

A photograph of a man in a blue polo shirt and a grey cap, smiling as he works with coconuts. He is wearing gloves and is in the process of husking a coconut. In the background, another worker is visible, also working with coconuts. The setting appears to be a coconut processing facility.

# Brokering of Public-Private Producer- Partnerships

Lessons Learned from  
the Partnering for Value Project  
implemented by SNV  
Netherlands Development  
Organisation 2015 - 2018

*Nico Janssen  
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Investing in rural people

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**Front cover:** Coconut workers at the Betrimex factory in Vietnam.  
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# Executive Summary

**The Partnering for Value Project, a three-year program funded by IFAD, has been implemented by SNV Netherlands Development Organisation in five countries across three different continents, including El Salvador, Senegal, Uganda, Mozambique and Vietnam. The aim of the project was to deepen the understanding on the 4P approach, develop and document best practices, test an independent 4P brokering approach and strengthen capacities of IFAD and partners in the five countries on how to apply the 4P approach.**

This paper is a set of insights, results and reflections based on experiences from more than 20 business cases that were selected and developed during the Partnering for Value Project (also referred to as the 4P Project or Public-Private-Producer Partnerships Project).

In the paper, which consists of four sections, we analyse how the 4P approach fits (or can be positioned) in the wider market development context from both a theoretical and practical lessons learned point of view. Section two reflects, based on the lessons learned of the Partnering for Value project how 4P can be used as an approach in the IFAD context of national programme implementation through recipient governmental partners. Section three then continues with reflections on the added value of the brokering approach for 4Ps. Finally, Section four looks deeper at the fit of the 4P brokering services taking examples of the development projects Partnering for Value project has worked together with.

## Section One: Understanding 4P in the Wider Market Context

### The 4P as trigger for Market System change

The M4P approach argues that to make market systems work for the poor, all stakeholders ranging from public and private players, need to be involved. A Public-Private-Producer Partnership (4P) can bring those different players and functions together. In the context of the Partnering for Value project we have developed a series of 4P business cases, incorporating poor smallholder producers into the supply chain of an enterprise.

Facilitating 4P Business Cases and thereby triggering pro-poor and smallholder inclusive growth can act as a possible catalyst for the way market players work together as partners. The 4Ps provide good examples how markets can operate different and ultimately act as best practise to trigger wider market system change. As example, the 4P cases in Vietnam have, through the joint review by businesses, public sector and policy institutions led to a dialogue process to review and adjust agri-business PPP guidelines. In Uganda for example, evidence from the 4P cases on access to finance, or better the complications to access finance, is contributing to a debate on facilitating better access to finance and the development of new financial products by for instance Opportunity Bank, specifically geared towards agri-business SME's and cooperatives.

### The 4P compared to Inclusive Business

Inclusive Business (IB) is a strategic, innovative, commercially-viable business initiative, which unlocks entrepreneurial opportunities for low-income markets to engage in the value chain. IB creates shared value for the businesses, low-income markets and the environment.

A 4P arrangement ensures that smallholder producers are respected partners and not relegated to the receiving end of public-private partnerships (PPPs). Usually, there are asymmetries in the balance of power in these partnerships, since smallholders are typically not invited or considered as partners at the negotiation table.

Where-as in Inclusive Business there is often only a focus on the enterprise-producer partnership, the 4P also specifically includes the public sector as a partner which makes 4P broader than the IB approach. It can however also complicate it more as with more partners involved

there are also more and different rules which will govern the partnership.

What we have seen from the 4P Business Cases, compared to many other IB cases is that the selection process can be significantly different. Including the Public P as a partner in the 4P approach changes the set of criteria for the selection of both the enterprises and the producers as the aim is to truly inclusive to the poorest. In that sense, the 4P approach appears to be reaching deeper down to the bottom of the pyramid.

The experience from Partnering for Value project is also that especially in the early stages of the 4P arrangements, the producers need capacity building support through coaching and mentoring to improve their understanding on the ways markets function especially with regards to price-setting mechanisms, enforcement of contracts, regulatory issues, payment modalities, good agronomic practices and general business management.

### 4P Business Cases as Entry Point for Policy Dialogue

Part of the objective of the Partnering for Value project is to provide evidence for policy dialogue in the countries where the project is implemented. Issues identified during the 4P cases can be used as examples to start a policy debate or review. A critical issue is to engage all 4P partners in policy dialogue, which means engaging public sector at all levels.

Perhaps public partners have the responsibility to enable policy discussions, but they need the knowledge and experience from private and producer partners to have sufficient evidence for policy change recommendations. There is an important role for the brokers to play during the implementation of the 4P. Brokers are neutral in the partnership and have the oversight to identify policy bottlenecks. They also have a role in making sure that all partners indeed get the opportunity to provide input for policy dialogue.

