An evaluation of a market entry model for agricultural input supplies in less developed countries

Public/Private Sector Cooperation

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executive summary

As markets change, businesses need to develop strategies or strategic alliances that consider those changes. Over the next two decades, production agriculture is expected to undergo several fundamental changes on a worldwide basis thereby fundamentally changing agricultural input markets. The agricultural sector is already beginning to feel the effects of market globalization, agricultural industrialization, and trade liberalization. For example, advances in transportation and information technologies have enabled the globalization of agricultural input formulation and distribution. Additionally, many agricultural input manufacturers have found that developed economies’ slower population growth limits their sales potential. However, globalization has allowed agribusinesses to expand into developing economies with much faster population growth such as Africa and Asia. (Brester and Penn, 1999)

If agribusinesses effectively address the challenges, drastic innovations will arise from process and product changes, system and structural changes, and it will be necessary to let go of familiar concepts and behavior, both for government authorities and the business community.

Problems identified with the marketing of agricultural input supplies in less developed countries (LDCs) include:

- Lack of distribution networks
- Lack of rural retailers
- Lack of affordable finance and rural banking sector
- Lack of product knowledge in the smallholder market
- High deposit requirements for Letters of Credit
- Shortage of foreign exchange
- Poor rural infrastructure
- Poorly organized private sector
- Low volume of input sales
- Donor programs interfering with the market

1 A NOTE TO THE READER >> This paper was written for the private sector businesses involved in the marketing of agricultural input supplies as its focus group, not for public sector development organizations.
The premise of this paper is to put forward a treatise that examines the appropriateness of a new development approach being used by the public sector that can double as a market entry model for agricultural input supplies in LDC’s.

The agricultural input supply market entry model that this paper evaluates can be called **The Agricultural Inputs Rural Guaranteed Enterprises and Training (TARGET) model**. NGO’s that implement programs using this basic model, refer to their own programs and models, by their own names. The TARGET model is characterized by a credit guarantee fund and a retail oriented, business training component that interacts with the manufacturers, distributors, wholesalers, and rural retailers of agricultural inputs in LDC’s to develop rural markets.

**Summary of Conclusions**

- The TARGET market entry model can help the private agricultural input supply sector access emerging markets, obtain information on emerging markets, pre-screen potential partners, facilitate negotiations with intermediaries, provide feedback on product adaptation and consumer prices, provide creative payment financing, reduce risk of foreign direct investment, adapt into management matrices, and provide targeted promotional activities.

- The TARGET model fits extremely well with the new attitudes being adopted by development organizations such as USAID.

- Numerous references in the literature review, as well as others not cited, indicate that the agricultural input supply sub-sector, both needs investment and offers considerable potential for investment. The TARGET model can and does facilitate investment in the sub-sector.

- The TARGET model specifically addresses the issues of training and technology transfer within the retail-oriented training programs and product knowledge training. Another issue of investment facilitation is the very basis of the TARGET model concept.

- The TARGET model is meant to attract all agricultural input businesses from seed, to agro-processing, to post-harvest storage, to planting and cultivation equipment and their accompanying expertise.

- The TARGET model has been evaluated, as a market entry tool for agricultural inputs in this paper; however, there is no reason it cannot be used in the marketing of other goods and services such as medical/ pharmaceutical supplies, food, telecom, and other consumer oriented services.

- The evaluation performed here provides documentation of one viable model for market entry strategies for agricultural input supply companies in LDCs. Previous private/public partnerships in the agricultural sector have indicated that the programs resulted in increased market share.
EXECUTIVE SUMMARY

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acronyms

ADAF. Agriculture Development Assistance Fund
ADF. African Development Foundation
AGENT. Agribusiness Entrepreneur Network and Training Development Project
APIP. Agriculture Productivity Investment Program
BDS. Business Development Service
CIDA. Canada International Development Agency
CIMMYT. Centro Internacional de Mejoramiento de Maiz y Trigo
CLUSA. Cooperative League USA/ also known as National Council of Business Associations (NCBA)
CMS. Credit Management Services
CNAA. Citizens Network Agribusiness Alliance
CNFA. Citizens Network for Foreign Affairs
COTTCO. Cotton Company of Zimbabwe
DANIDA. Danish International Development Agency
FAO. Food and Agriculture Organization of the United Nations
GDP. Gross Domestic Product
GMB. Grain Marketing Board of Zimbabwe
GOZ. Government of Zimbabwe
HASP. Household Assistance and Security Project
IFAD. International Fund for Agricultural Development
KR-II. Kennedy Round II
LDCS. Less Developed Countries
NIS. Newly Independent States

NGO. Non-governmental Organization

NRLO. National Council for Agriculture Research of the Netherlands

PAMA. Programa de Apoyo aos Mercados Agrícolas

PIK. Payment in Kind

PL-480. Public Law 480, the Agricultural Trade Development Act of 1954

RAAPS. Restructuring Agriculture and Agribusiness: Private Sector Project

RAISE. Rural Agricultural Input Supply Expansion

REAP. Rural Enterprise and Agribusiness Promotion

SFFRFM. Smallholder Farmer Fertilizer Revolving Fund of Malawi


TARGET. The Agricultural Inputs Rural Guaranteed Enterprises and Training

USAID. United States Agency for International Development

USDA. United States Department of Agriculture

ZFC. Zimbabwe Fertilizer Company
As markets change, businesses need to develop strategies or strategic alliances that consider those changes. Over the next two decades, production agriculture is expected to undergo several fundamental changes on a worldwide basis thereby fundamentally changing agricultural input markets. The agricultural sector is already beginning to feel the effects of market globalization, agricultural industrialization, and trade liberalization. For example, advances in transportation and information technologies have enabled the globalization of agricultural input formulation and distribution. Additionally, many agricultural input manufacturers have found that developed economies' slower population growth limits their sales potential. However, globalization has allowed agribusinesses to expand into developing economies with much faster population growth such as Africa and Asia. (Brester and Penn, 1999)

The challenges for agricultural input firms include: 1) increasing value-added products to the market, 2) acquiring a larger market share in emerging markets, and 3) effectively reaching local markets all over the world, which includes selling agricultural input supplies to smallholder farmers. (NRLO, 1998) Because of these challenges, the focus of this paper will be on the last two points and will examine market entry models that strengthen distribution systems.

If agribusinesses effectively address these challenges, drastic innovations will arise from process and product changes, system and structural changes, and it will be necessary to let go of familiar concepts and behavior, both for government authorities and the business community.

Throughout the world there has been a rethinking about the role of government and its interaction with private sector development for successful economic growth and development in LDCs. There are numerous justifications to study public-private sector relationships; however, there is a serious deficiency of analyses on existing collaborative efforts, their structures, and their results.

This paper will attempt to examine the interactions between the public and private sectors found in agribusiness, specifically the agricultural input supply sub-sector at a worldwide level, by analyzing several programs in sub-Saharan Africa and examining one case-study in Zimbabwe. It will draw inferences about the types of public-private partnerships that are encouraging foreign direct investment by the private sector to bridge the investment gap.

A. THE THESIS

The premise of this paper is to put forward a treatise that examines the appropriateness of a new development approach being used by the public sector that can double as a market entry model for agricultural input supplies in LDC’s.
The agricultural input supply market entry model that this paper evaluates can be called The Agricultural Inputs Rural Guaranteed Enterprises and Training (TARGET) model. NGO’s that implement programs using this basic model, refer to their own programs and models, by their own names. The TARGET model is characterized by a credit guarantee fund and a retail oriented, business training component that interacts with the manufacturers, distributors, wholesalers, and rural retailers of agricultural inputs in LDC’s to develop rural markets.

The presentation of the following information will provide both public and private sector organizations and businesses with validation that the TARGET model represents an appropriate tool for agricultural input supply market entry in LDC’s.

**B. CURRENT AGRICULTURAL INPUT SUPPLY SITUATION**

**GENERAL**

Edesess and Polak (1993) initially introduced the idea that public sector development should compliment private sector investment. Edesess and Polak (1993) conclude that market-driven product development is a model for economic development in LDCs. Because most on-going development in industrialized countries takes place at the micro-economic level through the development of products and services, they argue that the economic development process in LDCs should also be approached as the development of products and services for that market. Based on this approach, public sector development programs would invest development aid capital in X,Y,Z... businesses instead of subsidies, community grants, and social awareness.

