

Engaging with farmers' organizations for more effective smallholder development



Module 2: How to support farmers' organizations in designing their business plans

Farmers' organizations



How To Do Notes are prepared by the IFAD's **Policy and Technical Advisory Division** and aim to provide practical suggestions and guidelines for country programme managers, project design teams and implementing partners to help them design and implement programmes and projects.

They present technical and practical aspects of specific approaches, methodologies, models or project components that have been tested and can be recommended for implementation and scaling up, including best practices and case studies that work and can be used as a model in a particular field.

How To Do Notes provide tools for good practice design based on best practices collected at the field level. They guide teams on how to implement specific recommendations of IFAD's operational policies, standard project requirements or financing tools.

The **How To Do Notes** are "living" documents and will be updated periodically based on new experiences and on feedback. If you have any comments and suggestions, please contact the originators.

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Acknowledgements

The writing of this toolkit has been a highly collaborative effort and the originator would like to thank the co-authors **Pierre Baris**, consultant, **Valeria Galletti**, consultant, and **Fanny Grandval**, consultant for their substantive contributions. Special thanks also goes to the internal peer reviewers of the Policy and Technical Advisory Division of IFAD for their insightful feedback and to the participants to the informal meeting of the global meeting of the Farmers' Forum held on 17 February 2016.

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December 2016

Module 2. How to support FOs in the design of their business plans

Introduction

The business plan of an FO is a document providing information on how the FO intends to organize and implement activities so that it is profitable and can succeed. It is an essential tool for the planning, managing and running of a business. It clarifies the operational and financial objectives of a business and contains the detailed plans and budgets showing how the objectives are to be achieved. It may also contain background information about the organization that is attempting to reach those goals.

Why should FOs design business plans? Farming is a business, and farmers and their organizations need to develop their activities following a sound business plan that outlines the economic and financial forecasts of these activities. The business plan is the operational tool that directs each and every step in the business of an FO.

The business plan serves several important purposes:

- It helps determine the viability of the FO's enterprise in a designated market.
- It provides guidance to the FO in organizing planning activities.
- It serves as an important tool to obtain financing/funding.

When should a business plan be designed? A business plan is not developed each time a given strategy is modified. It should be developed when an FO launches a new major initiative, and should cover a period of 3 to 5 years.

Contents of a business plan

The necessary elements to be included in a business plan are presented below.

1. Executive summary

A typical business plan begins with an executive summary that is prepared after the plan is written. Its purpose is to communicate the plan in a convincing way to important audiences (e.g. financial institutions or possible partners/investors).

2. Introduction/background

A summary of the business activities of the FO, its history and its position in the marketplace should be provided here. This part gives an overview of the FO, its vision and objectives, including the following elements:

a) Presentation of the FO

Creation date, geographic area, number of members (database of farmer members attached), types of commodities/products, plot size operated by each farmer member, number of staff, ongoing services provided by the FO, property, equipment and infrastructure.

b) Focus of the business the FO wants to develop

Overview of the business the FO is aiming to develop within its business plan.

c) Vision and mission

The vision is what the FO aspires to and what it will concentrate its energies and resources on to make the business profitable. The mission is to be achieved through the objectives of the FO's business plan.

d) Objectives/goals

This section includes production and/or financial-related objectives specific to the plan. There should not be more than five objectives for the business. Objectives should be SMART:

S – Specific. Objectives should be specific and not vague. They should clearly state exactly what the FO wants to achieve.

M – Measurable. Objectives should be measurable or it will not be possible to assess their achievement accurately.

A – Achievable. Available or potential resources needed to achieve the objectives should be taken into account.

R – Realistic. Unrealistic objectives that are impossible to achieve should be avoided.

T – Time frame. Objectives need to be reachable over a specific period of time so that they can be measured and an estimate made of how long it will take to achieve them.

Tips for writing a business plan

Contents. The text of a business plan must be concise and yet must contain as much information as possible. This sounds like a contradiction, but it can be resolved by using the *keyword approach*:

1. Write the following keywords on a card and keep it in front of you while writing:
Who/What/Where/When/Why/How/How Much
2. Answer all the questions in one paragraph at the beginning of each section of the business plan.
3. Expand the contents by adding more about each item in the text that follows.

