Agrodealer Development in Developing and Emerging Markets

John Allgood, International Fertilizer Development Center (IFDC)

SYNOPSIS

A holistic, market-oriented approach to agrodealer development facilitates improved efficiency in resource allocation, operations, and economic performance and helps to develop sustainable input supply systems. The benefits of agrodealer development accrue at various levels in the value chain and reach stakeholders at the micro and macro level. Developing agrodealers' technical capacity allows them to provide high-quality advisory services to farmers, accelerates the introduction of technology, and enhances the potential economic returns for farmers who invest in yield-improving technologies. Developing their business acumen is paramount for improving dealers' operations, cost-effectiveness, and potential for long-term economic success in serving farmers. Developing business linkages is critical in enabling agrodealers to capitalize on opportunities to improve the cost and operational efficiency of value chain and credit management and to expand the scope of their operations. It is vital to tailor each agrodealer development intervention to the specific conditions and market characteristics of a given country and region. Agrodealers learn best either through direct, one-on-one assistance or through group participation with hands-on interaction. Longer-term interventions are more effective than short ones (program continuity allows for timely interaction with policy makers and donors). Broad-based stakeholder involvement and attention to cost sharing (when feasible) are essential to sustaining progress.

CONTEXT

Agrodealers play a crucial role in servicing farmers' needs related to agricultural inputs.[1] Ideally that role includes providing farmers with (1) affordable, convenient access to appropriate, high-quality technologies to enhance yields and (2) proper advisory services on the best way to use those technologies to achieve favorable economic returns. The functions performed by agrodealers in developing and emerging markets are substantially influenced by the stage of agricultural development and the prevailing macro environment (for example, the government's role in agricultural input markets, the availability of finance to buy inputs, and so on).[2]

In an early phase of development, agriculture is mostly extensive; the sector is characterized by weak, seriously underdeveloped agricultural input and output markets. The public sector typically dominates the supply of agricultural inputs to farmers. In almost all cases, public systems that perform the function of agrodealers focus on logistics management with little (if any) emphasis on stimulating demand (through farmer advisory services or technology promotion campaigns, for example). Public systems rely strongly on the agriculture ministry and public extension service to create awareness and educate farmers. In the early phase of market development, private agrodealers' role usually is limited to bridging the gap between suppliers of agricultural inputs and farmers, often in competition with the public sector. Private agrodealers perform the essential basic functions of determining the product mix, physical distribution, pricing, and sales.

In markets where agriculture is more developed, as in India and Pakistan, agrodealers may assume more complex roles. In addition to providing convenient and timely access to appropriate, high-quality products, they may provide farmers with advisory services, participate in campaigns to introduce new technologies, and provide sales on credit to their best farmer customers. In more advanced markets, agrodealers may serve as an important source of information that is useful from both a commercial and policy perspective.

As the final link in the agricultural input value chain,[3] those entities (public and private) that function as agrodealers are able both to influence farmers' demand for

yield-improving technologies and to improve the transfer of knowledge related to the proper, safe use of agricultural inputs. They have a major influence on farmers' incomes. Efforts to improve food security and accelerate income growth in rural areas can be significantly affected by the presence and effectiveness of agrodealers.

INNOVATIVE ELEMENT

The International Fertilizer Development Center (IFDC) takes a holistic, market-oriented approach to agrodealer development, whether the challenge is to improve efficiency in public systems or strengthen the capacity of private agrodealers (box 3.26). Improving the performance of the members of the value chain, thereby achieving operational and cost efficiencies that directly benefit farmers, is a priority. The IFDC approach to agrodealer development incorporates the marketing concept—*an agrodealer's long-term success can best be achieved through better serving its farmer customers*—in all activities directed at capacity building and promotion.

FOCAL AREAS AND INTERVENTIONS

Focal areas in agrodealer development comprise technical knowledge transfer, business acumen development, business linkage development, and efforts to strengthen the support systems needed for agrodealers to become successful in a competitive marketplace. The following focal areas are a priority for IFDC in the design and implementation of activities to accelerate agrodealer development.