When product development is undertaken by private individuals or corporations because the return on their investment is sufficient to warrant the capital outlay, Edesess and Polak (1993) argue that development programs need not and should not become involved. There are many situations however, in which development assistance is warranted in the product development process. Edesess and Polak (1993) go on to suggest that development programs that support the product development process have the potential to address the critical “investment gap”. As shown in Figure 1, the Basic TARGET Model, the “investment gap” occurs between the agricultural input suppliers and the rural retailers. It is at this point where the credit guarantee component of the TARGET model performs a critical function.

An early model for bridging the “investment gap” is evaluated by CNFA (1997a). Citizens Network for Foreign Affairs (CNFA) first became involved in the input supply sub-sector after the fall of the Soviet Union in 1992 with support from the US Agency.
for International Development. By providing 2.5:1 matching grants to agribusiness' own investment in the former Soviet Union, CNFA assisted companies such as Cargill to stimulate sunflower seed production and Monsanto to distribute crop protection products. CNFA worked with a total of six agribusinesses involved in the distribution of agricultural inputs as part of their early former Newly Independent States (NIS) model. Of the results CNFA (1997a) reports for the 15 agribusinesses assisted, 12 agribusinesses indicated an increase in market share as a result of the CNFA’s early NIS model. Eight indicated a medium increase in market share, while 2 indicated a high increase in market share. This provides an indication that public/private sector cooperation and co-financing can lead to market penetration for agribusinesses such as agricultural input suppliers.

The majority of the agribusinesses assisted by the CNFA early NIS model were joint-ventures. Gilroy(1993) notes that the search for new competitive approaches is producing new organizational forms such as joint-ventures. These new structures are both a cause and result of today's global market environment in which input suppliers compete to combine strategy, structure, and management most effectively. Successful input suppliers find strategic fits with their market environment and support their strategies with appropriately designed structures and management. Less successful input suppliers commonly exhibit poor fits externally and/or internally. The implementation of the TARGET model facilitates these strategic fits and management structures to avoid the problems associated with poor fits externally and/or internally.

Maren (1997) describes early private and public sector partnerships based on PL-480, the Agriculture Trade Development and Assistance Act of 1954, with Hubert Humphrey's Food for Peace Act revisions in 1959, as all things to all people. According to Maren, the real beneficiaries of the program were, and still are, a small group of grain merchant companies and non-governmental organizations (NGOs). Maren goes on to provide some indications of the turning points in development assistance from feeding programs to sustainable development by describing a 1994 incident. In a brief statement before the House Appropriations Committee, Carolyn Long, vice president of InterAction (a consortium of NGOs), used the term “sustainable development” sixteen times. Was this supposed to contrast with the “unsustainable” development that NGOs had been spending taxpayer money on for the last 40 years? Sustainable development emerged as a reaction to criticism that most development projects fell apart the moment the foreign money was pulled out. In fact, it is only now, another 10 years later, that project design and implementation is truly addressing sustainable economic development as that which is profitable for the private sector. The TARGET model closely follows this new trend of sustainable economic development by providing the private sector with direct support via investment and training opportunities.

AFRICA

To add to the discussion of investment as a development tool, Ryrie (1993) purports that Africa needs an annual investment rate equal to 13 percent of GDP in order to break its cycle of poverty. Ryrie (1993) goes on to discuss two prominent features in African investment. The first is that the private sector's share of total investment is low. Sub-Saharan Africa has the dubious honor of being the only region in the developing world in which public investment exceeds private. The second
prominent feature of African investment is that the very high flow of development aid is mainly used to finance public investment.

Africa's failure to attract foreign direct investment represents a major loss to the region. Foreign direct investment brings into a country not only risk capital, but also technology, management expertise, and access to export marketing channels. There is no doubt that the critical development challenge in Africa is to increase private investment, both domestic and foreign, and to reduce dependence on development aid, (Ryrie, 1993). This directly affects agricultural input supply, for example, there are only two fertilizer manufacturing facilities in sub-Saharan Africa (South Africa and Zimbabwe), representing very little foreign direct investment.

Jaffee (1999) looks at recent economic reforms and political changes within Southern Africa and suggests that new opportunities for intra-regional agricultural trade and other forms of agribusiness collaboration are being created. Jaffee (1999) states that agribusiness collaboration is vital in Southern Africa, given the relatively small size of individual country markets and the fact that no single country in the region has the resources or capacity to mount a sustained drive to achieve international market prominence and competitiveness.

Narayan and Bumb (1994) provide a historical prospective to fertilizer market development in developing countries. Their study indicates a worldwide increase in fertilizer use through 1990 followed by a decline due to the change over in the centrally planned economies in Eastern Europe. Fertilizer use in developing countries continued to increase during the 1990’s with explosive increases in the Asian countries. In sharp contrast, in Africa, especially Sub-Saharan Africa, fertilizer use increased only modestly during that period. Africa went from 0.7 million tons in 1979/80 to 1.5 million tons in 1992/93. In spite of this doubling, the region has the lowest fertilizer use intensity (about 11 kg/ha) in the developing world. This information represents both market entry opportunity and the need for public sector education, which in turn represents an opportunity for public/private sector cooperation in the agricultural sub-sector of input supply.

Grobety (2000) describes five types of businesses involved in the distribution of crop protection inputs in Africa as: 1) large multinational companies that own the patents and are the producers of active ingredients in crop protection products; 2) African affiliates of the multinationals that formulate and distribute; 3) international distributor companies of crop protection products that also formulate and distribute; 4) local distribution companies, again formulators and distributors; and 5) local retailers. These five types of businesses are the ideal candidates for adoption of the TARGET model in their efforts to penetrate markets in LDC’s.

Chemonics (1993) evaluates the Restructuring Agriculture and Agribusiness Private Sector Project (RAAPS), one of USAID’s first forays into private-public sector partnerships for development by assessing, six programs in Poland, the Czech Republic, Slovakia, Hungary, and Bulgaria. Several of the RAAPS programs were made up of agribusiness consortiums comprised of Farmland Industries, Tri-Valley Growers, Pioneer Hi-Bred, American Breeders Service, Swiss Valley Farms, Sparks Companies, Land O’Lakes, Nationwide Insurance, and 21st Century Genetics. The key lessons learned from the RAAPS project included: 1) the need to identify specific sub-sectors of agriculture and agribusiness that offer the greatest potential for investment, both domestic and foreign; 2) the importance of bundling basic business training, technology
transfer, and joint venture/investment facilitation in very practical ways; and 3) the need for a broad technical and organizational focus in order to attract for-profit agribusinesses that can deliver expertise. It is important that these three lessons learned are incorporated into the TARGET model due to the direct relevance they play in the design and implementation of the model.

ZIMBABWE

In the IFAD, GOZ and DANIDA (1997) Republic of Zimbabwe Smallholder Irrigation Support Program Formulation Report, agriculture is described as one of the dominant sectors in the Zimbabwean economy. Agriculture reportedly contributes about 16% to the GDP, and is the second largest export earner. Most importantly, the report concludes that the performance of the agricultural sector directly and fundamentally influences the performance of the whole economy. A public sector partner involved in the implementation of the TARGET model needs to understand that this tie between agriculture and a country’s economic well being exists.

The smallholder farm sector includes over one million farm units in the communal areas, covering a total of 16.3 million hectares; a further 57,000 farm units in the resettlement areas covering 3.3 million hectares, and 8,500 smallholder commercial farms on an area of 1.4 million hectares. In a majority of LDC’s, the market being focused on for the sale of agricultural input supplies is generally the majority of the population, representing a significant market which can not be overlooked.

The majority of smallholder farms finance the purchase of inputs using their own resources, remittance from relatives in urban areas, or they borrow from informal sources. The extent to which the lack of financial resources is a constraint to increased input use is unknown. One source of formal input financing available to smallholder farmers is AgriBank, but collateral guarantees prevent most farmers from obtaining loans. However, a new division of AgriBank called Agriculture Development Assistance Fund (ADAF) does provide production loans without full collateral guarantees. ADAF however, has a modest capital fund causing it to be somewhat limited in its impact. With the liberalization of commodity markets, processing companies are becoming increasingly important sources of credit for inputs of cash crops. In the cotton sector, COTTCO and Farmer’s World provide financing. In the horticulture sector, Hortico and HJ Heinz provide some credit. Commercial banks extend little credit to smallholder farmers at present because of low productivity and repayment capacity, high overhead costs for loan supervision and administration, high risks associated with adverse climate and non-commercial systems, and lack of adequate collateral or business information.

