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Public Private Partnerships for Inclusive Agricultural Growth

Executive Summary

Innovative partnerships that bring together business, government, smallholder farmers and civil society actors are increasingly being promoted as a mechanism to improve productivity and drive growth in the agriculture and food sectors around the world. Commonly referred to as Public-Private Partnerships (PPPs), these initiatives are broadly promoted as having the potential to help transform the agriculture sector and deliver multiple benefits that can contribute towards the pursuit of sustainable agricultural development that is inclusive of smallholder farmers.

This paper draws on the findings from an FAO international review of agribusiness PPPs carried out during 2014-15. It aims to highlight lessons learned and share some recent examples and experiences in using PPPs to stimulate agricultural and inclusive growth in Africa. Four common project types were identified: 1) partnerships that aim to develop agricultural value chains (VCD); 2) partnerships for joint agricultural research, innovation and technology transfer; 3) partnerships for building and upgrading market infrastructure; and 4) partnerships for the delivery of Business Development Services (BDS) to farmers and small enterprises.

Lessons from these cases may be of particular interest to the AU region given the 2025 CAADP growth goals which aim to establish PPPs for at least 5 priority agricultural commodity chains with linkages to smallholder agriculture and youth employment.

A number of success factors for agri-PPPs were identified. Firstly, PPPs aim to encourage inclusive growth, but transaction costs associated with sourcing from numerous smallholders are high. Fostering collective action and capacity building increases the participation of smallholders in modern value chains, while reducing the transaction costs for lead private partners. Governance of agri-PPPs is also crucial to success.

Promoting sound institutional and regulatory frameworks, a judicious land governance system, transparent selection and budgetary processes for selection of PPP projects and private partners and equitable sharing of risk, are all key factors in the design of well-performing PPPs.

The PPP mechanism is inherently designed to address the issue of affordability by pooling funds from various sources to overcome the limited funding available in the public sector. Improving access of smallholders to finance through the incorporation of financial institutions into the partnership agreement was found to be another critical benefit of the agri-PPP. However, few comprehensive conclusions can be drawn about the share of investment contributed by public and private partners due to the poor practice of not valuing in-kind contributions and limited disclosure of financial information by both parties.

Several limitations of agri-PPPs were also identified. While PPPs can promote the inclusion of smallholders and SMAEs, they are unlikely to have an impact on the poorest of the poor. This reflects a trade-off between efficiency and equity as some degree of exclusion is inevitable if private sector partners are to receive an adequate return on their investment. Furthermore, there is a lack of guidance in the design and implementation of agri-PPPs and as a consequence, important issues such as risk sharing and conflict resolution strategies have often been overlooked in the design of the partnership. Evidence on outcomes and impact of agri-PPPs is likewise limited.

Finally, the applicability of PPPs to developing country agriculture may be limited to specific circumstances (i.e. where the market fails) because they involve high transaction costs and levels of complexity. When deciding whether or not to engage in agri-PPPs, policy makers should ensure that the partnership represents value-for-money and generates public benefits that exceed those that could have been achieved through alternative modes of public procurement or private investment alone.

Matters to be brought to the attention of the Regional Conference

The Conference may wish to recommend areas of FAO’s contribution and its role in supporting member countries.

1) Transaction costs associated with sourcing from numerous smallholders are high. Agri-PPPs are a tool to reduce these transaction costs, thus encouraging inclusive growth. Fostering of collective action and capacity building increases the participation of smallholders in modern value chains while reducing the transaction costs for lead private partners.

2) Although agri-PPPs seek to promote the inclusion of smallholders and SMAEs, they are unlikely to have an impact on the poorest of the poor. This reflects a trade-off between efficiency and equity as some degree of exclusion is inevitable if private sector partners are to receive an adequate return on their investment.

3) Promoting sound institutional and regulatory frameworks, using the Voluntary Guidelines on the Responsible Governance of Tenure (VGGTs) as a guide for a judicious resource (land, fisheries and forestry) governance system, and transparent selection and budgetary processes for selection of PPP projects and private partners are all key factors in the design of well-performing PPPs.