## Section Two: Determining Factors in Design and Implementation of 4P

### Enabling Factors Which Influence the 4P Opportunities

Experiences from the 4P business cases developed under the Partnering for Value project show that 4Ps can be used as a catalyst in a market system to demonstrate that strong cooperation between value chain actors (enterprises and smallholders) can contribute to a successful transition towards professional and commercial farming in a particular value chain. Under the Partnering for Value Project, 4P arrangements have been brokered in many different contexts. Experiences in brokering and negotiating the partnerships have given great insight in the conducive conditions for 4P partnerships.

Some of the contextual factors that need to be taken into account are:

- The development phase of the sector/value chain
- Structure of the market and supply chain
- Geographical location
- Type of producers and producer organisations the 4P is engaging with

Before assessing whether 4P is a suitable opportunity in a particular value chain, it is important to determine the value chain's stage of development. In the Partnering for Value Project, most 4P business cases have been developed in so-called inception or first mover market stages. Entering such markets is a high risk for the private sector, and smallholder producers are short-term price oriented rather than focused on longer term market security and stability.

SNV experience shows that the level of coordination between the partners and along the supply chain and flow of information from the processors to the producers on the quality aspects of the raw materials but also from producers to enterprises on production forecast in a value chain heavily impacts a 4P.

From the 4P business cases in the five project countries a number of development issues have been identified during the partnership business plan development which could be clustered among a number of themes or categories. These issues can be clustered around access to services (inputs and technologies), access to finance (micro-finance as well as SME finance), access to knowledge services or capacity building (especially on business management and leadership) and ability to influence the business enabling environment and policies. These issues are not only affecting producers but they also affect other stakeholders along the value chain. At the same time, the solutions to solving the issues can in many cases be identified through the 4P partnerships where one of the partner takes the responsibility to help solve the problem, or even combined.

From the different 4P business cases we have learned that the structure of the supply chain and the roles the different actors (enterprises, traders, agents, cooperatives, smallholders) play, affects the opportunities and design for a 4P. Different types or models of supply chain organisation influences the orientation of a 4P partnership and the win-win solutions which can be identified. Those win-win solutions are often found in making the supply chain relations more efficient in terms of aggregation or bulking or more effective in terms of access to services, finance, capacity development for improved business management, and policy influence for a better business enabling environment.

Opportunities for 4Ps are best in those situations where an equal distribution of negotiation power between the enterprise and the smallholders can be established through the 4P. The reality is in most cases that there is a power asymmetry before the start of the 4P which can be addressed through the mediation of the broker, ensuring that the buyer understands that they have nothing to lose by sharing more and better market information but in fact only have to win from gaining trust of the smallholders.

A complicated issue which partly has to do with the way the market is organised is the issue of exclusivity and side-selling. This is one of the most complex issues to address when shaping and negotiating a 4P agreement. From most cases we learn that producers do not like to be locked into exclusive agreements, unless there is high level of existing trust between the producers and the buyers. At the same time, we have also seen in a number of cases that producers or producer organisations over-commit how much they can supply as they have no capacity to predict and plan how much they can produce.

Essential is an open and transparent direct communication between the enterprise and the producers / producer organisation. Equally we recommend that an agreement should not entail a fixed price before the season but rather describe a mechanism how the price is determined and mutually agreed. In any way, the partnership, over time, will need to develop a discipline that an agreement is an agreement which should be respected.

The aim of the 4P approach is to bring producers as equal partners into the arrangement, in many cases represented by some form of producer organisation. We have learned that the level of formality and professionalization of the group is of utmost importance to the success of the 4P. A key requirement of producers and producer groups is that they have to be a market driven entrepreneurial group which embraces market principles and is bankable.

## Determining Factors for the Design of a 4P

To set up a successful 4P there are a number of determining factors for which a due diligence should be done during the design process of the 4P.

- **Market:** An unmet market demand for a specific quality of output co-existing with an existing producer practise which does not yet meet these specific quality indicators;
- **Producers:** An entrepreneurial spirit, considering their farm as a for-profit operation;
- **Producer organisations:** Be able to act as an enterprise, with clear accountability and transparency to its paying members;
- **Public sector:** Be able to work with and think as the private sector. Understand how they make decisions based on opportunities and not on compliance protocols. Be held accountable and provide the enabling environment;
- **Private sector:** Need to operate as a formal business with an auditable management system, and be ready to understand and work with smallholders.
- **Financial sector:** Ready to invest in agriculture and/or in SMEs and producer organisations.

## Section Three: The added value of a 4P broker

### Brokering as a participatory and consultative process

The key differentiator from 4P, as compared to wider known and used PPP is that producers are included as partner instead of merely seen as beneficiaries. However, these 4Ps do not emerge by itself. The new or 'innovative' element of the Partnering for Value project was to add an independent 4P brokering function, under the assumption that a brokering service would lead to better and more sustainable outcomes.