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2 This number is now out-dated due to the current government seizure of large scale commercial farms for resettlement. The number is presented to provide market comparison information only.
Sasakawa Global 2000 (2000) in its presentation to the Uganda Producer Organizations and Access to Inputs workshop describes its model for establishing a network of rural input retailers as: 1) identifying suitable retailers in trading centers located in their farmer demonstration areas, 2) organizing a meeting between the retailers and the distributors where SG 2000 acts as a neutral arbitrator for the signing of a contract, 3) providing a 70% guarantee to the distributors, and 4) training the retailers. What is unusual about the program is that the retailers then sell pre-determined packages of inputs to the farmers that correspond to the SG2000 demonstrations for maize, beans, groundnuts, or sorghum. The retailers are not assisted to buy and sell on an ad libitum basis. During the 1999 season there were 59 rural retailers in the SG2000 Uganda network. SG 2000 operates a similar program in Mozambique. The SG 2000 version of the TARGET model addresses the "financing gap" in the form of a 70% credit guarantee directly from SG2000 to the input suppliers and provides training via SG 2000 and government extension workers to the rural retailers and the farmers.

Appropriate Technology Uganda (2000) uses a variation of the same model in which a revolving loan fund was used to create a network of 120 rural retailers that are served by five wholesale distribution centers in Northern and Eastern Uganda. AT(Uganda) plans to convert the revolving loan fund into a fully commercialized and
registered for-profit company in 2001. AT(Uganda) requires a 50% cash payment from the retailers with the remaining 50% on 90-day credit terms. AT(Uganda)’s version of the TARGET model has a more commercial orientation by separating the revolving loan fund, while the NGO still has direct contact with the rural retailers and the farmers.

CLUA (1999) describes their model as a “responsibilization” process of producer organizations. This appears to be a very labor intensive process with the CLUSA program in Zambia requiring 22 field staff serving as facilitators and another 20 employees working in other supportive roles. CLUSA contracts a company called Credit Management Services (CMS) to administer the input loans to the producer organizations and provides CMS with 100% of the loan capital. CLUSA’s model was designed to work with the outgrower and PIK companies for exportable crops such as paprika and food security crops like maize. CLUSA also operates this model in Mozambique.

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<tr>
<td>Form of Interface Entity</td>
</tr>
<tr>
<td>- with the Input Suppliers</td>
</tr>
<tr>
<td>- with the Rural Retailers</td>
</tr>
<tr>
<td>Training provide by</td>
</tr>
<tr>
<td>- to the Rural Retailers</td>
</tr>
<tr>
<td>- to the Farmers</td>
</tr>
<tr>
<td>Level of Credit Guarantee</td>
</tr>
<tr>
<td>- Guarantee Administrator</td>
</tr>
<tr>
<td># of points the public sector interacts with the private sector</td>
</tr>
</tbody>
</table>

Fumiko (2001) discusses the activities of IFAD’s Rural Enterprise and Agribusiness Promotion (REAP) program operating in Mozambique, Zambia, and Kenya. In Mozambique, the REAP program addresses access to inputs, credit, and output
markets. The program works with approximately 400 producer organizations for the procurement of inputs and works closely with the CLUSA’s model. In Kenya, the REAP program just started in late 2000 and plans to develop yet another variation of the TARGET model to organize smallholders into five horticultural production units as well as establish a central management unit to act as a management and technical services consulting unit with the aim of being sustainable beyond the project’s life. The Kenya program is basically a producer organization for the procurement of inputs based on the CLUSA’s version of the TARGET model. In Zambia, the REAP program is very close in design to the AGENT variation of the model in Zimbabwe, which will be discussed in more detail in section H. RAISE and AGENT Comparison. The primary difference between the Zambia and Zimbabwe programs is that in Zambia the rural retailers are not informed of the guarantee facility that exists between the suppliers and CARE.

ZIMBABWE

Grain Marketing Board (GMB) is a parastatal that has recently introduced an input supply program. The program operates based on a payment in kind (PIK) principle where farmers take inputs and repay via PIK when the crop is sold back to GMB. GMB operates 68 depots around the country that receive PIK repayments.

Farmer’s Development Company of Zimbabwe (Farmer’s World) operates on the basis of PIK for several crops. Farmers are provided inputs on a credit basis and pay off their loan to Farmer’s World by selling them their crop at the end of the season.

The Cotton Company of Zimbabwe (COTTCO) also operates a PIK program. Inputs are taken on credit and repaid via the sale of cotton back to the company. It is interesting to note that the COTTCO program began life as a World Bank program before COTTCO was privatized. COTTCO operates 30 depots across the country. (COTTCO, 1999)

HORTICO operates an outgrower program4 for horticultural crops such as baby corn, menjtau peas, baby zucchini, and other high-value export vegetables.

HJ Heinz has a limited outgrower program for Canadian Navy Beans and tomatoes to enable it to manufacture baked beans and ketchup. Heinz only provides seeds to the farmers on a credit basis. The farmers are responsible for all of the other inputs.

Hy-Veld and Paprika Zimbabwe both provide seed and crop protection products to farmers producing paprika and marigolds on the PIK basis.

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3 The information discussed in this entire Zimbabwe section, covering ADF, DANIDA, HASP, World Vision was obtained from interviews conducted by the author.

4 Outgrower programs are pre-contracted purchases of specific commodities between the buyer and the farmer. Buyers generally supply all inputs, transportation, etc. to the farmer with the delivery price taking the subtraction of all these costs into account.
In a written response, Syngenta’s head representative for Zimbabwe, Christoph Lehnen, summarized the private sector’s demeanor towards the market based on the following:

“Syngenta with its wide research activities and base is operating within a mid- to long-term strategy while trying to cope with short-term conditions. Our view of the smallholder market is that of a market at a very early stage with a need to be developed. There are other countries with substantial smallholder markets. Development of smallholder markets is also part of our social responsibility.”

### TABLE 2: AGRIBUSINESS BEHAVIOR IN THE ZIMBABWE AGRICULTURAL INPUT SUPPLY MARKET

<table>
<thead>
<tr>
<th>Agricura</th>
<th>Monsanto</th>
<th>Pannar</th>
<th>Pioneer</th>
<th>Syngenta</th>
<th>Windmill</th>
<th>ZFC</th>
<th>ZOPP</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Yrs in Zimbabwe Market</td>
<td>30</td>
<td>25</td>
<td>16</td>
<td>9</td>
<td>20</td>
<td>56</td>
<td>34</td>
</tr>
<tr>
<td>Ownership</td>
<td>local</td>
<td>sub</td>
<td>sub</td>
<td>sub</td>
<td>sub</td>
<td>local</td>
<td>local</td>
</tr>
<tr>
<td>Management Personnel</td>
<td>local</td>
<td>3rd</td>
<td>local</td>
<td>3rd</td>
<td>local</td>
<td>local</td>
<td>local</td>
</tr>
<tr>
<td>Recent Management Change</td>
<td>yes</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>Recent Sales Reorientation</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>% of Sales to SHFs</td>
<td>30</td>
<td>90</td>
<td>85</td>
<td>80</td>
<td>2</td>
<td>38</td>
<td>70</td>
</tr>
<tr>
<td>Product Line</td>
<td>CPC seed</td>
<td>CPC seed</td>
<td>seed</td>
<td>seed</td>
<td>CPC stor</td>
<td>CPC fert</td>
<td>CPC fert</td>
</tr>
<tr>
<td>Product adaptation required</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td># of NGO interactions</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Participate in AGENT and/or RAISE</td>
<td>yes</td>
<td>yes</td>
<td>w/o G</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>Want to cooperate with public sector</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>

**LEGEND:** SHF = smallholder farmer, local = Zimbabwe ownership of company, sub = wholly-owned subsidiary of multinational corporation, JV = joint venture of Zimbabwe company and foreign company, 3rd = third country nationality of company management, CPC = crop protection chemicals, fert = fertilizer, vet = veterinary supplies, stor = grain storage, feed = animal feeds, equip = agro-processing equipment

**NOTES TO TABLE:**
- A: Both Agricura and ZFC are making major efforts to reorientate themselves to the changing market conditions in Zimbabwe, while Windmill appears to be ignoring it, (also see table note B).
- B: Due to the resettlement of war veterans onto seized land of large scale commercial farmers, there is expected to be a dramatic increase in the SHF market in Zimbabwe.
- C: Syngenta is an importer of the merged product line of Novartis and Zeneca and does not distribute to the market directly, but supplies to the wholesalers and distributors in the market.
- D: ZOPP’s product line of agro-processing equipment is designed exclusively for the SHF market.
- E: Pannar uses the AgMark list of trained rural retailers as a reference check for their credit approval process, but does not request the 50% guarantee.
- F: Syngenta does not sell directly to the SHF market, but participates as a board member of AgMark.