4) The risk management function of PPPs is particularly attractive to the agricultural sector in developing countries where uncertainty and risks are prevalent. The PPP model affords governments the opportunity to decide what to do with these risks; retain them, share them or transfer them to private partners, depending on who is best able to manage them. Risk management measures, both hard and soft, are being adopted with beneficial effects for smallholders.

5) Policy makers should clearly understand the rationale for promoting a PPP approach over other mechanisms of public sector support. Partnerships need to demonstrate value-for-money and

generate public benefits that exceed those that could have been achieved through alternative modes of implementation such as direct public funding, outsourcing or privatization.

6) There is a need for the public sector, including donors, to invest more in monitoring and evaluation of agri-PPPs and create a solid evidence base that provides guidance on their effective design and implementation and measures their impacts over the long term.

I. Introduction

1. Innovative partnerships that bring together business, government, smallholder farmers and civil society actors are increasingly being promoted as a mechanism to improve productivity and drive growth in the agriculture and food sectors around the world. Commonly referred to as Public-Private Partnerships (PPPs) or Public-Private Producer-Partnerships (4Ps) (IFAD, 2015), these initiatives are broadly promoted as having the potential to help transform the agriculture sector and deliver multiple benefits that can contribute towards the pursuit of sustainable agricultural development that is inclusive of smallholder farmers.

2. The traditional rationale for partnerships between the public and private sector is linked to market and policy failure in the delivery of public goods such as roads, education and health services. Similarly, the emergence of PPPs in agriculture responds to the failed delivery of a public good, such as food security, environmental protection and the viability of rural areas, yet goes beyond this to explore the potential of partnerships to deliver additionality outcomes[1].

3. Under this scenario, by combining the resources and complementary capacities of partners under a well-defined governance framework, governments can increase economic and social benefits from public investments which they would otherwise have been unable to achieve alone due to limited technical expertise, management skill and/or a lack of resources. At the same time, the PPP framework can be used to design a set of market incentives that will encourage private sector participation in activities that would otherwise be considered of marginal commercial value and/or high risk.

4. PPPs are also promoted as a useful tool towards the achievement of the Malabo Declaration's Accelerated Agriculture Growth and Transformation Goals 2025, specifically commitment 2: enhance public and private investment finance in agriculture; and commitment 4: halve poverty by 2025 through inclusive agricultural growth and transformation. The CAADP results framework 2015-2025 aims to measure the number of agriculture related PPPs successfully undertaken and the cumulative value of investments in PPPs. However, to date, practical information on the types of interventions suitable for PPP projects, and how to design, implement and measure the impact of agri-PPPs in Africa is still lacking.

5. This paper draws on the findings from an FAO international review of agribusiness PPPs carried out during 2014-15. It aims to highlight lessons learned and share some recent examples and experiences by development partners in using PPPs to stimulate agricultural investment and inclusive growth in Africa[2].

[1] The Donor Committee for Enterprise Development (DCED 2014), provide guidelines for: Demonstrating Additionality in Private Sector Development Initiatives, i.e. partnerships that bring about investments and activities with potential to contribute to wider socio-economic gains (e.g. inclusion of smallholders) which would not otherwise have happened (at all, or in the same way, extent or time) without public co-financing.

[2] More in-depth information can be found in Public-Private Partnerships for Agribusiness Development: A synthesis of international experiences (FAO 2016)

II. Entry points for PPP projects in the agriculture sector

6. An agri-PPP can be defined as a "formalized partnership between public institutions and private partners (agribusiness firms and farmers) designed to address sustainable agricultural development objectives, where the public benefits anticipated from the partnership are clearly defined, investment contributions and risk are shared, and active roles exist for all partners at various stages throughout the PPP project lifecycle" (FAO 2016). However, in reality, agri-PPPs may involve either formal (contractual) or informal (collaborative) arrangements, and tend to favour simpler, less complete contract modalities such as a Memorandum of Understanding when compared to traditional PPPs for infrastructure.

7. In accordance with the above definition, 70 case studies were selected from 15 countries[3] and four common project types identified: 1) partnerships that aim to develop agricultural value chains (VCD) which are the most prevalent; 2) partnerships for joint agricultural research, innovation and technology transfer (ITT); 3) partnerships for building and upgrading market infrastructure (MI); and 4) partnerships for the delivery of business development services (BDS) to farmers and small and medium agricultural enterprises (SMAEs).

