG to teach farmers, teach, experiment and share ideas about agricultural practices, so that farmer groups can learn, practice and track the cost of new crops and improved techniques.</td>
</tr>
<tr>
<td>Discount customers</td>
<td>Customers who seek products from W K H E X V LQHVVZKHQLWLVR R LQJSLFH reductions.</td>
</tr>
<tr>
<td>'L Y H U V L 8 F D W LR</td>
<td>The strategy of entering a new market or a new industry, in order to increase sales and SUR 8 WDELOLW.</td>
</tr>
<tr>
<td>E-money</td>
<td>Electronic money that is exchanged electronically by means of a computer or a mobile phone.</td>
</tr>
<tr>
<td>Economies of scale</td>
<td>The cost advantage resulting from an increased output of a product.</td>
</tr>
<tr>
<td>Electronic money</td>
<td>See: E-money.</td>
</tr>
<tr>
<td>Employee satisfaction</td>
<td>The extent to which employees are happy and content in their jobs or in their positions in a particular business.</td>
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<tr>
<td>Endemic</td>
<td>A condition that is regularly found in a particular area or among particular people.</td>
</tr>
<tr>
<td>Enterprise</td>
<td>Any business operation or organization that provides goods or services with the primary PRWLY HRIPDNLQJDSURøWUDWKHUWKDQ employment.</td>
</tr>
<tr>
<td>Entrepreneur</td>
<td>An individual who starts, organises and manages a business venture, taking øQDQFLDOULVNVWRGRVR</td>
</tr>
<tr>
<td>Executive</td>
<td>Someone that has the power to put plans into action.</td>
</tr>
<tr>
<td>Expense</td>
<td>Money that is spent.</td>
</tr>
<tr>
<td>Firmographics</td>
<td>A method that is used to identify customers, based on the qualities that DSSO\WRSURøWDEOHEXLQHVHVL</td>
</tr>
<tr>
<td>Floor price</td>
<td>The lowest legal price at which a product can be sold.</td>
</tr>
<tr>
<td>Fraction</td>
<td>A quantity that is not a whole number, e.g. ¾.</td>
</tr>
<tr>
<td>Gross margin</td>
<td>The total sales revenue (income) minus the cost of goods sold, divided by the total sales income and expressed as a percentage.</td>
</tr>
<tr>
<td>Human resource planning</td>
<td>The process by means of which the agripreneur ensures that he has the right workers, who are capable of completing VSHFLøFWDVNV</td>
</tr>
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<td>Definition</td>
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</tr>
<tr>
<td>Impact investing</td>
<td>Investments made into companies, organizations and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.</td>
</tr>
<tr>
<td>Income statement</td>
<td>$$QDQFLDOVWDWPHQKWKDWVRZWVKH SUR$WDELQWRIDEXVLQHVVXULQJD particular period.</td>
</tr>
<tr>
<td>Industrial market</td>
<td>Market that involves the sales of goods and products between businesses.</td>
</tr>
<tr>
<td>Information and communications technology</td>
<td>The integration of communication devices, applications and services, including computers and computer networks, mobile phones and television to enable users to access, store, transfer and manipulate information.</td>
</tr>
<tr>
<td>Innovative</td>
<td>Capable of creating thinking and introducing new and original ideas.</td>
</tr>
<tr>
<td>Innovator</td>
<td>An individual who is known for creative thinking and for introducing new methods to original processes.</td>
</tr>
<tr>
<td>Interest</td>
<td>Money paid regularly (at a particular rate that is expressed as an annual percentage) for loans or paying debts.</td>
</tr>
<tr>
<td>Interview</td>
<td>A purposeful conversation between an interviewer (the agripreneur) and an interviewee (the buyer) that requires the interviewer to ask concise, market-related questions to which the interviewee responds.</td>
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<td><strong>Word</strong></td>
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</tr>
<tr>
<td>Investor</td>
<td>An individual or an institution who places money into a particular business in return for an ownership or partner stake in the business.</td>
</tr>
<tr>
<td>Knowledge broker</td>
