Intermediary Business Models for Improved Market System Processes and Relationships

Feed the Future Uganda Commodity Production and Marketing (CPM) Activity began in 2013 and runs for five years. CPM works to increase productivity and income of rural families so they can lift themselves out of poverty and thrive. The Activity harnesses market forces and uses innovative methods to increase the quantity and quality of coffee, maize, and beans that smallholder farmers produce and sell. CPM does this by 1) working with exporters and other buyers to extend a variety of services down value chains to improve production and marketing; and 2) building trust and win-win relationships between value chain actors to change processes and behavior. In particular, CPM focuses on incentivizing value chain middle actors to improve relationships up and downstream (Box 1). The goal of this proof of concept technical brief series is to share learning, scalable approaches, and practical steps for the agriculture sector growth in Uganda.

State of the Agricultural Market System and Value Chain Intermediaries

Maize, beans, and coffee production systems are largely based on smallholder production, typified by low input use and low production output; poor postharvest handling; inadequate on-farm storage; as well as limited access to markets, market information, and support services. The larger market system is in part characterized by ineffective competition, poor cooperation and entrenched mistrust – farmers see traders as “cheats” and vice versa, combined with a history of government, NGO, and donor “handouts” and misplaced confidence in reliable rains and fertile soils as substitutes for good agricultural practices and inputs. For improved production system, value chain, and market functioning, there is continued need for effective vertical and horizontal relationships and associated processes for a market system that is competitive, inclusive, resilient, and can lift large numbers of rural households from poverty.

CPM has taken a new tact to improved productivity and marketing through buyer-linked market intermediaries, instead of the typical focus on farmer organizations and end buyers. Development efforts have often ignored traders and middlemen, yet transactions involve willing buyers and sellers. Those

THE FOCUS ON INTERMEDIARIES (Box 1)

In reaction to farmer-trader mistrust, development projects often ignore “middlesmen”. This approach has yielded limited success because the farmer organization development model on its own contributes perhaps 2 to 5 percent to production aggregation and sales according to those knowledgeable of Uganda’s agricultural sector. As evidenced by limited impact of past agricultural development programs, Uganda requires different triggers. For this reason, CPM facilitates intermediaries to play key roles in promoting high quality, consistent quantity product. This starts with CPM engaging buyers willing to establish relationships that incentivize intermediaries to in turn better serve and incentivize farmers. By targeting leverage points in the “middle” of value chains, productivity and market access increase, stimulating supply response to demand, intermediary business models include buyer-linked village agents and village service agents, farmer organization depot committees; small-scale processors like coffee washing station operators; and farm service centers.
in the “middle” play vital roles, especially considering IFPRI’s 2012 findings that the majority of Uganda’s farmer organizations do not effectively link members to output markets. Typically, village agents serve as procurement agents for buyers, approaching farmers with a “take it or leave it” price-based negotiation. Agents tend to have less than transparent relationships with buyers and mistrustful relationships with farmers. They are typically not quality driven, work on the spot market, offer little market information, and have limited access to storage, transport, and finance. But, as evidenced by a handful of successful intermediary business models in existence when CPM began in 2013, intermediaries can play a key role in high-quality, consistent quantity production and ensuring well-functioning value chains.

The Opportunity

Point of Intervention

CPM’s hypothesis is that by improving functioning in the “middle” of value chains, productivity and market access will increase, stimulating supply response to demand. CPM targets buyer-linked intermediary business models that offer incentives of additional farmer services and price differentiation for quality output. For example, the buyer-linked village or village service agent business model is gaining traction (Figure 1) with agents expanding roles to provide farmers with information and services. In the model, a buyer (e.g. exporter, processor, trader, or apex farmer organization) hand picks, trains, and sets expectations for agents. With a large number of unemployed rural youth without access to land, there are opportunities for youth to become agents and employees of farm service enterprises as system process and relationship changes occur.

Under this model, agents may sell inputs; conduct demonstrations with input suppliers to create demand; offer postharvest and processing services; purchase producethrough cash, mobile money, or bank transfer; bulk and transport produce; facilitate credit; and provide ongoing extension and quality control advice. They bring needed services closer to often previously unserved farmers, many living off poor roads. Door to door services for inputs and mobile maize shelling save farmers time and money, improve product quality and quantity, and build trust. Other intermediary models are succeeding as well: coffee washing station operators linked to Great Lakes Coffee Co. Ltd., now offer drying facilities and purchase Arabica cherries, unhulled dry Arabica, and washed parchment, while coffee hulling processors are adding Robusta drying, storage, and output purchase services.