8. Lessons from these cases may be of particular interest to the AU region given the 2025 CAADP growth goals which aim to establish PPPs for at least 5 priority agricultural commodity chains with linkages to smallholder agriculture and youth employment creation.

9. VCD partnerships were designed primarily to stimulate broad-based investment into sub-sectors for both food and industrial crops such as oil palm, sunflower oil, sorghum, rubber, sugar, maize and rice. The partnerships aim to address domestic food security concerns associated with low productivity and import substitution, while generating employment and improve the livelihoods of rural communities. This is done by increasing value along the value chain through the adoption of improved technology and production practices, establishment of agro-processing facilities and increasing market access.

10. These partnerships are generally supported by national programmes that package policy incentives and create a favourable regulatory environment. Preferential access to land for the establishment of nucleus estates[4] and associated tax incentives are common. They often involve formalized (contractual) agreements between lead private companies, national or local-level government units and financing institutions. Financing is often made available to smallholders based on a subsidized interest rate agreement with the public partner, whereby the private company acts as guarantor for the loans. Governance mechanisms may also exist at either national or local level to help structure these partnerships and promote accountability.

Box 1

The Northern Rural Growth Programme (NRGP) implemented by the Government of Ghana and supported by IFAD, involves a series of value chain PPPs that aim to improve access of smallholder maize farmers in northern Ghana to finance, infrastructure, production and markets. District Value Chain Committees (DVCCs) have been set up with support from an NGO to coordinate actors in the

[3] 25 cases of PPPs were identified from African countries including from Ghana, Kenya, Nigeria, Tanzania and Uganda.
[4] A nucleus estate is usually established by private companies engaged in contract farming whereby the contractor also manages a central estate or plantation that is used to guarantee downstream customer commitments in the case of shortfalls from producers supply to the company (FAO 2001).

value chain, including FOs, input and service providers and aggregators. They support the ‘cashless credit system’ which allows smallholders to receive inputs and services, the providers of which are paid directly by rural banks at a price agreed with the DVCC. These loans are repaid to the banks when farmers sell their produce. The PPP has enabled farmers to produce more and better quality maize. Maize productivity is estimated to have more than doubled with average yields rising from 0.8MT/ha in 2007 to between 1.5Mt/ha and 3.2MT/ha in 2014. The DVCCs have established vital linkages for farmers, given them more secure output markets and a voice in decision making. The sale of surplus maize has boosted household incomes, though income stability has not improved since crop yields can vary and the aggregator has not been consistent in buying maize. However, high exposure to risk on the part of farmers and rural banks threatens programme stability. Recovery of production loans has been low and one rural bank has decided not to offer loans for the next cropping season. The cashless credit system is also hampered by limitations placed by the Bank of Ghana on the percentage of rural banks’ loan portfolio that can be unsecured5 .

11. Partnerships for joint agricultural research, innovation and technology transfer (ITT) have a long history of demonstrating the benefits associated with organizing researchers, service providers and farmers into networks. These partnerships improve the demand-driven nature of research solutions and facilitate more efficient transfer of technology to farmers. If productivity is to be doubled in AU countries by 2025, then innovative solutions are required to address critical productivity limiting factors such as pest and disease outbreaks, climate change impacts and post-harvest losses.

Box 2

The ’4P’ model refers to national research programmes to improve the demand-driven research for agro-industry development through co-funding of research and joint setting of research priorities. Two case studies from Tanzania fit the 4P model, whereby smallholder farmers play an active role in the partnership through the contribution of research levies on sugar and tea outputs. They also provide input into the setting of research agendas for the sugar and tea industries through participation as [5]members of the Sugar Board of Tanzania, and on the Board of Directors of the Tea Research Institute of Tanzania (TRIT).

12. Partnerships for the development of market infrastructure are of specific relevance to the CAADP commitment to boost intra-African trade in agricultural commodities and halve post-harvest losses. Agricultural market infrastructure comprises both on-farm elements (e.g. irrigation) and off-farm structures and facilities dedicated to agricultural marketing and processing (e.g. wholesale markets, packaging facilities, pre and post-harvest storage facilities) (FAO, 2008).

