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

Sources: World Bank; Food and Agriculture Organization (FAO); McKinsey GHG Abatement Curve and Water Initiative
McKinsey has been transforming agriculture in Africa by identifying and championing holistic yet scalable models.

**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

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

Source: McKinsey
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

<table>
<thead>
<tr>
<th>Inputs</th>
<th>Input distribution</th>
<th>Agricultural production</th>
<th>Trade/primary processing</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barriers</td>
<td>Lack of improved technology</td>
<td>Costly distribution</td>
<td>Low yields</td>
<td>Limited capacity</td>
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<tr>
<td></td>
<td></td>
<td>Lack of credit access</td>
<td></td>
<td>Poor market linkages</td>
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<tr>
<td>Most common partnership models</td>
<td>Collaborate/co-invest in R&amp;D (e.g., Harvest Plus)</td>
<td>Co-invest in multiplication</td>
<td>Provide financial mechanisms to support infrastructure expansion (e.g., DCA)</td>
<td>Limited local expertise/capacity</td>
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<td></td>
<td></td>
<td>Co-invest in Kiosks, farm centers (e.g., ITC)</td>
<td>Coordinate demand sinks (e.g., Walmart)</td>
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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”

- Donor
  - Grant/Contract to implementing partner
  - Coordinate end-user contracts (globally or locally)
  - Coordinate end-user contracts (globally or locally)

- Implementing partner
  - TA, develop associations

- Private sector demand sinks
  - Financing
    - Financing support (if necessary)

- Smallholders

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

- Donor
  - Contract to private sector
  - Funds (or matched funds) to source from smallholders

- Sector “Aggregator”
  - Processor
  - Entrepreneurial warehouse owner
  - Association
  - Commercial farm
  - Service center

- Smallholders

Private sector-led models are emerging— key questions are 1) economic viability 2) contract oversight 3) relative scarcity of qualified entrepreneurs
There are multiple types of aggregation models:
Mali example of 3 potential models

- **Midstream**
  - **Input**
  - **Upstream/production**
  - **Collection/stocking**

**Integrated service centers, Integrated private sector companies**

- **Input providers (Agro dealers)**
- **Large structure “nucleus” farms**
- **Wholesalers/traders**

**Cooperatives of critical size**

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

<table>
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<tr>
<th>BACKGROUND</th>
<th>ACTION</th>
<th>OUTCOME</th>
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<tbody>
<tr>
<td>Kenyan smallholders had limited opportunity</td>
<td>Private sector aggregates demand</td>
<td>Smallholder income increases</td>
</tr>
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</table>
| - 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 | - 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 | - 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 |

**SOURCE:** Team analysis; interviews; literature search
In addition to economics, contract and oversight is critical: Morocco example

- Territorial deepening (Ha by Ha)
- Offtake & Market access (hands-off)
- Co-production (hands-on)
- Co-investment (hands-on +)

Standardized tools:
- Standardized off-take contracts with price index
- Regional price index platforms (market based)

Concretisation of conventions between state & banks:
- Integrated financing package by crop/subsector
- Access to financing & subsidies
- Deeper standardized contracts co-production & co-investment

Structuring & monitoring of contracts more critical as level of integration increases
There is also a need for building entrepreneurs & business skills in most developing countries

<table>
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<tr>
<th>Some models for training</th>
<th>Description</th>
<th>Comments and efficiency for operational transformation purpose</th>
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| **Traditional in class training** | ▪ Theoretical training in an engineering school or university  
▪ Trained people receive a diploma or a certificate | ▪ 10 % Recall rate 3 months after training  
▪ Perceived as very scholar  
▪ Little impact regarding real SME transformation |

| **Model factory** | ▪ Mix of Theoretical and practical training  
▪ Might be used as a tool to support different programs, from education only to multi SME transformation programs | ▪ Most scalable option – well adapted to training/scaling existing businesses |

| **End-to-end-support/training** | ▪ “Field & forum” training  
▪ Ongoing support, mentoring  
▪ Linkage to finance opportunities | ▪ 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

SOURCE: McKinsey
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