Box 3.26 Philosophy on Agricultural Development Drives the Approach in Agrodealer Development

The philosophy on agricultural development at IFDC encompasses two premises:

- Improved use of agricultural inputs (such as fertilizer, high-quality seed, or crop protection products) is essential, along with good water management, to sustainable improvement in agricultural productivity per unit of land.
- Efficiency in resource use can be maximized by employing a market-oriented approach to development.

The IFDC goal in agrodealer development is to foster the development of agrodealers so that they may effectively serve farmers' immediate and long-term agricultural input needs.

Source: Thompson 2003, 2005.

Technical knowledge transfer

Strengthening the technical capacity of agrodealers allows them to provide high-quality advisory services to farmers, accelerates the introduction of technology, and enhances the potential economic returns for farmers who invest in yield-improving technologies. Efforts to improve dealers' knowledge and understanding of agricultural input products focus on analyzing problems in soil and crop health management and on the field performance of products (for example, in maintaining soil and plant health); their safe use, storage, and handling to minimize human and environmental damage; and proper application to achieve maximum efficiency from use and optimum economic returns. Two crucial steps in increasing farmers' demand for agricultural inputs are to create awareness and transfer knowledge related to yield-enhancing technologies. Particularly in developing countries, the "seeing is believing" concept is highly effective in educating agrodealers and farmers and stimulating farm-level demand for inputs. Some of the most effective approaches for promoting agricultural inputs include the design and implementation of collaborative technology demonstration plots as well as technology field days and crop cuttings. IFDC also provides agrodealers with point-of-purchase technical leaflets, wall hangings, and poster boards that build farmers' awareness and knowledge of agricultural input use (box 3.27).

Development of business acumen

Strengthening the business acumen of agrodealers is paramount for improving dealers' operations, cost-effectiveness, and potential for long-term economic success in serving farmers. Agrodealer development activities of IFDC, CNFA, and others emphasize improving dealers' understanding of the financial, marketing, and management functions that must be performed well for a business to survive and grow. Training sessions cover the basics of marketing and business management; strategic planning to ensure that sufficient inputs are supplied in a timely manner to farmers; record-keeping to support profitability analysis, business planning, and credit management; understanding the total cost

Box 3.27 Technical Knowledge Transfer: A Public-Private Approach in Bangladesh

In Bangladesh, IFDC conducts a range of technical knowledge transfer activities, engaging both the public sector (such as the Department of Agricultural Extension, DAE) and private fertilizer dealers. Providing education to DAE field staff improves their awareness of appropriate agricultural technologies, the best practices for using them, and the resulting benefits through a "train-the-trainer" approach to knowledge transfer. Building the capacity of dealers to provide advisory services to farmers is a well-accepted practice. Various knowledge transfer activities are used and target agrodealers as well as DAE staff, including classroom training sessions that last one to three days, collaborative field demonstrations/field days, and direct, one-on-one technical support through site visits.

When a new technology is introduced, rapid penetration promotion campaigns are effective. Specific tools to introduce the targeted technology include technical leaflets, signboards, point of purchase displays, billboards in heavily populated areas, and open sky shows.

Source: IFDC 2011.

incurred in the agrodealer business and the associated record-keeping needs for marketing and accounting; price determination and pricing strategies; the design and implementation of promotional campaigns to improve sales; procurement planning and negotiation; credit management; and extending agrodealer networks to improve geographic coverage. IFDC's experience is that short group training sessions with a blend of lectures, group exercises, and case studies are highly effective in building business acumen.

Business linkage development

Business linkage development is critical in enabling agrodealers to capitalize on opportunities to improve the cost and operational efficiency of value chain and credit management and to expand the scope of their operations. Strengthening linkages within the agricultural input value chain generates several advantages. It allows for efficiencies in logistics planning and inventory management, improves awareness of new technologies, offers opportunities to realize economy-of-scale benefits through joint procurement, improves access to credit through banks and supplier credits, and facilitates the expansion of dealer networks. IFDC fosters business linkage development through workshops, direct technical assistance, publication of monthly market news bulletins, study tours, training programs, and the development of alliance agreements (box 3.28).

