



What Makes Private Sector Partnership Works: some learnings from the field

Discussion Document
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The looming demands on agriculture are colossal ...

100%

Population dependent on agriculture for nutrition

2bn

Number of people that will be added to the planet in the next 40 years

+3bn

Number of consumers in developing countries who will demand more and higher-quality food



70%

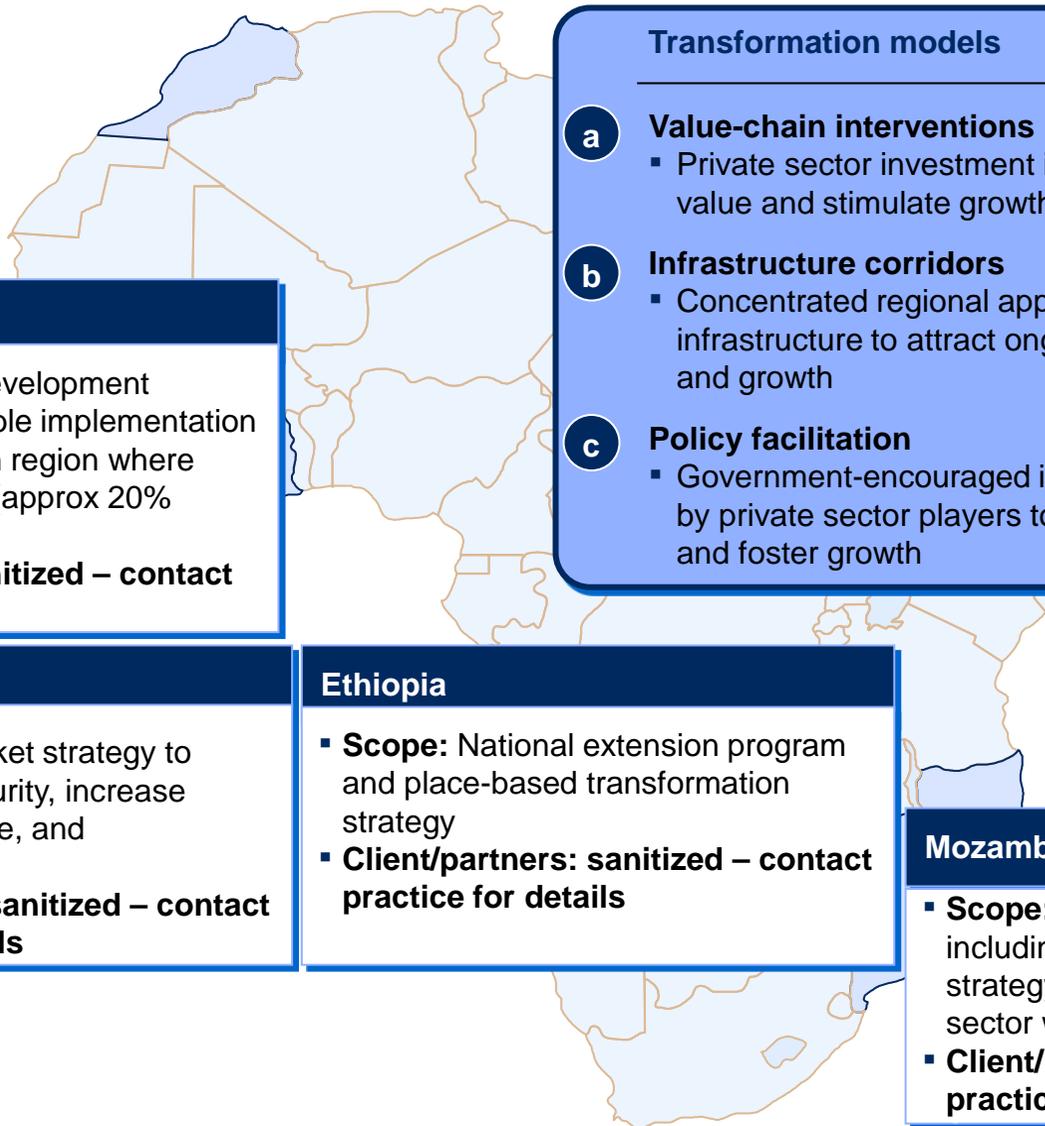
% that **agricultural output must rise** to in the next 40 years vs. 2005-07 production

10,000

Years of historical **food production** that must be matched in the next 40 years

