

Business Model for Operation of Integrated Cold Storage and Packing House
(Final)

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1. Background

Food Security and Agriculture Productivity Project (FSAPP), under the component III: *Enhancing Access to Markets* and subcomponent: *Post-harvest and Market Infrastructure Support*, has supported construction of post-harvest and market infrastructures. Under the additional financing, proposal for two Integrated Cold Storage and five Packing houses are proposed by Project Implementation Unit (PMU) - project Dzongkhags and the Department of Agricultural Marketing and Cooperatives (DAMC). Thus, to ensure proper and effective utilization, and sustainability of these infrastructures towards enhancing access to markets, the following business model is proposed.

2. Concession Agreement

The type of proposed contract agreement is a concession agreement. Concession agreement is a contract between two parties where one party grants the other the rights to operate a particular business or facilities for a stated time under specified conditions.

2.1 Key features of the agreement

- Conceding authority will be a government agency.
- Concession is granted for a specified duration during which the concessionaire can use the facilities/assets, and develop as well with the consent of the conceding authority. The facilities/assets shall remain as the public property.
- Concessionaire is responsible for operation, repair and maintenance of the facilities during the contract period. If the new facilities were developed (and if not amortized), compensation will be provided.
- Revenue or remuneration for the concessionaire comes from the user fee (charges) and/or benefits derived from the utilization of the facilities.

3. Business model

In general, there are two types of business models: Service provision and trading operation.

3.1 Service provision: provides facilities/services to the customers by charging fee or tariff. In this case, the fees or tariff will be charged for providing storage or packaging services.

3.2 Trading operation: trades its own produce taking advantage of the facilities. In this case, its own produce and those bought/collected from other farmers/producer groups will be stored or packaged and sold at higher prices during the off-season.

3.3 Combined model: For the sustainability of the business, the combination of both service provision and trading is recommended.

3.3 Operation of Business

The operation of the business will be contracted out to the eligible Group through open and competitive means. However, if there are no respondents, eligible private firms or individuals will be invited to operate the business, through advertisement in print and broadcast media, and websites.

4. Terms and Conditions of Agreement

The concession agreement will be bound by the terms and conditions laid below.

4.1 General terms and conditions of the agreement

- Agreement provides the exclusive right, privilege and obligation to occupy, operate and manage the facilities/assets and the premises to the concessionaire.
- The authority will formally hand over the facilities/assets in good running condition along with the inventory list and Standard Operating Procedure (SOP) to the concessionaire.
- Contract agreement will be for initial period of 10 years subject to review in every 3 years.
- In the event of force majeure, the concessionaire shall be released from any liabilities and obligations but must carry out all necessary measures to minimize the impacts thereof, and inform the authority immediately.
- The concessionaire will pay the monthly rental fee to the authority.
- The concessionaire is entitled to charge agreed amount of tariff on the services provided.
- Either party may terminate the agreement early by giving the other party 90 – day prior notice in writing.
- The authority or its representative reserves the right to visit and inspect the facilities/assets anytime with the prior information.
- The authority also reserves the right to terminate the agreement with prior information if the terms and conditions of agreement is not observed.
- If there are grievances or dispute, it will be routed through the Dzongkhag Agriculture Sector (DAS), Department of Agricultural Marketing and Cooperatives (DAMC) and then to the Technical Review Committee (TRC).

4.2 Responsibility of the Authority

The DAS will be responsible to deal, monitor and guide the daily administrative and technical aspects of the business, while DAMC will provide overall guidance and technical support to address those issues that are beyond the scope of DAS.

4.2.1 Responsibility of the DAS

- Provide guidance and monitor the proper maintenance and efficient utilization of the facilities/assets.
- Provide feedbacks and updates to DAMC.
- Provide support in the event of force majeure.

4.2.2 Responsibility of DAMC

- Provide regulatory oversight and monitoring for compliance of agreement.
- Provide technical guidance and proper implementation of SOP.
- Provide technical support in capacity building for at least two times (initial and mid periods of the of contract period) in collaboration with DAS.
- Review and assess the progress and performance.
- Provide support and guidance in the event of force majeure.

4.3 Responsibility of the concessionaire

- Utilize the facilities/assets only for the intended purpose.
- Utilize the facilities/assets to the maximum capacity and efficiency.
- Follow the SOP with due diligence.
- Maintain the facilities/assets properly, carry out repair or replacement of any damages due to storage or other usage throughout the contract period and hand over the facilities/assets in good running conditions at the end of the contract period.
- Provide services to the farmers in general and beneficiaries in particular.
- Collect produce from farmers in general and beneficiaries in particular.
- Pay for the utilities and taxes wherever applicable.
- Maintain proper record of the business transactions and make accessible to the authority.
- Provide annual financial statement to the authority.