Length. There is no set length for the development of a business plan. Nonetheless, an average of 30 to 40 pages, including the supporting documents section, should be respected.

Approach. Writing an effective business plan requires discipline, time and privacy.

Tip: You will save time by compiling your list of supporting documents while writing the text.

N.B. Objectives should be linked to expected outcomes and need to be thought through thoroughly. Are they in line with expected achievements as outlined in the business plan? Do they have an outcome that will contribute to reaching the outlined vision?

Example of an objective: Grow production volumes to 600 metric tons by 2017.

3. Market and supply analysis

a) Market overview

- Brief introduction on the current market for the product that the FO is focusing on in the country/region/subregion: current marketing and pricing systems, potential buyers of produce.
- Brief introduction on the type of product targeted by the FO/cooperative (conventional sector, organic, fair trade, raw, processed, etc.).
- Areas to improve efficiency of marketing system: what are the potential areas where the FO could improve efficiency and reduce the costs of the current marketing system (transport, processing, etc.)?
- Possibility of market development: what is the potential for the development of new markets? Is there potential for the FO to directly market produce nationally, internationally, etc.? If there is, would this be a more profitable option?

b) How is the FO currently dealing with the running of its economic services?

- Current produce volumes and prices from potential membership: what prices are members receiving for produce, who do they sell produce to, what are transport arrangements, etc.
- Current buyers of crops produced by potential members: who are the key buyers of members' produce, what are the 'links in the chain' after the initial purchase is made.
- Current volume of input purchase, current suppliers of inputs, prices of inputs, input supply marketing channels.
- Current assets and equipment (warehouses, production and/or processing equipment).
- Characterization of the FO/cooperative business partnerships with buyers, types of contracts, price, quantity, etc.
- Differences between sales through the FO and sales without involvement of the FO (prices, terms and conditions, etc.).

c) SWOT analysis of the ongoing capacities of the FO/cooperative (diagnostic elements) to manage its economic services in relation to the planned business:

- Production
- Processing of products
- Marketing
- Export
- Certification
- Financial management
- Administration
- Management
- Managing the strategy of the FO/cooperative

Guiding questions to help design a strategy

- Given the potential marketing and supply volumes, is the membership of the FO large enough to sustain itself? Is it too large?
- Given the crops produced, supplies required and other indicated needs and problems, what services should the FO develop?
- Given farmer locations, volumes, sizes, etc., what structure and facilities will the FO need to develop its strategic plan?

4. Plan for the development of the FO/cooperative

- Strategy to increase production
- Strategy to increase product quality
- Business strategy
- Managerial strategy
- Financial resources plan: finances required, fixed investments and working capital requirements, sources, terms of loans, members' own funds + proposed solutions to address issues in terms of pre-financing (loans, private investors, etc.)
- Communication strategy and support to farmer-based organizations
- Benefits for farmer members: level of benefits and projections

5. Business plan in Excel file

See annex I for an example in an Excel file.

Reviewing FO incomes/expenditures to identify the break-even point

What is needed?

- Forecasts of projected volumes of products to market and prices expected
- Cash flow statement¹ and financing of activities
- Membership fees and share capital requirements
- Projected assets, liabilities and member equity
- General activity workplan with considerations of time frame, party responsible, monitoring and indicators
- Budget

Once stock is taken of fixed costs and variable costs (see below), the break-even point is determined (economic equilibrium).

Investments

This includes warehouses, vehicles, computer equipment, office furniture, equipment to support the production/processing of products, and small equipment (scales, etc.).

A given project can provide funding for initial investments to enable an FO to quick-start its activities. The total amount of these investments will not be covered by the FO benefits but will be taken into account in its five-year amortization plan.

Determination of variable costs

This section details all the costs that vary with the volumes produced and sold. These are:

- Working capital for economic services: inputs, processing, marketing, etc. The amount of working capital depends on: (i) the plot size planted by members (for inputs funds); and (ii) the volume of products sold (for marketing funds)
- Packaging and/or packaging material products (bags, etc.): unit price
- Cost of loading the goods onto trucks (price per bag usually)
- Premium for collection: sometimes within local groups of farmer members of the FO, one person is empowered to collect the products and is rewarded with a premium incentive to collect more bags (cost per bag delivered to the cooperative)

Determination of fixed costs

Fixed costs are independent of the volumes produced and sold (they are often operating costs).