McKinsey has been transforming agriculture in Africa by identifying and championing holistic yet scalable models

Non-exhaustive



Transformation models

- a** **Value-chain interventions**
 - Private sector investment into industry gaps to capture value and stimulate growth
- b** **Infrastructure corridors**
 - Concentrated regional approach of investing in infrastructure to attract ongoing development investment and growth
- c** **Policy facilitation**
 - Government-encouraged investment packages, taken up by private sector players to address development needs and foster growth

Morocco

- **Scope:** Economic development strategy and actionable implementation plan for North African region where agriculture is critical (approx 20% GDP)
- **Client/partners: sanitized – contact practice for details**

Ghana

- **Scope:** Breadbasket strategy to increase food security, increase smallholder income, and increase GDP
- **Client/partners: sanitized – contact practice for details**

Ethiopia

- **Scope:** National extension program and place-based transformation strategy
- **Client/partners: sanitized – contact practice for details**

Mozambique, Zambia

- **Scope:** Soy-value-chain diagnostic, including economic analysis and strategy for creatively linking private sector with smallholder farmers
- **Client/partners: sanitized – contact practice for details**

Value chain efforts require viable public-private partnership models

Key learnings from the field on partnership models

The social sector is generally excited about the increased emphasis on private sector leverage

- It appears that donors/social institutions most frequently engage in end-user contracts/demand sinks
- The models used have advantages of global reach and smallholder focus, but some sustainability and efficiency questions

Some institutions are exploring a more integrated private-sector led aggregation/extension models. These may add sustainability and efficiency, but have two critical requirements

- The economics must work on a run-rate basis
- There must be the ability to structure and monitor contracts (contract model will depend on number of partners)
- There is a need for innovative models for training entrepreneurs

Currently, most private sector partnerships appear to focus on either end of the value chain

Most frequently seen NGO/INGO models



Barriers



- Inputs**
 - Lack of improved technology
- Input distribution**
 - Costly distribution
 - Lack of credit access
- Agricultural production**
 - Low yields
- Trade/primary processing**
 - Limited capacity
 - Poor market linkages
- Distribution**
 - Limited local expertise/capacity

Most common partnership models



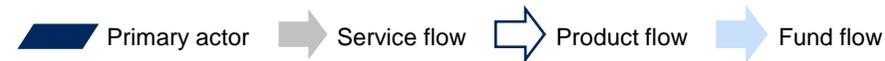
- Inputs**
 - Collaborate/co-invest in R&D** (e.g., Harvest Plus)
- Input distribution**
 - Co-invest in multiplication**
 - Co-invest in Kiosks, farm centers** (e.g., ITC)
- Agricultural production**
 - Production assistance to the farmers generally provided by governments, or NGOs/ implementing partners
- Trade/primary processing**
 - Provide financial mechanisms to support infrastructure expansion** (e.g., DCA)
 - Coordinate demand sinks** (e.g., Walmart)

Emerging partnership models



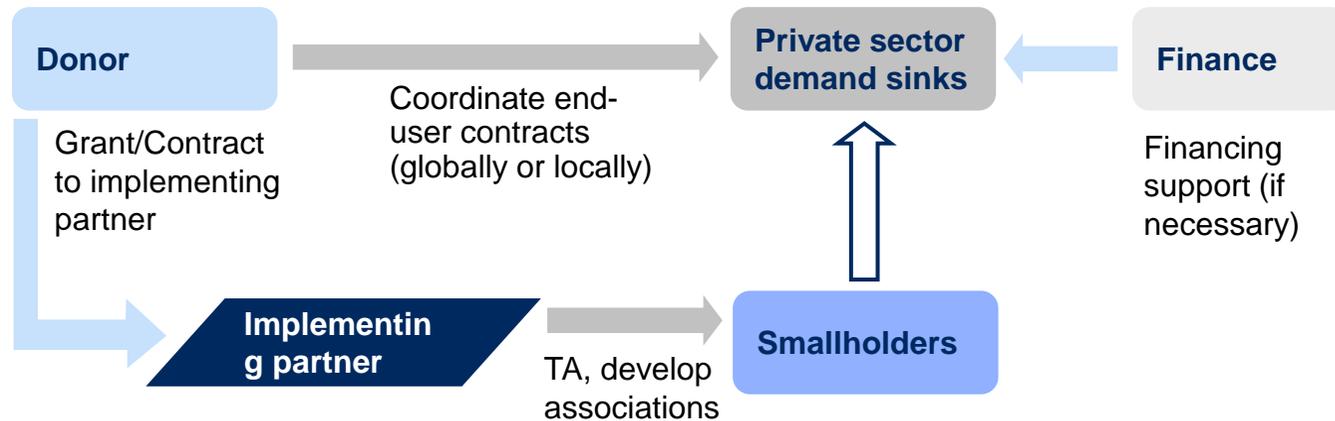
- Entrepreneur/private sector-led aggregation & extension (e.g., processors, warehouses, stand-alone associations, commercial farms)