13. These PPPs often involve formalized partnership agreements between national or local-level government units and private firms, including financing institutions. Typical contractual arrangements used for MI PPPs include Build-Operate-Transfer, Build-Operate-Own, Design-Build-Operate, leasing, concessions, joint ventures, and management contracts. MI PPPs do not necessarily require the development of new market infrastructure, but can be used to repurpose existing idle public infrastructure.

[5] Brokering Development: Enabling factors for Public-Private Producer Partnerships in Agricultural Value Chains (IFAD/IDS 2015).

Box 3

One example of an MI PPP from East Africa is the Kenyan warehouse receipt (WRS) initiative which took the form of leasing contracts. The Government of Kenya leased out public warehouses to private operators in the framework of a public-private collaboration that engaged other stakeholders including the regulatory/supervisory agency of the East Africa Grain Council (EAGC), depositors (i.e. farmers), private financial institutions and various donor programmes. By 2013, EAGC had certified ten warehouses in Kenya with over 63 000 metric tonnes capacity and over 25 000 metric tonnes of produce deposited over 2012-2013. The performance of the Kenyan partnership is also measured in terms of access to credit by depositors: US$1 million warehouse receipt financing was advanced to over 12 500 farmers in 2013[6].

14. Partnerships for the delivery of business development services (BDS) include projects designed to supply specialized services to farmers and rural entrepreneurs in order to promote the start-up and development of on-farm and off-farm value-adding businesses. This includes services such as input supply, finance, business incubation and marketing. These services are critical to support the development of Afri-agripreneurs that will help to achieve targets related to job creation for women and youth in agribusiness activities.

15. However, when agribusiness services are fully subsidized by the public sector, donors or NGOs, they have a high probability to fail in meeting clients' demand and achieving sustainability; yet on the other side, when they are left at the mercy of the market, inclusiveness may not be assured (World Bank, 2012). Mainstreaming the delivery of BDS will require an appropriate mix of incentives and new forms of private-public arrangements.

III- Success Factors for PPPs in agriculture

16. Some key success factors and considerations required to achieve the potential benefits of agri-PPPs are discussed below.

a. Participation of smallholder farmers in PPPs

17. Inclusiveness refers to mechanisms to ensure the inclusion of small-scale actors (SMAEs and smallholder producers), youth and women in agri-PPPs. There are high transactional costs associated with sourcing from numerous small-scale producers, yet their exclusion from value chains hampers the development of the agricultural sector in developing countries. Consequently, agri-PPPs typically aim to foster collective action and capacity development to increase the participation of smallholders and SMAEs in modern value chains. This support reduces the transaction costs for lead private partners sourcing raw materials and providing technological goods and services to smallholders. Public partners including the donor community and civil society actors (e.g. NGOs) often provide support to strengthen groups and capacitate smallholders to become more equitable partners for the private sector.

18. Built-in clauses can also promote inclusion through the provision of incentives to smallholders and SMAEs to help them secure financing and legal land ownership. Lead private actors who partner

[6] http://www.eagc.org/documents/EAGC_eNewsletter_19.03.2014.pdf

with smallholder farmers and firms were also rewarded by government with fiscal and non-fiscal incentives.

19. However, in terms of achieving scale on inclusiveness objectives, the findings so far are inconclusive. Very few cases measured the impact of the PPP project on women and youth, which is an obvious weakness given the importance of these objectives to achieving rural transformation goals.

20. Similarly regarding poverty reduction objectives, baseline poverty indicators were rarely given, which makes it difficult to assess the extent to which the partnerships actually benefitted the poorest farmers, or simply targeted those more capable of benefitting from partnership activities. The relatively short time horizon for the majority of the cases suggests that the latter is most likely accurate. A certain level of skills and assets are required to be a suitable candidate for participation in these types of arrangements. This will likely exclude the poorest unless heavy investment is made in long-term capacity development (Bouma & Berkhout, 2015).

b. Good governance of agri-PPPs – what are the critical success factors?