They include:

- Salaries of the cooperative (manager, accounting, warehouse keeper, driver, guard, etc.)
- Expenses for meetings of board of directors and general assembly
- Repairs and maintenance (vehicles, equipment, buildings)
- Current operating costs: office rent, office supplies, fuel for vehicles and/or generators, electricity costs, communication costs (telephone, internet, radio, media)

¹ A cash flow statement (budget) is a projection of your business plan in terms of USD (or any currency used in your country). It shows cash inflow and outflow over a period of time and is used for internal planning. Cash flow statements show both how much and when cash must flow in and out of your business.

Determination of FO incomes

FO incomes vary with the production/marketing plan of the various products marketed and the membership of the FO. Revenue is calculated using the following:

- Revenues from sales of products (to be differentiated by product based on acreages and planned annual returns)
- Revenues from any services provided
- Sampling of the FO for management and operation (e.g. 5 FCFA per kilo of rice sold)
- Administrative income (membership fees)

Determination of the break-even point

- Calculation of gross and net margins
- Gross margin (+ or -) = revenue - variable costs - fixed costs
- Net margin (+ or -) = gross margin - depreciation

Methodology for supporting an FO in developing its business plan

- | | |
|---------------|---|
| Step 1 | Collecting data
By-laws and internal rules of the cooperative, action plan, list of employees, contracts with buyers, database of producer members, other documents available |
| Step 2 | Working with the manager on the financial situation of the FO/cooperative
Determination of fixed and variable costs and revenues of the FO/cooperative |
| Step 3 | Meeting with the board of directors of the FO/cooperative for a simulation of the cooperative equilibrium (½ day) |
| Step 4 | Meeting with the board of directors of the FO/cooperative to discuss the list of responsibilities and skills in terms of FO/cooperative management (between ½ and 1 working day) |
| Step 5 | Meeting with the board of directors of the FO/cooperative to discuss strategies to develop cooperatives (between ½ and 1 working day) |
| Step 6 | Presentation and finalization of the business plan |

Supporting documents to be collected

- Legal documents
- List of members, location, acreages, productions
- Contracts with suppliers, clients, processors
- Profiles and resumes of managers and/or other human resources

References

- ACIDI-VOCA, NASFAM, 1999. *7 Steps To Organizing A Smallholder Farmers' Association*.
- Republic of South Africa, Department of Agriculture, Forestry and Fisheries, 2011. *Agricultural Business Plan Guidelines*.
- Government of India, Ministry of Agriculture, 2013. *Policy and Process Guidelines for Farmer Producer Organisations*.

Annex I. Example of Excel file for business plan

Activities	2013	2014	2015	2016	2017	Total
a) Investments costs						
Investments costs are not taken into account in this example of a business plan – they may be covered by an IFAD-funded project on the basis of FO performance over the five-year duration of the project. However, amortization costs (see line "Amortization") are included in order to anticipate their replacement.						
Vehicles	50 000	-	-	-	55 000	105 000
Motorbike	-	-	-	-	-	-
Generator	4 500	-	-	4 800	-	9 300
Scales	7 400	-	1 850	-	-	9 250
Production equipment	2 000	-	-	2 500	-	4 500
Processing equipment	26 200	-	-	-	-	26 200
Warehouses	9 000	6 000	-	-	-	15 000
Office furniture and IT equipment	400	-	-	-	-	400
Total investment costs						
b) Variable costs (capital expenditure)						
Working capital inputs	7 200	3 600	3 600	3 600	3 600	21 600
Working capital marketing	500	750	900	1 000	1 000	4 150
Packaging material	-	-	-	37 451	56 176	93 626
Costs for truck loading	-	-	-	4 028	4 028	8 056
Premium for collectors	2 700	5 400	11 340	17 010	25 515	61 965
Total variable costs	10 400	9 750	15 840	63 089	90 319	189 398
c) Fixed costs (operational expenditure)						
Salaries	33 900	169 500				