Strengthening support systems

Advantages in market development are afforded by forming groups in a manner that does not impede competition. Market efficiency requires a relatively high degree of market transparency at all levels; market information is essential to successful planning and decision-making. Various support systems facilitate agrodealer development. IFDC often works to create agrodealer associations and build their capacity to provide dealer education programs, advance technology introduction, provide policy advocacy, facilitate business linkage development, improve access to commercial finance, and enhance market transparency (box 3.29). The emphasis is on creating agrodealer associations that provide a formal structure to support long-term dealer interests.

It is important to tailor each agrodealer development intervention to the specific conditions and market characteristics of a given country and region. Human capacity building is emphasized in all activities. Educational programs and the provision of resource materials are crucial. One or more combinations of the following may be included: formal (classroom-type) training programs tailored to a particular audience on specific subject matter;[4] development/dissemination of an agrodealers' handbook; informal, one-on-one site visits with agrodealers to provide guidance on business management, product display, product storage, and safe input use and handling practices; and regional and international study tours to observe agrodealers and technology suppliers in more advanced markets. Cost-sharing (for technology demonstrations and field days, for instance) is emphasized. As an example of the type of resource material provided to agrodealers, an agrodealer handbook was developed in Uganda and Bangladesh to serve as a ready reference for agrodealers.

The scope of interventions may range from a one-time event such as a two-day training program to a more extensive, multiyear, comprehensive market development effort that includes agrodealer development. It is important to be aware of the peak agricultural input use season and avoid scheduling programs at those times.

Box 3.28 Business Linkage Development and Leveraging Resources

Global Development Alliance. In collaboration with the United States Agency for International Development and the Eurasia Group (Pioneer, John Deere, DuPont, and Monsanto), IFDC helped to create a Global Development Alliance in Kyrgyzstan. The alliance has been instrumental in introducing technology and building human capacity through cost-sharing and in linking Kyrgyzstan's agrodealers to suppliers of improved technologies.

Linking South Asian and African entrepreneurs. IFDC is organizing study visits and technical workshops to link suppliers of fertilizer briquette machines in Bangladesh and agrodealers in Kenya, Nigeria, and Rwanda. The emphasis is on creating awareness and establishing business contacts among agrodealers, entities that directly impact their businesses (including banks and microfinance institutions), and agricultural input distributors/wholesalers with local, national, regional, and international markets.

Sources: IFDC, unpublished project documents, 2009 and 2010.

Box 3.29 Agrodealer Associations Support Common Interests

The role and benefits of agrodealer associations are reflected in improvements in four key areas: access to finance, advocacy, communication, and education. IFDC implemented the Fertilizer Distribution Improvement (FDI) II project in Bangladesh during 1987–94 with funding from the United States Agency for International Development. With FDI II project support, the Bangladesh Fertilizer Association (BFA) was established in June 1994. A decade and a half later, the BFA is a 7,000-member-strong association that provides varied services to its members, including policy advocacy, knowledge transfer, and improved market transparency.

It is important to avoid dependency on donor funds for association operations. Long-term survival requires the association to create a revenue flow that comes substantially from membership dues.

Source: USAID 1996.

BENEFITS AND IMPACT

A holistic, market-oriented approach to agrodealer development facilitates improved efficiency in resource allocation, operations, and economic performance. The benefits of agrodealer development accrue at various levels in the value chain and impact stakeholders at the micro and macro levels. For instance, beginning in 2008, the Government of Bangladesh endorsed fertilizer deep placement as a technology that would help to improve rice production systems substantially, thereby contributing to food security and farmers' incomes. IFDC, with support from USAID and the Government of Bangladesh, designed and introduced a program to diffuse the technology and concurrently address demand and supply issues. The role of agrodealers in Bangladesh continues to evolve and is having a substantial impact on food security, farmers' incomes, and the national budget (box 3.30).