<td>An intermediary (an organization or a person) develops relationships and networks between or among the creators (producers) and users of knowledge by providing linkages, information or knowledge sources, e.g. technical knowledge, market insights and research UHVXOWVDQGφQGLQJV</td>
</tr>
<tr>
<td>Lead</td>
<td>An individual who has provided contact information that may point to a potential sales opportunity.</td>
</tr>
<tr>
<td>Lead farmers</td>
<td>Farmers who lead farmer-to-farmer extension services, based on their agricultural expertise.</td>
</tr>
<tr>
<td>Liquidity</td>
<td>A measure of how easy it is to convert assets into cash.</td>
</tr>
<tr>
<td>Loyal customers</td>
<td>Customers who regularly seek services RUSURGXFWVURPDVSHFLφEXVLQHVVDQG and remain loyal to that business.</td>
</tr>
<tr>
<td>Market analysis</td>
<td>The study of a market, in order to determine the attractiveness of the market in a particular industry and to understand the opportunities and threats in the market, as they relate to the strengths and weaknesses of an enterprise.</td>
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<tr>
<td>Market opportunity</td>
<td>A favourable condition in the market that a business can use to its advantage, e.g. a changing trend, or an increased demand for a product that competitors have not yet recognised.</td>
</tr>
<tr>
<td>Market opportunity identification</td>
<td>A systematic, participatory method for collecting market information to identify and select products and services for investment and agripreneur development.</td>
</tr>
<tr>
<td>Market penetration pricing</td>
<td>Setting a low price on a new product, in order to penetrate the market quickly and attract large numbers of buyers from the start.</td>
</tr>
<tr>
<td>Market price</td>
<td>The unique price on which buyers and sellers agree to trade in a particular market.</td>
</tr>
<tr>
<td>Market research</td>
<td>The process of collecting and analysing information about the market into which an enterprise or a new business is entering, in order to evaluate (assess) the viability of the new product or service.</td>
</tr>
<tr>
<td>Market share</td>
<td>The portion of the market that is controlled by a particular business or enterprise.</td>
</tr>
<tr>
<td>Market skimming pricing</td>
<td>Setting a high price on a new product for a start, in order to “skim” the market, and lowering the price as product demand increases.</td>
</tr>
<tr>
<td>Market survey</td>
<td>The systematic collection of market-related data (e.g. data on target markets and customers) from a population or part of a population to determine the present status of a situation, event or process.</td>
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<td>Word</td>
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</tr>
<tr>
<td>Marketing</td>
<td>The process responsible for identifying, anticipating and satisfying customer UHTXLUHPHQWVSURœWDEO\</td>
</tr>
<tr>
<td>Marketing communication mix</td>
<td>7KHVSHFLœFEOHQRIDGYHUWLVLQJVDOHV promotions, public relations (PR), personal selling and direct marketing tools that an enterprise uses to communicate product value it its customers.</td>
</tr>
<tr>
<td>Marketing mix</td>
<td>A set of tactics and strategies that an enterprise uses to promote its product in a particular market and that is made up of the so-called four Ps of marketing: product, price, place and promotion.</td>
</tr>
<tr>
<td>Marketing strategy</td>
<td>A model that directs the way in which a producer will focus limited resources on the best opportunities, in order to increase sales.</td>
</tr>
<tr>
<td>Memorandum of Incorporation</td>
<td>The founding document of an enterprise that sets out the structure and the governing rules of an enterprise.</td>
</tr>
<tr>
<td>0LFURœQDQFH institute</td>
<td>$œQDQFLDOLQVWXLWLRQWKDWLVGHVLJQHGWR work with households and enterprises with smaller borrowing capacity than clients of commercial banks.</td>
</tr>
<tr>
<td>Migrant worker</td>
<td>A person who moves from place-to-place to œQGZRUNHJIDUPODERXUHUZKRKDUYHVW crops seasonally.</td>
</tr>
<tr>
<td>Mitigate</td>