From Table 2 the two opposite ends of the public/private sector cooperation can be observed in Pannar and Windmill. Pannar cooperates with nine public sector
programs and provides credit to the rural retailers without the benefit of the credit guarantee funds offered by the CNFA/RAISE and the CARE/AGENT programs. Windmill, at the other end of the spectrum, sells to one public sector program on a cash basis and appears to have little regard for the smallholder farm sector as a future market. The remaining agricultural input supply companies shown here are either fully dedicated toward the smallholder farm market or are reorganizing themselves to be competitive in that market.

African Development Foundation (ADF) operates a group credit program for inputs used in the production of paprika. In groups of 10, farmers receive loans for variable costs such as inputs and grants for fixed assets such as packaging equipment and scales. ADF’s model also includes extensive follow-up and farmer training.

Danish International Development Agency (DANIDA) recently initiated a model similar to ADF’s that provides groups of farmers with inputs loans. DANIDA’s model differs from ADF’s in that it is more community development-oriented, looking at a range of socio-economic factors such as water, health, and education.

Household Assistance and Security Project (HASP) also provides loans to farmers for the purchase of inputs. However, HASP lends to individuals via a village bank. HASP’s model includes a training component as a pre-condition to accessing credit.

World Vision’s model provides inputs and cash via a revolving loan fund. Each community has a buying and selling point called a “depot community selling point” run by an area committee that administers the loans and accepts re-payment in cash and PIK. There are plans to expand this program.

The CNFA/RAISE and CARE/AGENT models will be discussed in section E. RAISE and AGENT Comparison.

D. PROBLEMS IDENTIFIED IN THE MARKETING OF INPUT SUPPLIES

This section discusses the problems which have been identified by public and private sector organizations and businesses that are actively involved in the supply and marketing of agricultural inputs. The TARGET model will be evaluated against this list of problems to determine its effectiveness in directing market entry of agricultural input supplies.

CNFA(1999b) describes smallholder farmers in Zimbabwe as businessmen who will not be able to maximize their production without agricultural inputs. CNFA goes on to say that the distribution network between the agricultural input supplier and the smallholder farmer is inadequate. Consequently, less than 20 percent of agricultural inputs sold in Zimbabwe reach smallholder farmers though they constitute 70 percent of the population. In order to have a more systemic impact on input distribution to small-scale farming CNFA states that, a network of wholesalers and retailers that can introduce new efficiencies into input distribution must develop.

In accordance with the trade liberalization comments by Brester and Penn (1999), IFDC, DAI, and MTL (2000) depict Malawi as having made considerable progress toward deregulation and liberalization of its agricultural input supply systems with the private sector having played a dominant role in supplying inputs in recent years. It is this deregulation and liberalization that has set the stage for a market entry tool such as
TARGET. Nevertheless, Malawi’s agricultural input markets are not operating efficiently and farmers do not have easy and affordable access to inputs due to three key categories of constraints: 1) macro-policy constraints, 2) market development constraints, and 3) technical constraints. IFDC, DAI, and MTL go on to say that input suppliers’ obstacles related to market entry and the market entry model begin with the well-intended donor-financed and government-supported programs for input supply (Agriculture Productivity Investment Program/ APIP, Starter Pack Scheme, Kennedy Round II/ KR-II, Smallholder Farmer Fertilizer Revolving Fund of Malawi/ SFFRFM). These programs tend to discourage private investment in the input sector. This confirms the position of Edesess and Polak (1993) where public sector finance is hindering private and corporate investment because the return is insufficient due to unfair/subsidized practices by the public sector. Another problem cited is the general lack of input retailers in the rural areas. Seed and fertilizer markets are largely concentrated in towns and cities and are served by a limited number of retailers, forcing farmers to travel 10-50 km to purchase inputs. Lack of affordable finance, in the form of high interest rates and stringent collateral requirements coupled with near absence of financial service providers in rural areas, make the availability of finance for business development nearly impossible. And finally, poor road conditions in rural areas is cited as yet another problem. Narayan and Bumb (1994) reemphasize inadequate physical infrastructure as a reason for limited growth in fertilizer use.

According to SG2000 (2000), poorly functioning rural input markets stem from a poorly organized private sector; lack of vertical linkages between suppliers, distributors and retailer; lack of capital; and low volume of input sales. Further to SG2000’s list, Jeje and co-authors’ (1998) appraisal of the SG2000 program in Mozambique highlight the need to improve smallholder farmer awareness of the benefits and correct use of inputs, transport infrastructure, implementation of the KR-II program, private agribusiness’s willingness to expand wholesale and retail networks, and the diversification of the seed sub-sector.

Narayan and Bumb (1994) provide further background for the marketing of inputs by pointing out that efficient marketing and distribution systems are necessary in order to improve the performance and growth of the agricultural input industry. It is through marketing channels that inputs reach the farmer on time, in the right quantity and quality and at the right price. Untimely and inadequate supplies have hampered the development of the input supply industry in many countries. Furthermore, empirical evidence suggests that public sector agencies or State-owned enterprises/parastatals are less suited to efficient marketing because they operate under soft budget constraints, enjoy less autonomy and are subject to political interference. While the private sector should play a dominant role in input marketing and distribution, Narayan and Bumb believe the public sector still has an important role to play in that it can ensure efficient functioning of the market by performing regulatory activities.

Grobery (2000), President of Syngenta, emphasizes that the absence of commercial banks for agriculture or rural credit structures in most African countries limits input companies’ market potential, citing Syngenta as an example. Agricultural input suppliers wish to secure prompt payment for their products to reduce their exposure. According to Grobery, agricultural input supply companies believe it would be useful to have a fund that enables local distributors to obtain letters of credit or other forms of guarantee.
Tripp (1999) states that most developing countries have a mix of locally produced and imported agricultural inputs to address their food security and rural income generation needs. Inputs such as seed are generally produced in-country due to the climatic and soil conditions in the country which require the breeding of varieties suited to those conditions. This has lead to the historic domination of the seed supply sector by parastatal enterprises in LDCs, although this situation is now changing rapidly. The liberalization and privatization of parastatals has presented opportunities for investment by the multinational corporations involved in plant genetics. Opportunities created by the liberalization and privatization of government monopolies can also benefit other input supply companies such as those that produce fertilizer, which requires the import of raw materials, or crop protection distributors, whose products are generally 100% imported.

Dunn, Arbuckle, and Parada (1998) emphasize that rural financial markets are shaped by the environments in which they function. Agricultural credit has traditionally been seen as a catalyst for augmenting food production, spurring the adoption of new technology, improving income distribution, and general economic growth and development in rural areas. They identify three points to consider when providing rural agricultural credit: 1) the retailer must actually want the agricultural inputs; 2) the retailer must be willing to face the additional exposure to market risk created by credit; and 3) the inputs and credit must be available at the appropriate time.

Dunn, Arbuckle, and Parada conclude that partnerships between agricultural input manufacturers/distributors and rural retailers have the potential to be mutually beneficial, resulting in higher income for the retailers and increased sales for the manufacturers/distributors.

**TABLE 3: SUMMARY OF PROBLEMS ASSOCIATED WITH THE MARKETING OF AGRICULTURAL INPUTS**

- Lack of distribution networks
- Lack of rural retailers
- Lack of affordable finance and rural banking sector
- Lack of product knowledge in the smallholder market
- High deposit requirements for Letters of Credit
- Shortage of foreign exchange
- Poor rural infrastructure
- Poorly organized private sector
- Low volume of input sales
- Donor programs interfering with the market

### II. the comparison

**E. RAISE AND AGENT COMPARED**

The evaluation began by defining the market entry model for “agricultural inputs” in the context of their use by “smallholder farmers” and their sale by “rural retailers” in Eastern and Southern Africa.
“Agricultural inputs” is defined as all seed (cash and food security crops) used for planting, implements and hardware used for any purpose, fertilizer, crop protection chemicals, and appropriate agro-processing equipment used in the production of value-added agricultural products by smallholder farmers.

The “smallholder farmer” definition is a composite of definitions resulting from literature research and from five years of work experience and is described as an individual or family unit that secures the majority of their income and food from less than 50 hectares of land. The average farm size is 16 ha with arable land averaging 2-5 ha. The average planting on the arable land consists of 2.1 ha of maize, 0.43 ha of sorghum, 0.23 ha of other small grains, 0.06 ha of sunflower, and 0.9 ha of other crops (normally groundnuts). Average fertilizer use is 18 kg/ha. Average maize yield is 0.5-1.5 tons/ha. The average head of household age is 51 yrs, with an average of 5 children resident on the farm. In 1997, smallholder farmers spent an average of US$59.80 on inputs.