Some donors are exploring involving the private sector along more of the value chain



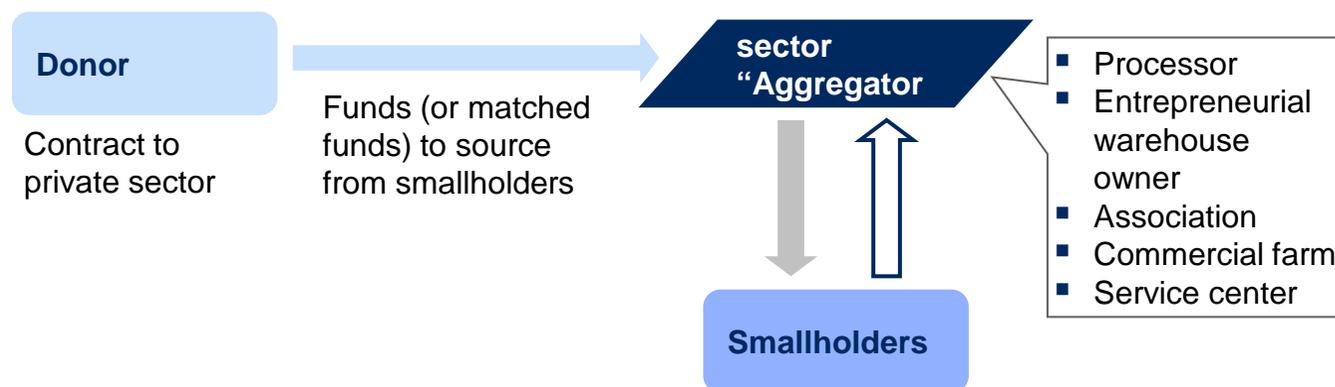
Models of farmer production assistance

1 Implementing partner as “key actor”



Most common model that we observed in the field is smallholder-centric, but there are some sustainability questions— who keeps it going?