SNV experience shows that brokering works best if it is seen and implemented as a demand-led approach. A broker needs to adopt a market driven approach to develop a 4P business case. The entry point is the market opportunity of the agri-business matched with suitable producers and the right public services. A broker needs to have a firm understanding of how agro-enterprises work and smallholder production systems.

The broker facilitates the 4P partnership from inception through implementation in a number of steps. The broker is instrumental in identification and matchmaking of potential partnerships. Supports the drafting of a business plan, based on thorough market analysis and dialogue between the partners. The broker provides coaching and mentoring as well as supervision during implementation where partners have to establish their own capacities to work together.

### The Brokering Process in Steps

The brokering process has been divided in 4 key steps of:

- **Identification and Matchmaking** in which the broker maps out the sector and the unmet market demand, identifies potential partners and supports them in the development of a concept 4P note and a possible matchmaking with other 4P partners;
- **Business Plan Development** in which the broker supports in-depth analysis around the business case (both quantitative and qualitative) and facilitates the development of a business plan by the 4P partners;
- **Implementation** in which the broker oversees partnership, coaches, mentors and contributes to capacity building of the partners;
- **Monitoring and Evaluation** in which the broker organises participatory reviews of the partnership on a seasonal basis. Evaluates how the previous season went, according to plan and facilitates planning for the next seasons with the partners.

The broker is a temporary actor in the 4P who establishes a partnership but should not be an inherent part of the partnership. Such a process takes a minimum of 3 to 5 years in which at least 3 agricultural seasons need to be implemented for partners to build up trust and the confidence to continue the partnership on their own.

### The added value of a broker

Partnerships between smallholder producers and agro-enterprises are rarely established without external facilitation. For the partnership to work and perform both partners need to learn to understand each-others way of doing business and establish an open and transparent communication through which expectations and issues can be discussed. Lessons from the Partnering for Value Project indicate that the process cannot be rushed and that a broker is instrumental in establishing early trust which can be developed and strengthened as the partnership progresses.

## Section Four: Positioning of 4P in the IFAD context

### Positioning 4Ps in different types of IFAD projects

To IFAD, the concept of 4P is not new as it has been experimented with for a number of years in different projects and contexts. IFAD promotes 4Ps as a more systematic way of working with the private sector through the projects it supports.

The Partnering for Value Project was, as a grant project, aligned with a number of ongoing IFAD investment projects, implemented by the receiving national governments. In the five countries the Partnering for Value Project worked with either Rural Development Projects (with a more geographical focus like in El Salvador, Mozambique and Vietnam, where there was an additional Climate Smart focus) or Value Chain Projects (with a crop or commodity focus, like in Senegal and Uganda). In both project environments 4P business cases were identified and brokered. This provides a good insight on how the 4P brokering approach can be positioned and how different project components need to be well aligned in order to facilitate partnerships.

From our experience working alongside both the rural development and value chain projects, both have the aim and ambition to reduce poverty and increase smallholder income through professionalization through commercialisation and formalisation which should lead to better market integration.

In multi-component rural development projects we observe that the 4P business case approach can bring more coherence between the different components. In the value chain projects, we observed that the 4P business case approach can bring a multi-actor focus to develop the chain in a concerted effort working on multiple aspects at the same time such as linking the right inputs to the producers to achieve the output desired by the processors.

### Public Sector Support for 4P

The public sector can use the 4P approach in many ways in their objectives of pro-poor development. These positive public contributions can be split in three different areas (or combinations thereof):

**Public financial support as catalytic inclusive investment in the core of the market system.** In many of the cases the governments are using capital investment in either the enterprise or the producer group. Project experience learns that this can be a good way for the development of agro-business in underserved areas where banks or other investors are not yet present or where investment sizes are too small for commercial provision.

An important learning though is that such an investment should go hand-in-hand with well-organised capacity development support for the 4P partners to ensure that the business model does not become dependent on the initial start-up-capital.

**Public support in strengthening the delivery of (public) services.** The majority of business cases identified areas of concern regarding access or availability of essential services (a lack of knowledge services, input services and financial services).

4P offers an excellent platform for dialogue to discuss the service areas which need attention and how provision of these services can be improved, either as public or private service and who is going to fund the development and provision of the service. The broker plays an essential role in organising and facilitating such a platform in the early stages of the 4P.

**Public support in improving the rules that govern the market.** For 4Ps to be successful, a formal agreement needs to be set-up that is supported by a minimum level of rules and regulations. These rules usually concern contract farming, producer group establishment, certification of production and processing etc. In all the 4P cases we see that there has been a move towards signed contracts between the producers and the enterprises, supported by the public partners.