5. Qualification criteria

To qualify for the bidding, the group should be registered and active in agriculture, agro-processing or marketing business, and preference will be given to those that qualify the additional criteria mentioned below.

- Should be registered and active Group (farmer's group, producer group or cooperative).
- Should have marketing and or logistics experience of at least 3 years.
- Group from the same Dzongkhag where the facility is located will be given the preference.
- Group dealing in agricultural crops will be given the preference over those dealing in other commodities such as livestock and non-wood forest products (NWFP).

6. Selection process

The interested bidders/respondents that meet the qualification criteria will be selected based on technical and financial considerations. It will be assessed by the TRC using Cumulative Criteria Score Analysis method. The bidder with the higher cumulative score will be selected.

Table 1: Criteria for assessment of Groups

Sl. No	Criteria	Points	Score
A	Technical aspects		
1	Technical competency		
	a) More than 1 members of the group with technical background	15	
	b) At least 1 member of the group with technical background	10	
2	Experience in agro-processing, marketing and or logistics		
	a) Experience with more than 3 years	20	
	b) Experience with at least 3 years	15	
3	Management system		
	a) Group management (institution of group management executives and adherence to bylaws for group management)	15	
	b) Financial management (proper maintenance of record of business transaction, yearly financial statement and declaration of financial status to the members in a transparent manner)	10	
B	Financial aspects		
1	Monthly rental fee for the facilities/assets		
	a) Quoted rent per month*	20	
2	Charges for the services		
	a) Charges (Kg/month) **	10	

*** Higher the rental fee, the higher the points; ** Lower the charges, the higher the points**

Table 2: Criteria for assessment of private firm/individual

Sl. No	Criteria	Points	Score
A	Technical aspects		
1	<i>Firm/Individual business information</i>		
	a) Business proposal (to assess against the quality of the proposal such as innovativeness and sustainability of the business)	10	
2	<i>Experience in marketing and or logistics</i>		
	c) Experience with more than 5 years	15	
	d) Experience more than 3 years	10	
	e) Experience with at least 3 years	5	
3	<i>Experience in similar business</i>		
	c) Experience in cold storage and/or packaging facilities for more than 3 years	30	
	d) Experience in cold storage and /or packaging facilities for at least 1 year	20	
B	Financial aspects		
1	<i>Monthly rental fee for the facilities/assets</i>		
	b) Quoted rent per month*	25	
2	<i>Charges for the services</i>		
	b) Charges (Kg/month) **	15	

** Higher the rental fee, the higher the points; ** Lower the charges, the higher the points*

7. Process for awarding

To ensure the process of awarding the contract is transparent, competitive and efficient, the following measures will be undertaken:

- Invite Expression of Interest (EOI) or Request for Proposal (RFP) in the print and broadcast media/websites.
- Dzongkhags (Project Implementation Units) already have an inventory of groups with business experience and investment capacity, and hence they should proactively inform the groups to submit EOI/RFP in writing.
- If there is only one bidder, bilateral negotiation will be done to determine the rental fees and charges for the services.

8. Definitions

Active group: those groups (farmer groups, producer groups, cooperatives) that are registered and still doing either production/sale/marketing of agricultural produce

Authority: it refers to the conceding authority that grants concession for use of facilities/assets. In this document it refers to the Dzongkhag Agriculture Sector (DAS) and Department of Agricultural and Marketing Cooperatives (DAMC)

Beneficiaries: farmers' groups/producers groups/youth groups/cooperatives promoted by the project

Business proposal: to assess against the quality of the proposal such as innovativeness and sustainability of the business

Capacity building: training on such as record keeping, financial statement, break even analysis

Concessionaire: holder of the concession for the use of facilities/assets. In this case, it refers to the Group/Private firm/Individual

Facilities/assets: Integrated cold storages/packing houses and other equipment, infrastructure and land

Financial management: proper maintenance of record of business transaction, yearly financial statement and declaration of financial status to the members in a transparent manner

Force majeure: damage to the facility/assets because of natural disasters or others over which the concessionaire has no control

Group (s): Farmers' group/ Producers' group/cooperatives that are registered with DAMC or other competent/recognized authority

Group management: institution of group management executives and adherence to bylaws for group management

Licensed: holding license issued by Ministry of Economic Affairs or other competent authority to do business

Logistics: planning and execution of efficient transportation and storage of goods from origin to the point of consumption

Private firms/individual: registered company or individual holding license for business

Services: storage and packaging/sorting services

Technical background: background in agriculture/horticulture/book keeping/marketing/cold storage

Technical Review Committee (TRC): it will include members from Dzongkhag Agriculture Sector, Department of Agricultural Marketing and Cooperatives, Department of Agriculture and Project Management Unit