2 Private sector “aggregator” as key actor



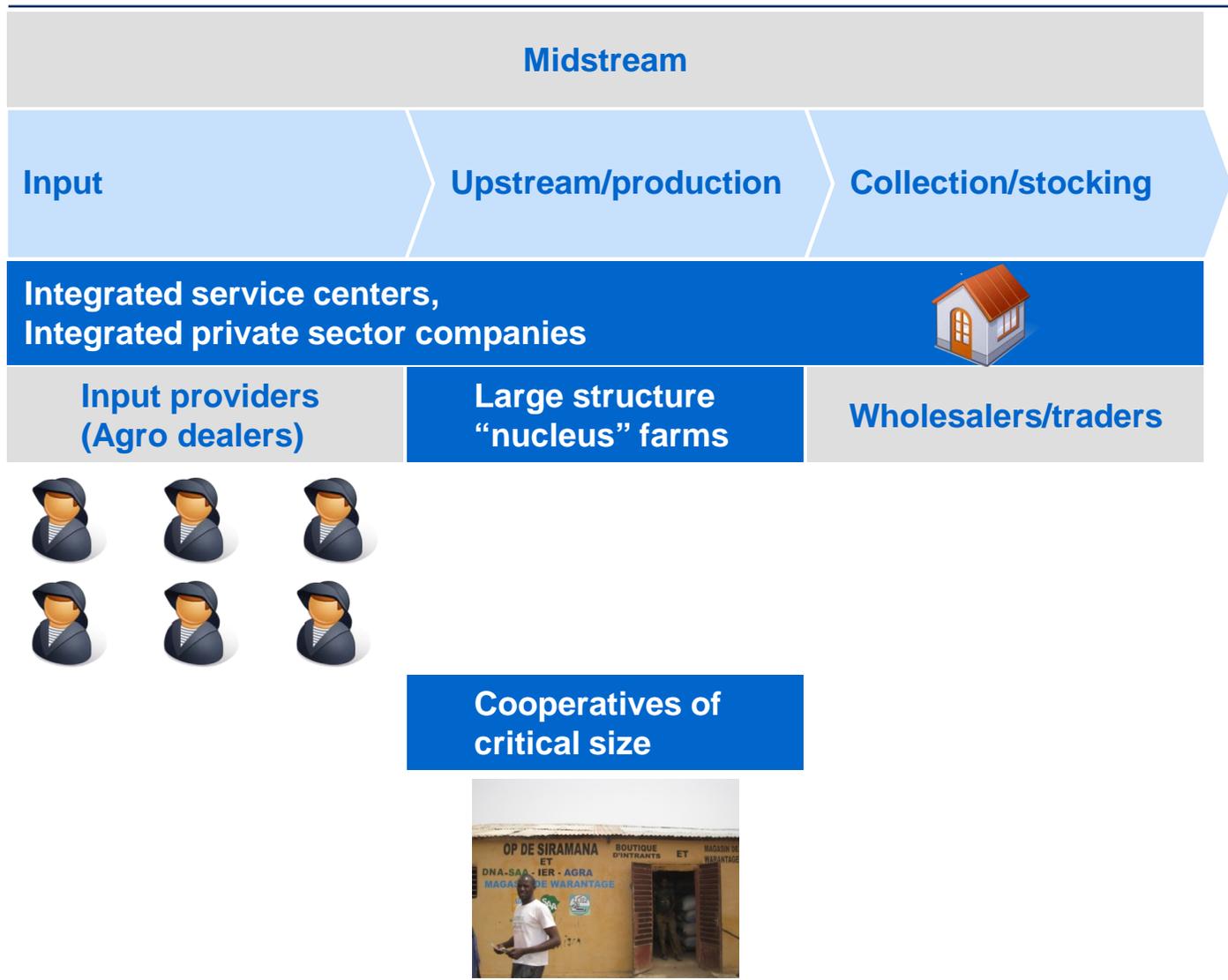
Private sector-led models are emerging – key questions are 1) economic viability 2) contract oversight 3) relative scarcity of qualified entrepreneurs



Special aggregation model

Number of projects

There are multiple types of aggregation models: Mali example of 3 potential models



Whatever aggregation model you choose, the economics **MUST** be attractive on a run-rate basis



Example of integrated private sector company: Frigoken integrates across the value chain and links to smallholders

Frigoken case study: Structured demand leads to catalytic investment in farmers and factories

BACKGROUND

Kenyan smallholders had limited opportunity

- Kenyan smallholders had limited economic opportunities and there was a prevalence of hunger and poverty
 - Disaggregation of farmers made it costly to collect output at the individual farm level
 - Lack of crop management knowledge on the farm led to limited input use and poor and inconsistent quality yields

ACTION

Private sector aggregates demand

- Frigoken, the largest vegetable processor in Kenya, began offering aggregation services and structured demand contracts to smallholders
 - Provided inputs, extension services, credit, and spraying
 - Established collection centers for farmer groups
 - Collected produce from centers and brought it to factory for processing, packaging, and shipping
 - Offered smallholders guaranteed income for crops