Priorities based on Learning

Assessing limited long-term impacts of donor and government programs on key value chains and taking “doing business differently” to heart, CPM tested, adapted, and supports scaling of intermediary business models. Priorities for success are:

Figure 1: Trader-Village Agent-Farmer Model

- Because farmers buy needed services from local intermediaries, more trusting, mutually beneficial relationships are built.
- Farmers’ yields increase and their quality of produce improves as a result of the support from the trader through his village agent.
- Farmers are able to sell at a better price to the trader.
- Village agents are the main interface with farmers, buying produce on behalf of exporters, processors, traders, or apex farmer organizations.
- Some self-employed agents have built their microenterprises and small businesses, hiring needed staff.
- The village agents provide production and marketing services to the farmers to improve productivity and quality of produce.
- The village agent provides genuine inputs, spraying, extension, post-harvest handling and other services to the farmer.
- The trader is assured of a steady supply of high quality produce as a result of his good relationship with his village agents and farmers.
- The trader supports the village agents to acquire shelling and drying equipment to improve post-harvest handling.
• **Intermediaries linked to buyers for market access.** Clients (exporters, large traders, processors, and apex farmer organizations) “buy” CPM services in exchange for agreeing to extend services down the value chain to farmers. Client and CPM agreements are structured like contracts between a consulting firm and businesses, specifying service and payment terms, with “payment” to CPM in the form of 1) actively partnering with CPM to invest in their supply chain through training and information dissemination for improved production and marketing; and 2) providing monitoring and evaluation data. The goal is that CPM works itself out of a job, with the client taking a greater and greater role in extending services down their supply chain. Clients select trusted intermediaries and recruit others with potential. To start, CPM advises linkages to at least 10 trustworthy village agents, each buying production output from 200-300 farmers, of which a 66% adoption rate for other services is expected. CPM has developed specific criteria for village agent participation by value chain use that clients use in agent selection. For example, for village agent selection, client New Kakinga Maize Millers uses simple criteria: bulking turnover, frequency, and quality of factory-delivered maize. Each village agent must also fulfill CPM and client conditions before buying maize from farmers, such as establishing a maize store with at least 7 metric ton capacity and agreeing to advise farmers on prevention of Aflatoxin, planting techniques, and fertilizer use. Bweyale, Katerera, and Muhoro Area Cooperative Enterprises and other farmer organizations are building village agent networks instrumental in helping their members meet seasonal targets.

• **Multiple service provision.** Offering three or four services across categories (Box 2), full-time equivalent jobs of 185 to 200 annual work days can be created. For example, an agent offering two services to 200 farmers, e.g., maize shelling (charging UGX 3,149/bag) and agrochemical spraying (charging UGX 18,056/acre), earns about UGX 10.6 million annually. If the agent also purchases output, UGX 4.5 million is earned, totaling about UGX 15.1 million. As agents reinvest earnings and add one or two more services across categories, annual income can rise to UGX 16 to 21 million, depending on the number of clients and services provided. In comparison, a Kampala-based bank teller earns about UGX 12 million.

• **Quick, stable returns.** To show that a career in agriculture is viable, key factors are cash on delivery, a client base of 200 to 300 farmers for output purchase, and minimum monthly income of $400 (UGX 1.3 million), or $4,800 annually (UGX 20 million). CPM advises agents to market additional services to at least 300 farmers, with expectation of a 66 percent services adoption rate by farmers.

• **Youth employment prospects.** With a large number of unemployed rural youth without access to land, there are opportunities for them to serve as agents, build service enterprises, or find jobs with service enterprises.

• **Knowledge and skills.** There is one extension agent for every 50,000 farmers (2013); intermediaries can help with extension, but generally lack farming and inputs knowledge and have low literacy and numeracy rates. They need training in genuine inputs awareness, planting, agro-chemical and herbicide safe use and handling, and no-till farming (Box 3). Other valued training has been in literacy and numeracy, business planning, financial management, recordkeeping, and farm management. Some agents have received training

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**POTENTIAL FARMER SERVICES FOR INTERMEDIARY PROVISION (Box 2)**

<table>
<thead>
<tr>
<th>Pre-Production</th>
<th>Production</th>
<th>Postharvest</th>
<th>Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Crop insurance agent</td>
<td>• Input supply services</td>
<td>• Shelling services</td>
<td>• Bulkling/aggregation services</td>
</tr>
<tr>
<td>• Soil testing agent</td>
<td>• Planting services</td>
<td>• Grain cleaning services</td>
<td>• Rural sales agent, non-agricultural products</td>
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<tr>
<td>• Crop inspection agent (for banks, insurance companies, outgrower schemes)</td>
<td>• Weeding services</td>
<td>• Drying services</td>
<td>• Rural banking and Digital Financial Services (DFS) agent</td>
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<tr>
<td>• Digital profiling agent</td>
<td>• Pesticide spraying services</td>
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in portable and labor-saving electric inputs sprayers and axe accessing finance for equipment purchase offering add inputs spraying as a service. To jumpstart efforts, buyers and CPM together have provided training, with CPM taking a smaller role over time. Agents are starting to bridge extension system gaps as noted by the MAAIF extension service director in June 2016. CPM is implementing a public-private partnership that links MAAIF extension agents to village agents and village service agent for continual flows of production and marketing information.