“Rural retailers” have been defined as formal and informal businesses operating in small towns and villages with a permanent place of business (owned or rented). They generally sell grocery items as a service to their farm customers. The rural retailer employs an average of 4 workers plus their self in the business. The business owner averages 30 yrs of age. All are smallholder farmers as well.

**CARE / AGENT**

The AGENT program was initiated as a pilot in November, 1995 in the Midlands and Masvingo Provinces. As a result of the successful implementation of that pilot, the program expanded to three additional provinces (Mashonaland East & Central, Manicaland). Funding for the AGENT program has come from IFAD (US$100,000), DFID (US$666,000) and CIDA (US$1,485,800) for a total of US$2,251,800.

Over the years a number of delivery strategies have been implemented by CARE. CARE was initially integrated vertically, undertaking both input supply and credit management. Historically, rural retailers’ either purchased their inputs from CARE directly or CARE paid for the inputs and then the rural retailer repaid CARE. A second model developed by CARE and still widely used (this the model shown in Figure 5), requires CARE to negotiate on behalf of the rural retailers with the input suppliers to establish lines of credit and the percent of the guarantee covered by CARE. The CARE guarantee fund is capitalized with US$60,000. To offset the risk of default, CARE requires a US$ 117 (Zim$10,000) deposit from the rural retailer that is held in an interest bearing account until the retailer successfully completes the program. The most recently developed delivery model, which is yet to be
introduced, favors an approach in which CARE leaves the rural retailers to deal from the onset with the suppliers as the CNFA/RAISE model does. Rural retailers would be ordering and repaying directly to input suppliers for their input purchases according to a structured shared guarantee. The rural retailer is released to a full direct relationship with the suppliers (without guarantee) after one agricultural season. It is at this point that the deposit, plus interest, is returned by CARE to the rural retailer.

Program objectives listed by CARE (2001) are: 1) To establish a viable network of agri-business entrepreneurs, 2) To improve access and lower prices of agri-inputs, 3) To encourage greater use of agri-inputs and markets, 4) To encourage the use of environmentally friendly chemicals, 5) To socio-economically empower small-holder farmers through expanded services (e.g. other products (food), output marketing, processing, credit).

Selection criteria listed for CARE’s rural retailers are:
- Access to storage facility (owned/rented).
- Be recommended by rural district Councils, Agritex, district administrators, community leaders, Zimbabwe Farmer’s Union or a combination of three.
- Must be a local/resident.
- Verifiable business experience. Runs an existing retail trade business in communal areas.
- Demonstrated entrepreneurial skills.
- Literacy and numeracy.
- No criminal record.
- Agricultural background.
- Social image / attitude – trainable or willing to be trained, capable or following up on contractual obligations – good marketing and customer care.
- Sound financial position (assets and liabilities owned) solvency.
- Commitment.
- Be a sole proprietor (i.e. no groups or co-operatives).

Roles and responsibilities listed include:
- **CARE**: 1) Needs Assessment - mapping of potential areas, 2) Organize orientation sessions with all concerned (e.g. Agritex, DAs, RDCs, communities), 3) Identify and recruit rural retailers, 4) Train rural retailers and introduce them to suppliers (wholesalers, seed companies and fertilizer companies), 5) Provide partial guarantee, 6) Regularly monitor rural retailers’ repayments and overall performance, 7) Undertake random & comprehensive audits, 8) Participate in the review of rural retailers’ performance to determine whether an retailer “graduated” to a full direct relationship with supplier.

**LOCAL COMMUNITIES/GOVERNMENT AUTHORITIES** (e.g. Agritex, DAs, RDCs etc): 1) Assist with identification of potential areas, 2) Identification and selection of rural retailers, 3) Provide feedback on rural retailers’ progress/performance, and 4) Provide advice and technical assistance to rural retailers (e.g. Agritex).

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CARE refers to this as the "Graduation" of an agent or rural retailer.
PRIVATE SECTOR (inputs suppliers, distributors and manufacturers): 1) Assist with rural retailer selection, 2) Participate in rural retailer training, 3) Procure and transport inputs to rural retailer as per orders, 4) Provide partial guarantee, 5) Monitor rural retailers' performance, 6) Review at the end of the agricultural season – rural retailers' performance to determine if he/she will be integrated to the supplier in a direct and full relationship.

CNFA / RAISE

CNFA founded the Agricultural Market Development Trust (AgMark) in 1999 and initiated the RAISE program based on the monetization of commodities donated by the US Department of Agriculture and support from the US Agency for International Development. AgMark is a Zimbabwean registered trust that holds the monetization income as a revolving guarantee fund. The advisory committee of AgMark is composed of representatives of groups with expertise in Zimbabwe agricultural input supply. Its role is to advise AgMark management on policy and operational issues and to support the RAISE program as appropriate. To date, the advisory committee has been instrumental in designing operating policies for the RAISE Agrodealer Input Supply Guarantee Fund and in selecting geographic areas for deployment of the RAISE program. By providing a forum for private-sector participation in RAISE management, the advisory committee has stimulated strong company participation in it. With members representing communal farmers, rural retailers, and rural business service providers, the advisory committee also facilitates interaction and understanding among the agricultural input industry, its rural distributors, and end-users (smallholder farmers).

The advisory committee currently includes representatives of the agricultural input supply sector, crop buyers, smallholder farmers, rural retailers, and rural business development service providers. The current members are representatives of the following companies: LeRoy Agrodealer Association, Zimbabwe Farmers Union, CCK Business Services, COTTCO, Novartis (Syngenta), Agro Services AG, Seed Co, ZFC, Agricura, ZOPP, AgMark/CNFA.

The RAISE program received a total funding grant of US$ 1,500,000 in 1999 from USDA. The objective of the RAISE program was to train 300 rural retailers and then stimulate the development of relationships between rural retailers and input suppliers via a 50% credit guarantee to the input suppliers. The AgMark guarantee fund is capitalized with US$600,000. Rural retailers that complete the first three training modules become eligible to apply for credit directly from the input suppliers based on the RAISE guarantee. CNFA receives a list of the rural retailers from the BDS trainers and via AgMark passes these names on to the input suppliers. The input suppliers then refer to the AgMark list when a rural retailer approaches them for a credit account. If the input supplier approves the rural retailer's application it can then apply to AgMark.
for a 50% guarantee. The input suppliers pay a 1% usage fee to AgMark for each rural retailer’s credit limit. At no time is there direct contact between CNFA and the rural retailers during the credit process. CNFA’s only direct contact with the private-sector comes via AgMark with the input suppliers.

Selection criteria listed for CNFA’s rural retailers are:

- Be recommended by one or more input supplier.
- Verifiable business experience. Runs an existing retail trade business.
- Pays for the training themselves, no subsidies from other NGO programs.
- Literacy and numeracy.
- No criminal record.
- Agricultural background.

CNFA is continuing to look for ways to increase the revenue stream of AgMark in order to ensure the trust’s sustainability. Currently, AgMark receives revenues from the interest earned from the US dollar guarantee fund and the 1% fee charged to the input suppliers for use of the guarantee fund. New revenue streams for AgMark being discussed include selling advertising space in the training materials to the input suppliers, increasing the guarantee usage fee, charging the BDS trainers franchise rights fees and a percentage of on-going training revenue, and selling the AgMark brand name to the rural retailers.
### Table 4: TRAINING COMPARISON