OUTCOME

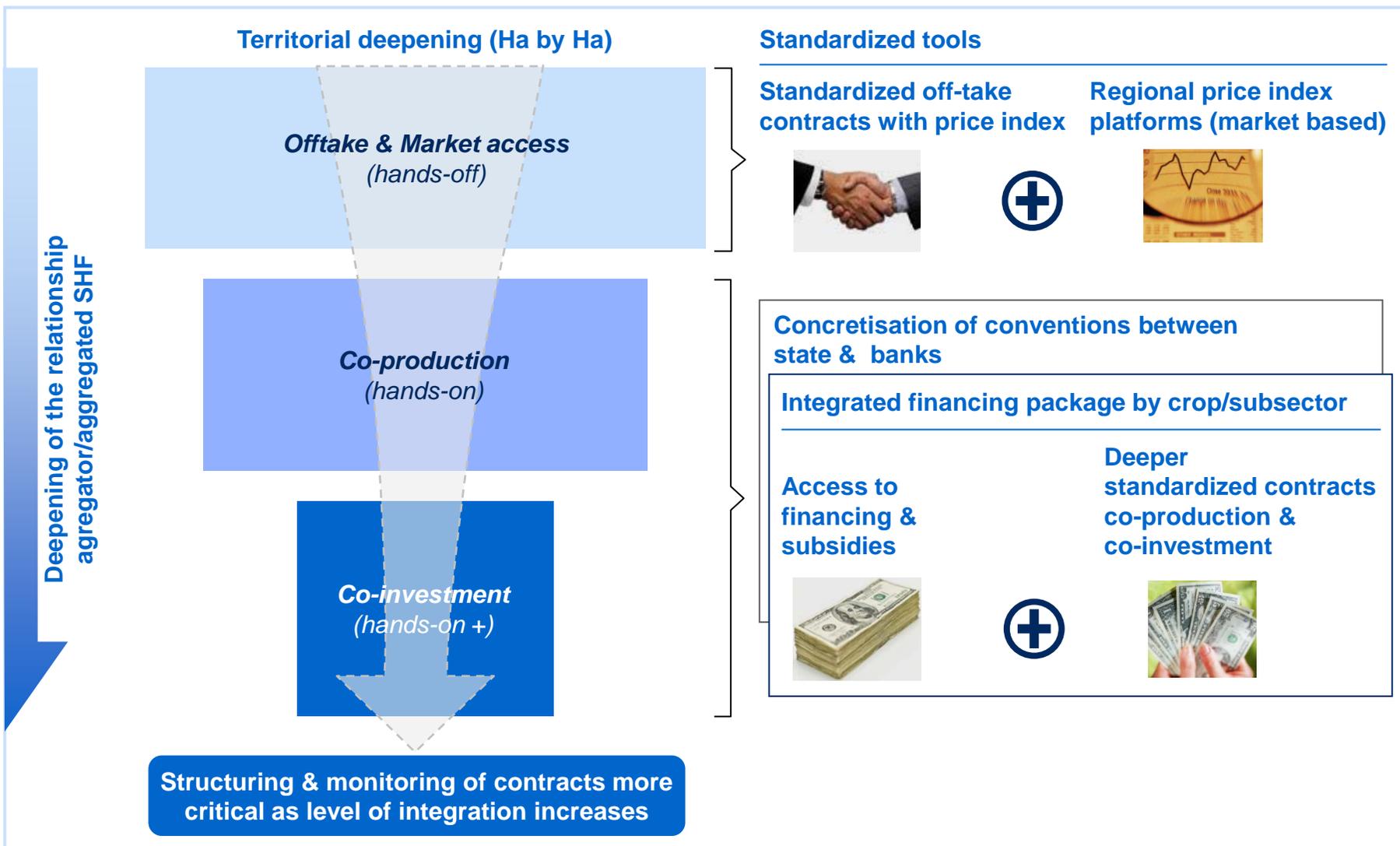
Smallholder income increases

- Farmers receive increased income for their bean crop
 - Beans at 4 X maize income and 2 X coffee income
- Frigoken expands from just 50 smallholders in 1995 to more than 35,000 smallholders by 2007





In addition to economics, contract and oversight is critical: Morocco example



There is also a need for building entrepreneurs & business skills in most developing countries

■ Promising emerging models

Some models for training

Traditional in class training



Model factory



End-to-end-support/training



Description

- Theoretical training in an engineering school or university
- Trained people receive a diploma or a certificate

- Mix of Theoretical and practical training
- Might be used as a tool to support different programs, from education only to multi SME transformation programs

- “Field & forum” training
- Ongoing support, mentoring
- Linkage to finance opportunities

Comments and efficiency for operational transformation purpose

- 10 % Recall rate 3 months after training
- Perceived as very scholar
- Little impact regarding real SME transformation

- Most scalable option – well adapted to training/scaling existing businesses

- Potentially costly model but effective for developing new entrepreneurs

Example: model factory



The model factory is an innovative tool to disseminate Lean concepts

- Intensive training including **line transformation from "current state" to "future state"**
- **Manufacturing of a real product**
- Active qualification through the concept of **"Hearing, Seeing, Doing"**
- Mapping the entire value-stream (material and information)
- Visible best-practice-showcases
- Covering all building blocks of a lean production system

In summary



- We believe private sector offers real opportunity for sustainable change & impact
- Models exist that are working!
- Real challenges exist in
 - Ensuring honest and accurate assessment of economics
 - Contract management and oversight to ensure social benefits
 - Innovative methods of training entrepreneurs