<td>Minimise.</td>
</tr>
<tr>
<td>Need-based customers</td>
<td>Customers who only buy a product when a particular need for it arises.</td>
</tr>
</tbody>
</table>
**Module 11: Agricultural Entrepreneurship**

<table>
<thead>
<tr>
<th><strong>Word</strong></th>
<th><strong>'HQRQWLQJ</strong></th>
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</thead>
<tbody>
<tr>
<td>Negotiation</td>
<td>A discussion method by means of which differences between individuals and groups are settled.</td>
</tr>
<tr>
<td>Niche market</td>
<td>$SURVDEOHSRULQQRIDSDUXODUPDUNHWRQZLFKEXVLQHVHQWVDSUHHRFXVHG</td>
</tr>
<tr>
<td>Opportunistic sales</td>
<td>Sales that are based on responding to whatever sales opportunity becomes available.</td>
</tr>
<tr>
<td>Organizational structure</td>
<td>See: Business structure.</td>
</tr>
<tr>
<td>Overdraft</td>
<td>A short-term loan that allows a client to draw more money than what is available on his/her current account up to a certain limit.</td>
</tr>
<tr>
<td>Para-vet extension agent</td>
<td>A local service provider that provides basic frontline medical services for farm animals, in most cases diagnosis for common pests and diseases and sales of medical/veterinary products.</td>
</tr>
<tr>
<td>Payroll</td>
<td>The record of the salaries, wages, bonuses and taxes or the workers employed in a company.</td>
</tr>
<tr>
<td>Persuasion</td>
<td>The process of changing an individual or a group's attitude or behaviour towards an idea, event or issue by means of written and verbal communication.</td>
</tr>
<tr>
<td>Pluralistic extension</td>
<td>Extension that is characterised by the inclusion, interaction and coordination of multiple providers and services, funding options and multiple information sources.</td>
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</tr>
<tr>
<td>Positioning strategy</td>
<td>A marketing strategy that aims at placing a product or brand in a particular position—relative to competing brands and products—in the mind of the customer.</td>
</tr>
<tr>
<td>Primary data source</td>
<td>Written or oral information obtained from a direct witness of, or a participant in, an event or a process, e.g. direct accounts, correspondence and speeches.</td>
</tr>
<tr>
<td>Private enterprise</td>
<td>An association of one or more persons, governed by the Companies Act and the Memorandum of Incorporation, that is not DOORZHGWRR[LWVVKDUHVWRWKHSXEOLF</td>
</tr>
<tr>
<td>Product differentiation</td>
<td>The process of distinguishing a particular product from that of competitors, making it more attractive to a particular target market.</td>
</tr>
<tr>
<td>Product grading</td>
<td>The process of sorting units of a product LQWRGHôQHGFDVHVHRUJUDGHVRI\TXDOLW\ DFFRUGLQ\WRVSHFLôHGVWQDGĐUGV</td>
</tr>
<tr>
<td>3URÔW</td>
<td>$ØQDFLDOJDLQWKDWLHV[SUHVVAHGDVWKH GL\QHDFHEHWZHQWKHPHQ\HDUQHGE\ sales) and the money spent in buying, producing or manufacturing a product.</td>
</tr>
<tr>
<td>3URÔWQGORVV statement</td>
<td>$ØQDFLDOVWDWHPHQWWKDWVXPPDULVHVWKH income, costs and expenses of a business during a particular period, in order to provide information on the ability of the EXVLQHVVRJHQHUDWHSURôWE\LQFUHDLQ] income or by reducing costs.</td>
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<td>Word</td>
<td>Definition</td>
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</tr>
<tr>
<td>Promotion</td>
<td>The process of creating customer awareness of a particular product, in order to generate sales and increase customer loyalty.</td>
</tr>
<tr>
<td>Promotion mix</td>
<td>See: Marketing communication mix.</td>
</tr>
<tr>
<td>Prospect</td>
<td>Potential customer.</td>
</tr>
<tr>
<td>Prospecting</td>
<td>The sales process of recruiting or searching for new customers for a business.</td>
</tr>
<tr>
<td>Public enterprise</td>
<td>An association of one or more persons who is/are allowed to trade its shares on the open market.</td>
</tr>
<tr>
<td>Questionnaire</td>
<td>A list of questions that are asked to respondents (e.g. consumers of a particular product).</td>
</tr>
<tr>
<td>Rating scale</td>