<table>
<thead>
<tr>
<th>Training Topics</th>
<th>RAISE</th>
<th>AGENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Module I</strong></td>
<td></td>
<td></td>
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<tr>
<td>Business Management</td>
<td></td>
<td>Ag Overview</td>
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<tr>
<td>Financial Records</td>
<td></td>
<td>Warehousing and Storage</td>
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<tr>
<td>Basic Bookkeeping</td>
<td></td>
<td>Record Keeping</td>
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<tr>
<td>Recording Transactions</td>
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<tr>
<td><strong>Module II</strong></td>
<td></td>
<td></td>
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<tr>
<td>Planning</td>
<td></td>
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<tr>
<td>Business Plan</td>
<td></td>
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<tr>
<td>Impact of Inflation</td>
<td></td>
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<tr>
<td>Legal Structure</td>
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<tr>
<td><strong>Module III</strong></td>
<td></td>
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<tr>
<td>Marketing</td>
<td></td>
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<tr>
<td>Consumer Behavior</td>
<td></td>
<td>Marketing</td>
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<tr>
<td>Customer Records</td>
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<tr>
<td>Market Research</td>
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<td>Customer Map</td>
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<td>Customer Care</td>
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<td>Customer Care</td>
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<tr>
<td>Competition</td>
<td></td>
<td></td>
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<tr>
<td>Pricing</td>
<td></td>
<td></td>
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<tr>
<td>Managing Inventory</td>
<td></td>
<td>Inventory</td>
</tr>
<tr>
<td>Supplier Relations</td>
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<td></td>
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<tr>
<td><strong>Module IV</strong></td>
<td></td>
<td></td>
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<tr>
<td>Asset Purchases</td>
<td></td>
<td></td>
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<tr>
<td>Budgeting</td>
<td></td>
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<tr>
<td>Break-even Analysis</td>
<td></td>
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<tr>
<td>Networking</td>
<td></td>
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<tr>
<td>Group Purchasing</td>
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<tr>
<td><strong>Module V</strong></td>
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<tr>
<td>Credit Policy</td>
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<tr>
<td>Credit Administration</td>
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<tr>
<td>Credit Collection</td>
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<tr>
<td>Credit Application</td>
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<tr>
<td>Extending Credit</td>
<td></td>
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<tr>
<td>Cash Flow Projections</td>
<td></td>
<td></td>
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<tr>
<td>Personnel Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motivating Employees</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Training Time</th>
<th>RAISE</th>
<th>15 days</th>
<th>AGENT</th>
<th>5 days, 1.5 day refresher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training Cost Paid by Retailers</td>
<td>US$ 115</td>
<td>US$ 12</td>
<td></td>
<td></td>
</tr>
<tr>
<td># Rural Retailer Trained</td>
<td>534 (267/yr)</td>
<td>407 (68/yr)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

since project start in 1999
since project started in 1995
TABLE 5: COMPARISON OF RAISE & AGENT TARGET MODEL VARIATIONS

<table>
<thead>
<tr>
<th>Components of TARGET Model</th>
<th>RAISE</th>
<th>AGENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form of Interface Entity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- with the Input Suppliers</td>
<td>AgMark</td>
<td>NGO</td>
</tr>
<tr>
<td>- with the Rural Retailers</td>
<td>AgMark</td>
<td>NGO</td>
</tr>
<tr>
<td>Training provide by</td>
<td>BDS providers none</td>
<td>NGO/Govt Ext</td>
</tr>
<tr>
<td>- to the Rural Retailers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- to the Farmers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level of Credit Guarantee</td>
<td>50%</td>
<td>80%</td>
</tr>
<tr>
<td>- Guarantee Administrator</td>
<td>AgMark</td>
<td>NGO</td>
</tr>
<tr>
<td># of points the public sector interacts with the private sector</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>

The RAISE and AGENT models have a common objective of increasing incomes of smallholder farmers by improving their access to inputs. Both models work to achieve this by facilitating business relationships between the private-sector input suppliers and rural retailers, providing credit guarantees to suppliers, and training rural retailers. A summary of notable differences between CNFA’s RAISE and CARE’s AGENT versions of the TARGET model include the following.

- RAISE has taken a more “hands-off” approach. It has trained and certified trainers to train the rural retailers. The RAISE program then provides a list of trained retailers to the suppliers. The RAISE rural retailers are left on their own to establish contact with the suppliers of their own choosing and apply for credit accounts with credit limits set by the retailer and supplier. CARE places field staff in the rural areas who provide intensive follow-up with the rural retailers on orders, inventory control, repayment, etc. whereas RAISE has no field presence leaving these responsibilities to the suppliers and retailers. (Refer to the # of points the public sector interacts with the private sector in Table 4) CARE also negotiates individually with the suppliers to establish preset credit terms and amounts for its rural retailers, with varying percent of the guarantee covered by CARE.

- RAISE has worked to develop the capacity of local trainers, ie business development service (BDS) providers from the outset while CARE conducts training “in-house”. (Refer to the BDS providers in Table 4) For-profit BDS providers went through a bidding process to train each group of rural retailers during 1999 when RAISE subsidized training cost, but are now responsible for identifying and coordinating the identification of rural retailers with the suppliers since participant’s fees pay all of the training costs (ie. RAISE no longer provides any training subsidies). It should also be noted that four of the five active BDS trainers report substantial increases in their revenue and profits as a result of obtaining the RAISE training certification.

- Rural retailers go through a screening process in each program, but the RAISE program new entrants are initially identified by the input suppliers and BDS trainers, whereas AGENT participants are selected by CARE. Only recently has CARE began to review new entrants with the input suppliers.
The RAISE program has an advisory committee made up of input supply representatives and smallholder farm representatives, while the AGENT program appears to have no supervisory or design interaction with the companies other than the final process known as “graduation”.

The AGENT program is more reflective of the CARE approach to humanitarian aid and development, for example, through its selection criteria (recommendation from local government, ownership in communal area, social image), whereas RAISE’s attitude comes from CNFA’s origins as the Citizens Network Agribusiness Alliance (CNAA) with a membership of 180 agribusinesses and their selection criteria (payment of training without assistance from other NGOs, and recommendation of input supplier).

CNFA is working to make RAISE a sustainable TARGET model by generating revenue, while CARE is not (ie. CARE even returns the interest earned on the deposits from the rural retailers).

The AGENT program is localized in three provinces of Zimbabwe, while the RAISE program is nationwide.

RAISE incorporates roughly three times the amount of training provided by AGENT with 100% cost recovery and training four times the number of rural retailers annually.

It appears that neither program offers safety training for storage and handling of the crop protection products to the rural retailers.

F. COST/BENEFIT ANALYSIS

As a business looking at market entry in less developed countries, the basic question is, how much does it cost? The bottom line with the AGENT model is a cost of US$1,897/rural retailer (IFAD, 1997) while the RAISE version of the model costs US$955/rural retailer. These costs are exclusive of the guarantee funds. However, by taking the total of grants received, including the guarantee funds and dividing by the number of rural retailers selling agricultural inputs the costs show US$ 5,532 per CARE/AGENT and US$ 4,120 per CNFA/RAISE rural retailer. It should also be noted that the CNFA/RAISE cost will continue to decrease due to the continued recruitment and training of the rural retailers without donor funding, whereas the CARE/AGENT model will cease to increase rural retailer numbers without donor funds.

Based on information provided by CNFA’s estimate of establishing the program, initial training subsidies, and in-direct cost attributable to the CNFA office and staff using the USDA monetization grant.

This figure does not reflect any un-expended funding which would increase rural retailer numbers and reduce this amount.

This figure does not reflect any un-expended funding which would increase rural retailer numbers and reduce this amount.
As a development program looking at the impacts on the beneficiaries the following results have been reported.

**CNFA/RAISE**

Average annual net income of the RAISE rural retailers was US$2,080 (CNFA, 2001), 2.5 times per capita GDP in Zimbabwe.

CNFA indicates that as a result of the rural retailers receiving inputs from manufacturers versus middlemen and providing farmers access to inputs closer to the farm, farmers saved US$12/ha in input related expenses.

By extending the US$ 12/ha savings figure from CNFA to the 534 dealers, averaging 541 customers, these savings are equal to an economic value of US$ 7,280,000 (Zim$ 618,800,000). An economic value to donor dollar ratio equal to 4.8:1 is generated.

The crops grown by each family with RAISE inputs roughly equals 2,866 kcal, enough to sustain an average family for 1 year.

**CARE/AGENT**

Average annual net income of the graduated AGENT rural retailers was US$1,296 (IFAD, 1997).

The sale of inputs has resulted in US$ 1,835,290 in gross benefits to the rural Zimbabwe economy, (CARE, 2001). The ratio of economic value to donor dollar equals 0.8:1.

### III. effectiveness of the TARGET model

The TARGET market entry model closely follows the market-driven product development model offered by Edesess and Polak (1993) where development assistance is warranted to meet the “investment gap”. With only one point of interaction with the input supply distribution system, the CNFA/RAISE version of the model interferes the least with the private-sector model found in developed countries.

The cost and time frame for CARE to implement its AGENT version of the model is significantly higher and protracted compared to the CNFA/RAISE version. Businesses often operate under strict budgetary and time restrictions that would make the RAISE version more attractive to them. The CNFA/RAISE version also offers higher corporate social responsibility returns due to the effects of higher net income for

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9 Calculations for this figure are ($12/ha of savings X 2.1 ha/ farmer X 541 farm customers/ rural retailer X 534 rural retailers) .

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TARGET MARKET ENTRY MODEL 20
the rural retailers and increased food security for the country in question. The AGENT version of the model has geographic restrictions, which restricts market access.