• **Intermediary access to genuine inputs, ICT, mechanization, and new technologies.** Multiple channels exist for intermediaries to purchase bulk inputs and agents are forming associations to access inputs financing. Input suppliers offer agents training in safe use and handling and engage in joint demand creation activities, e.g., field demonstrations and product information dissemination. Agents use a “door to door” approach to inputs supply and extension, saving farmers time and driving down production costs, increasing uptake, and eliminating fake and adulterated inputs and their poor and unsafe application. Other new approaches that engage agents and are positives for farmers, includes equipping agents with smart phones to provide market and weather information, mobile maize shelling, ICT-enabled savings for inputs and in-kind inputs financing. By applying a service package of ICT and mechanization in maize, production costs are reduced by 30 percent.

**Criteria for Success**

These factors incentivize intermediaries to work in farm services provision:

- Intermediaries must be linked to buyers for real and ready markets.
- Intermediaries need knowledge relevant to value chain(s) and services offered.
- Jobs must be perceived as formal, not informal, to help change mindset about work in the sector.
- Opportunities to provide service packages equal to full-time equivalent work with a potential income minimum of $400 month, or $4,800 annually.
- Cash on service delivery.
- Access to finance, genuine inputs, and mechanization; ICT is an added positive.

**Results and Way Forward for Scale and Systemic Change**

**Results**

Over the last three years, CPM has used evidence and learning to support, adapt, and scale intermediary business models. Results as of March 2016 are in (Box 4).

Other areas to assess system and systemic changes:

- Intermediaries providing farmer services beyond the three targeted value chains.
- Intermediaries providing farmer services outside USAID Feed the Future districts.
- Non-CPM client buyers using the intermediary farmer service enterprise model.

**The Way Forward for Scale and Systemic Change**

Diffusion theory is relevant for this effort. There is uptake of these intermediary business models by innovators and early adopters. As more and more success is shown (increased jobs and incomes and increased volume of quality products for domestic and regional markets) the hope is that the early majority will take on these models, resulting in positive changes in market system processes and relationships. Potential for scale and systemic change is in five areas:

- **Client expansion geographically and new clients.** In the last 18 months of CPM, promote current clients expansion to new regions and approach potential new clients.

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**STEP BY STEP TO INTERMEDIARY SERVICES**

**Box 3**

1. Identify services needed by farmers.
2. Share service cost-benefit analyses to show intermediaries profitability.
3. Train intermediaries in service(s).
4. Cost share equipment with buyer or intermediaries. e.g. sprayers, planters, shellers, and dryers.
5. Build intermediary capacity in business skills and linkage to microfinance institutions.
6. Support intermediaries through marketing their services via field days, radio messages, IEC materials, and e-extension animated films.
7. Promote that intermediaries take on packages of 4 to 5 services to create full-time jobs, equivalent to 185 days annually and living wages.
• **Existing service enterprise growth.** The optimal number of farmer clients is 200 to 300 for output purchase, with an expectation of a 66 percent farmer adoption rate for other services; agents currently have on average 120 farmer clients buying additional services beyond output purchase. With 6.4 million Ugandan smallholder farmers, dividing by 200 farmer clients per agent, 32,000 jobs can be created.

• **Service enterprise jobs.** As intermediaries build their enterprises and offer more and more services, such as mobile maize shelling (one maize sheller requires four workers), they require employees and hire others, often youth. If, for example, each agent has four employees, then 128,000 more jobs are created. Other services with potential are digital financial services, household-level storage technology, solar drying, and crop insurance agent services.

• **Farming.** Agents who stay close to home may inherit land for farming, using knowledge and skills they have gained, while landless entrepreneurs may begin to purchase land as they understand that there is money to be made from farming.

• **Business and NGO adoption of model.** Social enterprises, businesses, and NGOs are organizing and/or hiring youth to cover specific geographic regions. This includes Akorion, Amarin Group, Keire Green Africa Agency, and coffee value chain village agent associations bulking coffee for increased bargaining power with traders.

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**INTERMEDIARY BUSINESS MODEL RESULTS (Box 4)**

**Targeted Farmers**
- Gross margin per hectare
  - Coffee: $1,004
  - Maize: $608
  - Beans: $315
- Value of incremental sales
  - Coffee: $195,331,350
  - Maize: $55,577,319
  - Beans: $37,736,998
- Adopted New Technologies
  - 244,094
- New Hectares under New Technologies
  - 423,523

**Targeted Traders**
- Investment in Value Chains
  - $8,137,540
- Volume Traded
  - 571,249 metric tons
- Access to Finance
  - 842 traders