<td>A tool that is used for assessing the performance level of tasks or the skill level involved in performing a particular task.</td>
</tr>
<tr>
<td>Reconciliation</td>
<td>The process that explains the difference between the bank balance shown in the bank statements of the agripreneur (as supplied by the bank) and the balance shown in the financial records of the enterprise.</td>
</tr>
<tr>
<td>Recruitment</td>
<td>Positions in the agri-business.</td>
</tr>
<tr>
<td>Remittance</td>
<td>Transfer of money across national borders by <strong>migrant workers</strong>.</td>
</tr>
<tr>
<td>Reputation</td>
<td>The beliefs or opinions that customers generally hold about a business, its products and services.</td>
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<tr>
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</tr>
<tr>
<td>Resources</td>
<td>Any physical entity that is required to carry out a particular task, activity or project, e.g. materials, money, people, equipment or facilities.</td>
</tr>
<tr>
<td>Retailer</td>
<td>A business that sells goods directly to individual consumers.</td>
</tr>
<tr>
<td>Return on investment</td>
<td>$PHDVXUHRIWKHSURWRIDQLQYHVWPHQW expressed as a percentage of the original cost.</td>
</tr>
<tr>
<td>Revenue</td>
<td>The total income that is generated before any costs or expenses have been deducted.</td>
</tr>
<tr>
<td>Risk</td>
<td>A situation that may lead to loss, damage, danger or injury.</td>
</tr>
<tr>
<td>Sales contract</td>
<td>A legal agreement to accept or deliver a VSHFL$HTXQWLWRIDQWIRXHJUDLQ ZLWKVSHFL$HGPLQLPXPSKULFDORU chemical content and produced according WRDVSHFL$HPHWKR</td>
</tr>
<tr>
<td>Sales forecast</td>
<td>A month-to-month forecast of the expected level of sales of a business.</td>
</tr>
<tr>
<td>Sales presentation</td>
<td>The detailed presentation of information (which may include a demonstration) on a particular product, for the purpose of closing a sale.</td>
</tr>
<tr>
<td>Savings and credit cooperative</td>
<td>A member-owned and member-governed savings and credit institution that was developed to empower poor communities WRPDQDJHKHLURZQ$DQFLDOUHVRXUFHV</td>
</tr>
<tr>
<td>Seasonal calendar</td>
<td>A record of the expenses and income of a business over a year.</td>
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</tr>
<tr>
<td>Seasonal income</td>
<td>Cyclical income patterns involving earning money only during some parts of the year.</td>
</tr>
<tr>
<td>Secondary data source</td>
<td>Primary data that has been analysed and or processed, thereby providing second-hand information about an event or a process, e.g. books, journal articles, newspapers and collected consumer information made available by consumer research organizations.</td>
</tr>
<tr>
<td>Share</td>
<td>A unit of investment in an individual enterprise.</td>
</tr>
<tr>
<td>Shareholder</td>
<td>An individual who legally owns at least one share in a enterprise.</td>
</tr>
<tr>
<td>Smallholder</td>
<td>A farmer who owns a small plot of land, on which he/she grows self-sustaining crops, and relies mainly on family labour.</td>
</tr>
<tr>
<td>SMART skills</td>
<td>Skills for Marketing and Rural Transformation.</td>
</tr>
<tr>
<td>Single ownership</td>
<td>A business that is owned and controlled by one person (producer or trader).</td>
</tr>
<tr>
<td>Staff turnover</td>
<td>The number of permanent employees who leaves a business within a reported period, versus the number of actual active permanent employees on the last day of the previous reported period.</td>
</tr>
<tr>
<td>Stakeholder</td>
<td>Any individual, enterprise or organization that is directly or indirectly involved in a business, e.g. customers, suppliers and distributors, government organizations and departments, etc.</td>
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<tr>
<td>Word</td>
<td>Definition</td>
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<tr>
<td>Stock exchange</td>
<td>A financial market in which the shares of public companies are traded (bought and sold).</td>
</tr>
<tr>
<td>Supplier</td>