21. Good governance covers both general governance principles and implementation issues that are crucial to ensure well-performing PPPs (OECD, 2012; FAO, 2014). These principles include the following:

22. Promoting sound institutional frameworks that work for agri-PPPs. New PPP laws and policies that envisage the application of the PPP model to the agribusiness sector in Africa are emerging and public institutional frameworks are being revised to meet the challenges of the rising number of PPPs in agriculture. While little evidence of 'best practice' models exist to date, the set-up of PPP Units within Ministries of Agriculture, development of sectorial task forces and the involvement of MOA representatives in PPP Committees are all positive steps towards improving the institutional setting for agri-PPPs.

23. Ensuring that good legislative and regulatory frameworks are in place and enforced. The success or failure of agribusiness PPPs is highly dependent on enabling legislation and regulation concerned with land access, enforceability of contracts, protection of intellectual property and other essential issues such as natural resources management, food safety, agricultural insurance, arbitration, and regulations to support SMAEs. Many of these issues fall outside of the purview of traditional PPP legislation yet are critical for the successful implementation of agribusiness PPPs. Of particular importance is ensuring the establishment and enforcement of a transparent and judicious land governance system, which recognizes tenure rights for local communities, to minimize the potential for land grabbing (Oxfam, 2014). The use of the Voluntary Guidelines on the Responsible Governance of Tenure (VGGTs) as a guide for an equitable resource (land, fisheries and forestry) governance system will promote a more transparent and inclusive process in territorial development.

24. Fostering prudent and transparent selection and budgetary processes. Transparent selection procedures for PPP projects and private partners grounded in value-for-money are required. Transparency refers here to the creation and dissemination of publically-available criteria and procedures for the selection of projects and private companies to participate in co-financing opportunities through PPPs. Transparency is critical in order to minimize opportunities for corruption, political capture and rent seeking behaviour.

25. Guaranteeing the affordability and value-for-money of PPPs as the best option to achieve stated public sector objectives. The PPP mechanism is inherently designed to address the issue of affordability by pooling resources from various sources to overcome the limited funding available in the public sector. The value-for-money concept refers to the utility derived from the sum of public money invested in the partnership, when compared to alternative forms of implementation such as direct public funding, outsourcing or privatization.

26. Improving Monitoring and Evaluation. All agri-PPPs should include a clear definition of targets to be achieved by partners. Having a sound M&E system in place is critical for rapidly adjusting the course of the PPP project (if insufficient progress is being made) and measuring impacts.

c. PPPs as a mechanism to share risks fairly between partners and protect smallholders

27. The risk management function of PPPs is particularly attractive to the agricultural sector in developing countries where uncertainty and risk are prevalent. Agricultural risks in PPPs typically range from production risks (e.g. adverse weather conditions, natural disasters, pest and disease outbreak) and market risks (e.g. volatility in output price, variability in input price, exchange rate volatility, counterpart or default risk), to business enabling environment risks (regulatory risk, infrastructure risk and political risks). The PPP model affords governments the opportunity to decide what to do with these risks: retain them, share them or transfer them to private partners, depending on who is best able to manage them.

28. Agri-PPPs reduce the commercial risk for the private sector by offering fiscal incentives as well as institutional measures to reduce transaction costs such as organizing farmers into groups and ensuring exclusive purchase rights for raw materials. In-kind contributions such as the provision of public extension services, supporting infrastructure and use of government facilities also help to reduce the risks associated with a challenging business environment. However, a balance needs to be reached between lowering the barriers to entry for private agribusiness investors and ensuring that some of the risk is transferred away from smallholders to the public and the lead private partners[7].

29. More specifically, market risk is typically carried by the lead private partner, while the allocation of production risk can be carried by the farmers alone, or shared with the public partner, often through the provision of subsidized agricultural insurance (common in Asia and Latin America).

30. Risk management measures, both hard and soft, that have beneficial effects for smallholders include: subsidized agricultural insurance schemes, guarantees, subsidized loans for smallholder farmers and firms, secure purchasing contracts, business management training for FOs and SMAEs and risk sharing stipulations in case of force majeur. The agri-PPP agreement should also contemplate measures to control market power imbalances (including monopolistic behaviour) and introducing potential new risks for small-scale farmers and firms.

d. Pooling of financial resources and the role of financial institutions

31. The findings from the FAO study demonstrate that the pooling of public and private funds is occurring through PPP projects, for both small initiatives of less than US$20 000 for ITT PPPs, up to multi-million dollar projects for MI PPPs. The mechanisms to achieve this can be structured in different ways to suit the specific purpose of the PPP. This may include co-equity investments; in-kind contributions, matching grants and concessions for the private sector.