LESSONS LEARNED

IFDC's long experience in working with agrodealers in emerging markets throughout the world can help practitioners plan or support similar activities. Key lessons are summarized below.

- ***Understand the challenge.*** The agrodealer market environment and challenges faced by farmers differ from country to country. A *key lesson* is that a "one-approach-serves-all" philosophy does not work. Each intervention must be tailored to the prevailing conditions in the target area. Achieving success in agrodealer development requires a clear understanding of the overall agricultural input marketing system, the stage of development, and the influence of macroenvironmental factors at a given time.
- ***Engage the public agricultural extension service to the maximum extent feasible and use its extensive networks to provide knowledge-building services to farmers.*** A *key lesson* is that the extension service, other public officials, and private agrodealers must provide farmers with a consistent, clear message on the need for and appropriate and safe use of agricultural inputs.
- ***Keep learning practical and interactive.*** A *key lesson* is that agrodealers learn best either through direct, one-on-one assistance or through group participation with hands-on interaction. Study tours in more advanced markets often are beneficial to build business linkages and to further awareness and knowledge of technologies and the advisory role of agrodealers.

Box 3.30 Diffusion of Fertilizer Deep Placement Technology in Bangladesh

In close collaboration with the Department of Agricultural Extension (DAE) and private dealers in Bangladesh, IFDC is supporting the rapid diffusion of fertilizer deep placement (FDP) technology. Increasing farmers' demand for FDP technology and stimulating the supply and marketing system to improve farmers' access to the technology are crucial to sustainable success. At the macro level, the focus is on gaining government and donor endorsement of the technology. At the micro level, the primary focus is on:

- ***Creating farmers' awareness and demand for FDP technology:*** Over four cropping seasons, IFDC completed 3,880 farmer training programs, installed 386 technology demonstration plots, completed 109 FDP technology field days, and conducted 67 train-the-trainer programs for DAE staff. Advertising activities included (among others) the installation of more than 2,000 signboards and billboards, the development/dissemination of 135,000 technical brochures and the development of 72 cinema slides.
- ***Stimulating supply system development:*** Over 18 months, IFDC stimulated private entrepreneurs to invest (on a cost-sharing basis) in 157 FDP product briquette machines. Eighteen training programs targeting entrepreneurs were conducted. The results of concurrently addressing demand and supply issues related to diffusing FDP are impressive (see table B3.30).

Table B3.30 Impacts of Addressing Supply and Demand Issues Concurrently in Diffusing a New Fertilizer Technology

Rice area under fertilizer deep placement (FDP) technology	94,380 ha
Number of farm families adopting FDP	408,000
Incremental rice production	24,000 t
Farm family income increase	US$8 million
Urea fertilizer savings	7,000 t
GOB subsidy reduction	US$1.6 million
New urea briquette machines at dealer level	121

Source: IFDC unpublished project documents, 2009–11.

- ***Duration and continuity are important.*** A *key lesson* is that while one-time interventions in the priority areas described earlier are beneficial, they are less effective than longer-term interventions that provide agrodealers with continued support for development. Both remedial and more advanced training are important for achieving a sustainable impact. Program continuity allows for timely interaction with policy makers and donors.
- ***Foster broad-based stakeholder involvement.*** Strengthening dealers' capacity, building knowledge, fortifying support systems, and establishing business linkages are essential, but they are not enough to ensure productive agriculture and sustained economic development. A *key lesson* is that broad-based stakeholder involvement is essential to sustaining progress. It is important to engage the ministry in charge of agriculture, the public extension service, commercial bankers, donors, and other relevant development agencies to the maximum extent in agrodealer development initiatives. Establish links with other projects to achieve synergies when possible. To achieve an element of ownership, dealers' cost-sharing is emphasized when feasible. The feasibility often depends upon the stage of market development. In seriously underdeveloped input markets, where demand from farmers is weak and risks are high, cost-sharing opportunities are quite limited. Dealers lack the resources to make a significant contribution to development. In more advanced markets, dealers' cost-sharing may range from providing the inputs for technology demonstrations to covering a portion of the costs involved in field days.