Activities	2013	2014	2015	2016	2017	Total
Board of directors and general assembly costs	840	890	940	990	1 040	4 700
Office rent	1 000	1 000	1 000	1 000	1 000	5 000
Maintenance and repair of vehicles	-	-	-	-	-	-
Warehouse maintenance	4 200	5 400	6 000	6 600	10 800	33 000
Bike maintenance	4 200	4 620	5 040	5 460	5 880	25 200
Office maintenance	250	250	250	250	250	1 250
Solar dryer maintenance	-	100	100	100	100	400
Office supplies	1 500	1 800	2 100	2 400	2 700	10 500
Communication costs (phone, internet, radio, media)	4 680	5 280	5 880	7 200	9 000	32 040
Electricity costs	700	-	800	-	1 100	2 600
Fuel for transportation and generator	9 600	10 800	12 000	14 400	18 000	64 800
Total fixed costs	60 870	64 040	68 010	72 300	83 770	348 990
Fixed costs + variable costs	71 270	73 790	83 850	135 389	174 089	538 388
d) Income of FO						
Quantities of product X to market	210	420	882	1 323	1 985	4 820
Quantities of product Y to market	70	140	187	249	249	894
Total quantities to market	280	560	1069	1572	2 233	5 714
Price (X)	\$1.04	\$1.15	\$1.32	\$1.52	\$1.52	
Price (Y)	\$1.04	\$1.15	\$1.32	\$1.52	\$1.52	
Income out of sales						
Product X	21 000	42 000	88 200	132 300	198 450	481 950
Product Y	7 000	14 000	18 667	24 889	24 889	89 444
Total income from sales	28 000	56 000	106 867	157 189	223 339	571 394

Activities	2013	2014	2015	2016	2017	Total
Administrative income						
Shares of members (a/member)	4 167	5 556	6 944	10 667	12 987	40 320
Membership fees (b/member)	2 083	3 472	5 000	6 667	8 117	25 339
Total administrative income	6 250	9 028	11 944	17 333	21 104	65 659
Other income						
Payback of equipment	2 160	3 240	5 040	3 600	3 600	17 640
Total other income	2 160	3 240	5 040	3 600	3 600	17 640
Total income of FO	36 410	68 268	123 851	178 122	248 043	654 694
SUMMARY BUSINESS PLAN						
<i>Total variable costs</i>	<i>10 400</i>	<i>9 750</i>	<i>15 840</i>	<i>63 089</i>	<i>90 319</i>	<i>189 398</i>
<i>Total fixed costs</i>	<i>60 870</i>	<i>64 040</i>	<i>68 010</i>	<i>72 300</i>	<i>83 770</i>	<i>348 990</i>
Fixed costs + variable costs	71 270	73 790	83 850	135 389	174 089	538 388
<i>Total income from sales</i>	<i>28 000</i>	<i>56 000</i>	<i>106 867</i>	<i>157 189</i>	<i>223 339</i>	<i>571 394</i>
<i>Product X</i>	<i>21 000</i>	<i>42 000</i>	<i>88 200</i>	<i>132 300</i>	<i>198 450</i>	<i>481 950</i>
<i>Product Y</i>	<i>7 000</i>	<i>14 000</i>	<i>18 667</i>	<i>24 889</i>	<i>24 889</i>	<i>89 444</i>
<i>Total administrative income</i>	<i>6 250</i>	<i>9 028</i>	<i>11 944</i>	<i>17 333</i>	<i>21 104</i>	<i>65 659</i>
<i>Total other income</i>	<i>2 160</i>	<i>3 240</i>	<i>5 040</i>	<i>3 600</i>	<i>3 600</i>	<i>17 640</i>
Total income of FO	36 410	68 268	123 851	178 122	248 043	654 694
GROSS MARGIN (+) / (-)	-34 860	-5 522	40 001	42 734	73 954	116 306
Amortization	21 206	106 031				
NET MARGIN (+) / (-)	-56 066	-26 728	18 795	21 527	52 748	10 275



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