32. In some cases, the public sector and/or the donor community have used the PPP mechanism to leverage investment from the private sector by implementing a competitive bidding process and requiring compulsory contribution levels to PPP projects of greater than 50%. This is a common requirement under law for infrastructure PPP projects, with evidence of gradual adoption by some agri-PPP typologies such as MI, ITT and some VCD projects.

33. In other cases, the situation is reversed whereby the private sector leverages access to public/and or donor funds. The VCD partnerships provide examples of this occurring when the lead firm driving the partnership claims reimbursements from the public sector/donor for expenses related to inputs, training and organizing smallholder farmers as part of developing their own supply chain for raw materials.

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[7] Oxfam (2014) was concerned that some agricultural mega PPPs in Africa were doing exactly the opposite, i.e. transferring the risks of the partnership to the weakest links (farmers and SMAEs).

34. Few comprehensive conclusions can be drawn about the share of investment contributed by public and private partners in agri-PPPs. This is due to the poor practice of not valuing in-kind contributions and limited disclosure of financial information by both partners.

35. Improving the access of smallholders to financing through the incorporation of financial institutions into the partnership agreement was found to be a another critical benefit of agri-PPPs. Credit was provided to smallholders for expanding their production area, shifting to new crops, investing in technology/machinery, and complying with national and international standards and obtaining certification. While this can be considered a positive outcome, consideration must be given to the design of the specific credit products to ensure that smallholders are capable of managing these loans and are not exposed to greater risks than they can manage (Oxfam 2014, IFAD, 2015).

e. Defining roles of partners and aligning interests

36. Successful agribusiness partnerships require aligning disparate interests and visions, and reaching consensus particularly on public sector objectives and priorities for promoting PPPs. Public partners need to clearly understand the rationale for promoting a PPP approach over other mechanisms of public sector support, and be able to identify the types of projects where PPPs will be most effective at addressing market failures in a sustainable way. This means that public objectives and expected benefits need to be clearly articulated with quantifiable targets, which show how the partnership has added value that exceeds that which could have been achieved through alternative modes of public procurement or private investment alone. The role of each partner should be clearly defined according to the unique skills and expertise they can bring to the agri-PPP and incentives designed accordingly to reward these.

IV. Making PPPs work for inclusive agricultural development: policy implications

37. While agri-PPPs can promote the inclusion of smallholders and SMAEs, they are unlikely to have impact on the poorest of the poor. This reflects a trade-off between efficiency and equity as some degree of exclusion is inevitable if private sector partners are to be rewarded for their investment. Collective action and capacity development is a key feature of all agri-PPPs and helps to promote inclusion while reducing transaction costs. Support is required by public partners including donors and NGOs to strengthen groups and capacitate smallholders to become more equitable partners for the private sector. Similarly, inclusive behaviour by private partners should be rewarded through a combination of direct incentives and public sector support to reduce transaction costs.

38. One of the main challenges facing agribusiness partnerships has been the lack of guidance and support offered to both public and private partners in the design and implementation of such projects. This is because most PPP policies and strategies are designed for infrastructure programmes. As a consequence, important issues such as risk-sharing and mitigation mechanisms to protect small farmers, as well as conflict resolution strategies, have often been overlooked in the design of the partnership. Data on outcomes and impact is likewise limited.

39. There is a need for the public sector, including donors, to invest more in monitoring and evaluation of agri-PPPs and create a solid evidence base that provides guidance on their effective design and implementation and measures their impacts over the long term.

40. The applicability of PPPs to developing country agriculture may be limited to specific circumstances (i.e. where the market fails) because they involve high transaction costs, are complex, diverse and can be difficult to replicate. Even in the case of market failure, it may make more sense for the government to finance and deliver a specific public good totally on its own, or to outsource the delivery to the private sector instead of choosing a PPP arrangement. When deciding whether or not to engage in agri-PPPs, policy-makers should make sure that the partnership adds value, i.e. it generates

public benefits that exceed those that could have been achieved through alternative modes of public procurement or private investment.