



Establishing effective partnerships with the private sector for agribusiness development

Introduction

Against a background of limited government resources, innovative partnerships that bring together business, government, smallholder farmers and civil society actors are increasingly being promoted as a mechanism for pooling financing, increasing efficiency and mitigating some of the risks of doing business in the agrifood sector. Commonly referred to as public–private partnerships for agribusiness development (or agri-PPPs), these initiatives have the potential to help transform the production-oriented agriculture sector of developing countries, towards a more market-oriented, modernized agrifood sector. Reported benefits include improved farmer-market linkages and employment creation in rural areas, small cities and towns. However, many unanswered questions remain about the types of projects that may be effectively governed by the public-private partnership (PPP) mechanism in the agrifood sector.

An agri-PPP or a PPP for agribusiness development is defined as a formalized partnership between public institutions and private partners designed to address sustainable agricultural development objectives, where the public benefits anticipated from the partnership are clearly defined, investment contributions and risks are shared, and active roles exist for all partners at various stages throughout the PPP project lifecycle.

To improve understanding about the design, implementation and impact of agri-PPPs, FAO gathered 70 case studies from 15 developing countries along with evidence from field-based support to agri-PPP initiatives in Central America and Southeast Asia. This brief presents the lessons learned for policy makers from these studies.

KEY MESSAGES

- ▶ Public–private partnerships for agribusiness development (agri-PPPs) have the potential to contribute towards sustainable agricultural development that is inclusive of smallholder farmers, provided collective action and risk management mechanisms are integrated into partnership agreements.
- ▶ Successful agri-PPPs depend on the existence of a sound enabling environment and the right mix of public and private sector skills.
- ▶ Agri-PPPs are complex and therefore should only be considered the best policy option when they demonstrate potential for benefits that exceed those of alternative modes of public support.
- ▶ Agri-PPPs are more likely to have an impact on the poorest of the poor when heavy investment is made in long term capacity development.

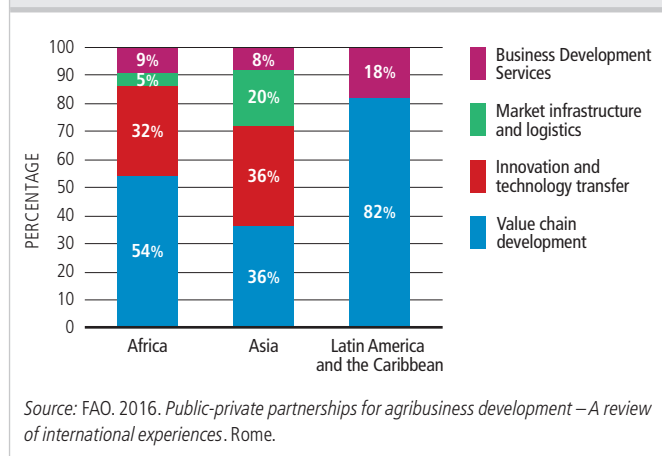
Findings from FAO appraisals

What projects are best suited for agri-PPPs?

A typology of four common project types was identified: i) partnerships that aim to develop agricultural value chains; ii) partnerships for joint agricultural research, innovation and technology transfer; iii) partnerships for building and upgrading market infrastructure; and iv) partnerships for the delivery of business development services to farmers and small enterprises.

This classification gives government officials an idea about the types of agribusiness projects that can be effectively governed by the PPP mechanism in the pursuit of sustainable agricultural development objectives. Figure 1 shows the distribution of these projects across the three regions studied.

FIGURE 1. Typology of agribusiness public-private partnership cases by region



Who are the partners?

Collaboration between one or more public institutions and one or more agribusiness companies is essential, but agri-PPPs may also involve financial institutions, non-governmental organizations (NGOs), small and medium agro-enterprises (SMAEs), farmer organizations (FOs) and individual farmers. Depending on the design of the PPP project, farmers may play dual roles, as both private partners in their own right, and beneficiaries of the PPP project.

How formal are the partnership agreements?

In practice, agri-PPPs may involve either formal (contractual) or informal (collaborative) arrangements, and tend to favour simpler, less complete contract modalities, such as memoranda of understanding, when compared to traditional PPPs for infrastructure. A single contract can be made between the public partner and the lead private partner only, or among multiple partners, including NGOs and FOs. Bilateral agreements among the parties are also common. These include contract farming/outgrower agreements between the company and farmers; confidentiality agreements; agreements related to ownership of intellectual property (IP) rights and financial service contracts.

Recommendations for policy-makers

1. Public partners and policy-makers need to identify the types of projects where PPPs will be most effective in addressing market failures. PPPs are complex to manage, therefore a clear understanding of the rationale for promoting a PPP approach over other mechanisms of public-sector support is needed.

2. Agri-PPPs should aim to share risks fairly among partners and include risk management mechanisms to protect the most vulnerable. These mechanisms include agricultural insurance schemes, guarantees, subsidized loans for small-scale farmers and firms, secure purchasing contracts, business management training for farmer organizations, and risk sharing stipulations in case of force majeure.

3. Collective action is an essential feature of all agri-PPPs as it helps to reduce transaction costs and to promote inclusion. Public partners can support the formation of groups and provide capacity building training to smallholders to help strengthen their bargaining power when negotiating partnership agreements with private agribusiness firms.

4. The involvement of financial institutions as an additional core partner in agri-PPPs helps to improve access to finance for smallholders. By incorporating financial institutions into the partnership agreement and coupling them with risk management mechanisms discussed above, access to finance for smallholders can be improved.

5. Sound institutional and regulatory frameworks are essential factors in the design of well-performing PPPs. A judicious land governance system and transparent decision-making and budgetary processes for selecting PPP projects and private partners are critical factors that must be considered in the governance of agri-PPPs. In this regard, a programmatic approach can have benefits over an ad hoc project approach in reducing transaction costs and increasing transparency.

6. While agri-PPPs can promote the inclusion of smallholders and SMAEs, they are unlikely to have an impact on the poorest of the poor. Policy makers promoting agri-PPPs for poverty reduction objectives should consider that a certain level of skills and assets are required to be a suitable candidate for participation in these partnerships. This will likely exclude the poorest unless heavy investment is made in long-term capacity development.

7. There is a pressing need to improve the monitoring and evaluation (M&E) of agri-PPPs. There is need for the public sector to invest more in M&E of agri-PPPs to create a solid evidence base that provides guidance on the effective design and implementation of agri-PPPs and measures their impacts over the long term.