### Table 6: SUMMARY OF COMPARISON RESULTS

<table>
<thead>
<tr>
<th></th>
<th>RAISE</th>
<th>AGENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost/rural retailer</td>
<td>$955</td>
<td>$1,897</td>
</tr>
<tr>
<td>Avg. Annual Net Income/rural retailer</td>
<td>$2,080</td>
<td>$1,296</td>
</tr>
<tr>
<td>Training</td>
<td>15 days</td>
<td>6.5 days</td>
</tr>
<tr>
<td># of retail locations</td>
<td>1121(^{10})</td>
<td>407</td>
</tr>
<tr>
<td># of retailers trained per year</td>
<td>267</td>
<td>68</td>
</tr>
<tr>
<td>Preferred by participating companies</td>
<td>Yes</td>
<td>Limited</td>
</tr>
<tr>
<td>Involve companies in decisions</td>
<td>Yes</td>
<td>Limited</td>
</tr>
<tr>
<td>Provide market data</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Provide credit guarantee</td>
<td>50%</td>
<td>80%</td>
</tr>
<tr>
<td>Capitalization of guarantee fund</td>
<td>$600,000</td>
<td>$60,000</td>
</tr>
<tr>
<td># of contacts with private-sector model</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td># of farmers accessed</td>
<td>288,894</td>
<td>220,187</td>
</tr>
<tr>
<td>Economic value generated ratio</td>
<td>4.8:1</td>
<td>0.8:1</td>
</tr>
</tbody>
</table>

Questioning of agricultural input suppliers, representing manufacturers and wholesalers, revealed that the companies are fairly homogeneous, possessing the following characteristics.

1. Currently conduct business with government, development programs, and NGOs, (ie. the public sector).
2. Participate in either or both the CARE/AGENT and CNFA/RAISE program and indicated they preferred the CNFA/RAISE program over the CARE/AGENT program.
3. Look for assistance in identification of rural retailers, credit guarantees, product knowledge, and training support.
4. Intend to participate in future development programs.
5. Average advertising budget for the smallholder farm sector in Zimbabwe of US$ 12,254.
6. Average percent of sales to the smallholder farm sector in Zimbabwe at 64% and predicted to increase to 70.6%.
7. Equal split of ownership between wholly-owned subsidiaries and local ownership.
8. Percent of sales being made via public-sector programs average 12%.
10. Have tight management controls, but low levels of bureaucracy.
11. Have primarily local management teams.
12. Use radio, displays/ demonstrations for promotion.
13. Are willing to adapt products to the market.
14. Are willing to provide credit to rural retailers.

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\(^{10}\) RAISE rural retailers average 2.1 shops/ owner.
Questioning of CARE/AGENTS and CNFA/RAISE rural retailers and analysis of the RAISE database resulted in the following characteristics of the rural retailers.

1. 100% indicated that the profit on input supplies was higher than other items such as groceries.
2. More than 25% also operate agro-processing enterprises (hammer mills for maize, sunflower oil presses, and peanut butter mills).
3. Average turnover period for input supplies is 7 days.
4. The average number of credit accounts/suppliers used was 3.
5. Each sold an average of 17 tons of seed and 34 tons of fertilizer.
6. Each generally service 200-500 farms in their market catchment area.
7. Their catchment area is an average of 12 km in radius from their shop.
8. Farmers visit the retailers for input purchases an average of 5 times per year.
9. Each retailer operates an average of 2.1 retail outlets.

IV. Conclusions and recommendations

By applying a broad definition of global marketing to today’s global economic conditions and market place to the TARGET market entry model, a cleaner picture on marketing management comes into view. Beyond the traditional pricing, promotion and product issues, this broadened definition of global marketing includes managing the: market place, international market research, distribution, negotiation, product adaptation, pricing, payment, investment, and foreign management. (Czinkota, 1995)

**Market Place** - The market place is multi-location in demand due to increased communication links and the increased level of wealth in many of the emerging economies of the LDCs. Where agriculturally focused public sector programs that are not present, the TARGET model may be difficult to implement. The TARGET model can provide access to emerging markets, by using public sector development programs as an entry point.

**International Market Research** - One of the primary problems with international market research is the lack thereof, which is often cited as the main reason businesses fail to successfully enter global markets. The TARGET model enables input suppliers to collect market information while public sector organizations simultaneously collect development impact information. TARGET implementers such as CNFA/AgMark and the BDS providers may not be experienced market research analysts. The TARGET model is however, involved in the market place, and therefore, the TARGET model can provide access to emerging markets.

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11 In separate data collected by CARE the number of customers was reported to be 1137 while CNFA data produced an average of 541. The CARE number is obviously a total figure of all products sold, ie. groceries and inputs. To correct this, the author took the average amount of inputs sold (the more reliable example is maize seed), divided by average farm size and planting rates (17,000 kg of maize seed/2.1 ha of maize planted X 25 kg seed/ha) = 340 farmer customers) to obtain a more reliable farm customer figure.
MODEL CAN HELP PROVIDE INFORMATION ON THE MARKET, due to the hands-on involvement of the public sector development programs that interact with the target market.

**DISTRIBUTION** - This is normally a straight-forward process, but in LDCs finding the right distribution channels is a challenge. The TARGET model does not address the infrastructure problems associated with distribution. **THE TARGET MODEL PROVIDES A SCREENING PROCESS TO IDENTIFY AND ESTABLISH MECHANISMS FOR LONG-TERM MANAGEMENT OF DISTRIBUTION PARTNERSHIPS**, the intermediary role of the public sector development programs is used to facilitate the process.

**NEGOTIATION** - In LDCs, and especially in the rural markets of LDCs, the issues of ethics (and sometimes referred to as “donor syndrome”), culture and language can become egregious during negotiations. The education level of the retailers could significantly prolong the negotiation process and TARGET cannot change the donor history of the area or increase the education of the retailers beyond the training efforts. **THE TARGET MODEL ACTS AS FACILITATING INTERMEDIARY**, via the public sector development program’s knowledge of local culture, language, and historical donor practices.

**PRODUCT ADAPTATION** - A consumer’s perception of a product is guided by their cultural and economic conditioning. In the case of agricultural inputs, packaging requirements, as well as regulatory, climatic and geographic conditions make it difficult to offer one product in multiple markets. Product adaptation may prove too expensive and inhibit market entry. **THE TARGET MODEL CAN PROVIDE FEEDBACK ON PRODUCT ADAPTATION**, due to the public sector development program’s knowledge of farming systems and economic conditions.

**PRICING** - When a company enters the global market it becomes exposed to duties and currency fluctuations. Whether a company decides to use skimming, market price, penetration price, or import price, markets respond to competitive pricing which incorporates the needs of the distributors. Costs such as transport and import duties may prevent reductions in consumer prices that TARGET can not help reduce. **THE TARGET MODEL CAN REDUCE THE PRICE TO THE END CONSUMER THROUGH IMPROVED DISTRIBUTION EFFICIENCIES AND RISK REDUCTION**.

**PAYMENT** - Flexibility takes on a new meaning when a company enters the global market. When dealing with global markets, especially markets in LDCs, the payment of goods and services often requires financing. TARGET does not address all payment problems. For example, letters of credit and currency shortages are not part of the model. **THE GUARANTEE FUND OPERATED BY OR ASSOCIATED WITH THE TARGET MODEL DEMONSTRATES CREATIVE PAYMENT FINANCING**, by using the credit guarantee fund to reduce the risk of non-payment by 50%.

**INVESTMENT** - As discussed earlier, LDCs need foreign direct investment. As a result, companies are busy buying and signing contracts to stake-out their future to stay ahead of their competition in the global market. TARGET is not a guarantee to eliminate risk; it does not address macro-policy nor political instability. **THE TARGET MODEL HELPS OFFSET THE RISK OF FOREIGN DIRECT INVESTMENT IN LDCs**, by interacting with local government and business to promote free and open market policies.

**FOREIGN MANAGEMENT** - The trend toward decentralization by the global agricultural input suppliers and the need for local knowledge in the market has introduced a new management matrix that is being called “glocal”. A “glocal” company networks all
subsidiaries to all subsidiaries, as well as the headquarters. This also allows for the subsidiaries to be grouped according to strategic leadership, contributors, and implementer. Where the TARGET model is only implemented in one country, there will be limited advantages to a company’s outside management. **The TARGET model can fit into a “Glocal” management matrix as a contributor.**

**Promotion** - In LDCs, the target audience will often be multiple in scope and have limited commonality. Audience characteristics, product influence and the availability of media enter into the promotional strategy much more in the rural areas of LDCs. These issues make promotion of agricultural inputs in LDCs more expensive on a per unit basis. The TARGET model’s emphasis on marketing, consumer behavior, and market research training often leads to **Promotional activities by the rural retailers that are Target Audience specific.**

The TARGET model for market entry into LDCs fits extremely well with the new attitudes being adopted by development organizations such as USAID. Natsios (2001), USAID Director, indicated the following in his testimony before the US Senate Foreign Relations Committee.