<td>A company or a business that supplies goods or services to another business, in this case a farming operation or an agri-entrepreneurship.</td>
</tr>
<tr>
<td>Term</td>
<td>A provision in the contract that states an obligation or set of obligations imposed (forced) on one or more of the parties.</td>
</tr>
<tr>
<td>Tillage</td>
<td>The preparation of soil or land for growing crops.</td>
</tr>
<tr>
<td>Trade agreement</td>
<td>An agreement between two or more countries that stipulate the terms according to which goods and services can be exchanged.</td>
</tr>
<tr>
<td>Trade association</td>
<td>An organization that operates in a particular industry or sector and focuses on the collaboration between businesses in the industry.</td>
</tr>
<tr>
<td>Urbanise</td>
<td>Become more industrial or city-like.</td>
</tr>
<tr>
<td>Value-added product</td>
<td>A product that has been produced or processed in a way that increases its value, HJSURFHVVLQJZKHDLQWRXU</td>
</tr>
<tr>
<td>Value capture</td>
<td>The process of maintaining a percentage of the value provided in every transaction.</td>
</tr>
<tr>
<td>Word</td>
<td>Definition</td>
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<tr>
<td>-----------------------------</td>
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<tr>
<td>Value proposition</td>
<td>A (marketing) statement that identifies and briefly describes the unique value or benefits that a product would offer your customers that the products of your competitors do not offer.</td>
</tr>
<tr>
<td>Variable</td>
<td>A characteristic or a number that increases or decreases and, therefore, takes different values in different situations and times.</td>
</tr>
<tr>
<td>Warehouse receipt</td>
<td>A document that provides proof of ownership of goods or products stored in a warehouse.</td>
</tr>
<tr>
<td>Weather indexed insurance</td>
<td>An insurance system in which the payout is linked to measured environmental conditions by using indices (closely related to agricultural production losses), such as rainfall, wind speed, temperature and vegetation levels.</td>
</tr>
<tr>
<td>Wet market</td>
<td>A market that sells fresh meat and produce.</td>
</tr>
<tr>
<td>Wholesaler</td>
<td>A company that buys large quantities of or farmers, stores them and sells them to retailers.</td>
</tr>
</tbody>
</table>
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>ASCA</td>
<td>Accumulating Savings and Credit Associations</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CIAT</td>
<td>International Center for Tropical Agriculture</td>
</tr>
<tr>
<td>CRM</td>
<td>Customer Relationship Management</td>
</tr>
<tr>
<td>CRS</td>
<td>Catholic Relief Services</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organization of the United Nations</td>
</tr>
<tr>
<td>GSM</td>
<td>Global System for Mobile Communication</td>
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<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
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<tr>
<td>MEAS</td>
<td>Modernizing Extension and Advisory Services</td>
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<tr>
<td>MFI</td>
<td>Metric tonne</td>
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<tr>
<td>MOI</td>
<td>Rotating Savings and Credit Association</td>
</tr>
<tr>
<td>mt</td>
<td>Metric tonne</td>
</tr>
<tr>
<td>ROCSA</td>
<td>Rotating Savings and Credit Association</td>
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<tr>
<td>SACCO</td>
<td>Savings and Credit Cooperative</td>
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<tr>
<td>TOPS</td>
<td>Technical and Operational Performance Support</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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</tbody>
</table>
The following resources were used in writing this manual:


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http://www.fao.org/docrep/W6882e/w6882e02.htm#P498_72605


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Module 11: Agricultural Entrepreneurship


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