> “USAID will undertake a much more systematic effort to leverage its funds and technical expertise with those of private institutions to serve poor people in the developing world … These partnerships will profoundly change the model through which USAID does its business with a much greater role for private institutions in development in the future.

> The American free market approach to both agricultural and economic development provide important lessons which USAID should do more to share with the developing world.”

The evaluation conducted here provides documentation of one viable model for a market entry strategy involving agriculture input supply companies in LDCs. Other private/public sector cooperative models in the agriculture sector have also resulted in increased market share (CNFA, 1997).

The TARGET market entry model can help the private agricultural input supply sector access emerging markets, obtain information on emerging markets, pre-screen potential partners, facilitate negotiations with intermediaries, provide feedback on product adaptation and consumer prices, provide creative payment financing, reduce risk of foreign direct investment, adapt into management matrixes, and provide targeted promotional activities.

In reference to the RAAPS evaluation where successes were limited (Chemonics, 1993), the TARGET model addresses all three of the lessons learned:

1) **Identification of a specific sub-sector in agriculture and agribusiness that offers greater potential for investment;**
Numerous references in the literature review, as well as others not cited, indicate that the agricultural input supply sub-sector both needs investment and offers considerable potential for investment. The TARGET model can and does facilitate investment in the sub-sector.

2) The bundling of relatively disconnected inputs such as basic business training, technology transfer, and joint venture/investment facilitation

The TARGET model specifically addresses the first two issues of training and technology transfer within the retail-oriented training programs and product knowledge training. The third issue of investment facilitation is the very basis of the TARGET model concept.

3) The expansion of the technical and organizational focus in order to attract more for-profit agribusiness that can deliver expertise to the program

The TARGET model is meant to attract all agricultural input businesses from seed, to agro-processing, to post-harvest storage, to planting and cultivation equipment and their accompanying expertise.

Several conditions for success need to be stressed that are associated with the macro-economic climates often found in LDCs. In a general context, favorable economic conditions such as sustained economic growth, low inflation, low interest rates, and stable exchange rates are desired. Favorable local conditions include dense population, well-developed infrastructure and markets, and a high education level in the retail sector. In fact, it is some of these conditions that may explain the variations in the TARGET model, such as the one seen in the RAISE and AGENT programs. The level of education and local economic conditions (ie. poverty level) associated with the models that have the greater number of contacts between the public and private sectors are generally associated with lower levels of education and higher degrees of poverty.

TARGET models such as RAISE and AGENT have made significant contributions to Zimbabwe’s agricultural economy (totaling US$ 9.1 million) and to the entire Zimbabwean economy (IFAD, GOZ and DANIDA, 1997) as well as contributing to food security.

### TABLE 7: SUMMARY OF PROBLEMS ADDRESSED BY THE TARGET MARKET ENTRY MODEL

<table>
<thead>
<tr>
<th>Problem</th>
<th>Addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of distribution networks</td>
<td>YES</td>
</tr>
<tr>
<td>Lack of rural retailers</td>
<td>YES</td>
</tr>
<tr>
<td>Lack of affordable finance and rural banking sector</td>
<td>YES</td>
</tr>
<tr>
<td>Lack of product knowledge in the smallholder market</td>
<td>YES</td>
</tr>
<tr>
<td>High deposit requirements for Letters of Credit</td>
<td>NO</td>
</tr>
<tr>
<td>Shortage of foreign exchange</td>
<td>NO</td>
</tr>
<tr>
<td>Poor rural infrastructure</td>
<td>NO</td>
</tr>
<tr>
<td>Poorly organized private sector</td>
<td>YES</td>
</tr>
<tr>
<td>Low volume of input sales</td>
<td>YES</td>
</tr>
<tr>
<td>Donor programs interfering with the market</td>
<td>YES</td>
</tr>
</tbody>
</table>
The TARGET model has been evaluated, as a market entry tool for agricultural inputs in this paper; however, there is no reason it cannot be used in the marketing of other goods and services such as medical/pharmaceutical supplies, food\textsuperscript{12}, telecom, and other consumer oriented services.

By combining the previous conclusions into integrated public/private sector conclusions, the TARGET model can promote economic development in LDCs and help input supply companies increase market share in line with the following commonly accepted mantras:

- Business is the development engine of the future;
- The most direct route for development is through the private-sector;
- In most transitional economies, the agribusiness industry is the central focus of the economy and its development will stimulate a country’s entire economy; and
- Business itself is one of the most able implementers of economic development.

**RECOMMENDATIONS TO BUSINESS:**

- Include a section in the marketing strategy that investigates public-sector development programs.

- Meet with donor agencies such as USAID, IFAD, and private foundations to determine areas of overlapping interest. Don’t hesitate to point out faults with development programs that are counter to private-sector development. Some of the well-intended donor-financed and government-supported programs for input supply tend to discourage investment by the private sector into input businesses. Lobby with donors to prevent these programs and associated organizations from being involved in the input sub-sector.

- Lobby with your corporation’s home government to prevent funding of programs which are counter to private-sector development, and to stimulate funding that promotes private-sector development.

- In accordance with the screening process recommended by Alkhafaji\textsuperscript{(1995)}, but adapted from the interview process, look for the following characteristics in a public-sector development organization when choosing which ones to work with.
  - The existence of a separate legal entity with a for-profit business focus to interact with your company (ie. credit wholesaler for guarantees).
  - A reasonable degree of business mentality in the organization.
  - Ability to assist in the development of new distribution options.
  - Encourage and allow retailer selection by input suppliers.

\textsuperscript{12} The CARE AGENT version of the model already incorporates this aspect to some degree. CARE has negotiated a credit guarantee with a general wholesaler that sales food and other non-input items to the AGENT rural retailers.
- Charge full training cost to the retailers or have a clear strategy for doing so, but allow strategic advertising to retailers in the form of ad placement in training manuals and record books as a form of legitimate training subsidies.
- Provide services such as identification of rural retailers, credit guarantees, product knowledge, and training support.
- Provide data to develop marketing strategies.
- Involve input suppliers at the planning stage, not just in the implementation stage.

- By-pass the public-sector when possible. Work with other input suppliers to establish a guarantee fund that is administered by the fund’s contributors, or hire an experienced company such as AgMark or a financial institution to administer the fund.

- Some input suppliers have taken the initiative to incorporate public-sector development into their marketing strategy to such a degree that whole departments are being set up just to work with and develop future cooperation with public-sector programs. This is a strategic decision that is recommended when working with a market entry model such as TARGET.

**RECOMMENDATIONS TO PUBLIC-SECTOR DEVELOPMENT ORGANIZATIONS:**

- General characteristics to look for when identifying future corporate partners for input supply programs in Africa include:
  - Make current sales to the smallholder farm sector (>64%).
  - Majority of marketing personnel are dedicated to the smallholder farm sector (>75%).
  - A specific portion of the advertising budget is designated for the smallholder farm sector (>US$12,000/year).
  - Have local production/manufacturing facilities.
  - Have tight management controls, but low levels of bureaucracy.
  - Have primarily local management teams.
  - Use radio, displays/demonstrations for promotion.
  - Are willing to adapt products to the market.
  - Are willing to provide credit to rural retailers and accept the risk in doing so.

- Take into consideration the levels of education, poverty, infrastructure development and market access when determining the number of contact points needed between the public and private sector.

The TARGET market entry model shows great potential to change the way public-private sector initiatives work together, but the model also has areas of weakness. The appropriateness of the agricultural inputs to be sold needs to be determined by technical, economic, environmental, social and political characteristics. Furthermore,
the appropriateness of a specific product to be introduced into the market should also be checked for compatibility with the market’s farming systems, the safety to the farmer, and infrastructure capabilities to handle problems.

ABOUT THE AUTHOR

MARK C. MITCHELL has been active in international agribusiness development since 1987. He has worked in Ecuador, Kazakhstan, Kenya, Malawi, Mozambique, Russia, South Africa, Uganda, Ukraine, Zambia, and Zimbabwe. Having been raised on a farm in Southwest Virginia, he has over 20 years of agricultural experience in both the private and public sectors.


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TARGET MARKET ENTRY MODEL


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