Regulation development and more importantly the adherence to rules or establishment of a culture of rule of law are key for the success of 4P cases. They

are best identified, planned and aligned through the brokering processes that happen around the design and implementation of the 4P business case.

### Financing of 4P

Besides 4P being an agreement between partners to work together whereby enterprises source (directly) from smallholders providing more security to both these partners, the aim of 4P is also to leverage public and private financing for smallholder inclusive agri-business.

Present or future bankability of the partners is of utmost importance to select the partners. For investors to be willing to consider investment it is key that there is a clear business plan, business model and financials which can be independently verified. Attention has to be paid in the development of the business case and capacity development support to the 4P partners that the right systems are put in place from the start.

A 4P process of finance readiness means a transition to the formal economy. If the growth and maturing of the 4P is not the starting point of the formation of the partnership there is a high risk that this can later no longer be fixed.

### Positioning of the brokering service within IFAD programmes

Funding a brokering service through an add-on TA facility alongside existing IFAD rural development projects is not sustainable for a longer time even though such a facility has the advantages that the 4P partnership development is done independent from the public-sector partner funding decision making.

When exploring different options of positioning 4P brokering, it is best to include the role of the broker as an independent service provider in the design of an IFAD investment project, implemented by a national government. Besides the role of the broker in establishing and facilitating the 4Ps, it is also important to define there the roles and responsibilities of the public partner or partners at both the national and sub-national levels.

### Funding of the brokering

An essential question remains who eventually should fund the 4P brokering in the future.

Experience from the Partnering for Value Project shows that most 4P cases are situated in a relatively early stage market development where there is still a large need for capacity development of all partners. This means that there is also little willingness among the partners to hire business consulting services themselves and hence a dependency on these services being provided through grant instruments.

The funding of the brokering should in these early market development stages be separate from the funding of the 4P business case itself to ensure that social inclusion of the poor does indeed happen.

The funding should remain available for a long enough duration to see a case through the whole process of brokering, including three to five agricultural seasons, depending on the stage of development of the producers and enterprise. What happens beyond the period of public support depends on the willingness of the private and producer partners to continue with a brokering (or business consulting) and their agreement how to cost and fund this service. It was not in the scope of this project to analyse these options though they are worthwhile to consider for follow up studies.

## Concluding Remarks

The Partnering for Value Project was implemented from February 2015 until March 2018 in five countries (El Salvador, Senegal, Uganda, Mozambique and Vietnam). The key approach of the project was to develop, test and build capacity on an effective brokering mechanism for pro-poor smallholder inclusion in Public-Private-Producer-Partnerships.

### Key lessons learned from the project are:

- 4P has the potential to go much further than an inclusive demand and supply arrangement between an enterprise and a group of smallholder producers. A well-structured and organised 4P programme gives broad meaning to the role of the public P. 4P finds a balance in organising and coordinating the market system and catalysing pro-poor development with strategic investments. All partners need to be selected based on predefined criteria and often need capacity development. Also, investments through small (matching-) grants need to include an assessment of financial readiness and a development plan towards it.
- The design and brokering of a 4P partnership needs to be a market opportunity driven process with a long-term vision on economic viability combined with intermediate milestones for pro-poor inclusive development and entrepreneurial capacity development. The 4P partnership should be formalised with a partnership agreement to ensure commitment. This formalisation should be built around a commitment to each other and preferably not be based on an exclusivity relationship.
- Enterprises often perceive working directly with smallholder producers as costly and inefficient. While smallholders often accuse enterprises of offering conditions and prices they cannot work with. The facilitating role of the broker is essential to establish trust between the partners.
- 4Ps as a locally implemented approach through national governments needs strong inclusion of local (sub-national) governments as public partners. It also needs a vision on sustainability post-project by capacity building for public institutions on the way markets function and how market players think and act different from public services.

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# Introduction

The Partnering for Value Project, a three-year program funded by IFAD, has been implemented by SNV Netherlands Development Organisation in five countries across three different continents, including El Salvador, Senegal, Uganda, Mozambique and Vietnam. The aim of the project was to deepen the understanding on the 4P approach, develop and document best practices, test an independent 4P brokering approach and strengthen capacities of IFAD and partners in the five countries on how to apply the 4P approach. The Partnering for Value Project has worked alongside and in support of existing IFAD investment programs in the five selected countries (see box 1).

This paper is a set of insights, results and reflections based on experiences from more than 20 business cases that were selected and developed during the Partnering for Value Project (also referred to as the 4P Project or Public-Private-Producer Partnerships Project). This paper is a practice led review of experiences, success and failures that have led to the development of best practices and recommendations on when, where and how to use the 4P approach for inclusive, private sector led development. The paper details the 4P approach including case studies. The paper is therefore written for development experts interested in the 4P approach, project designers and programme decision makers.

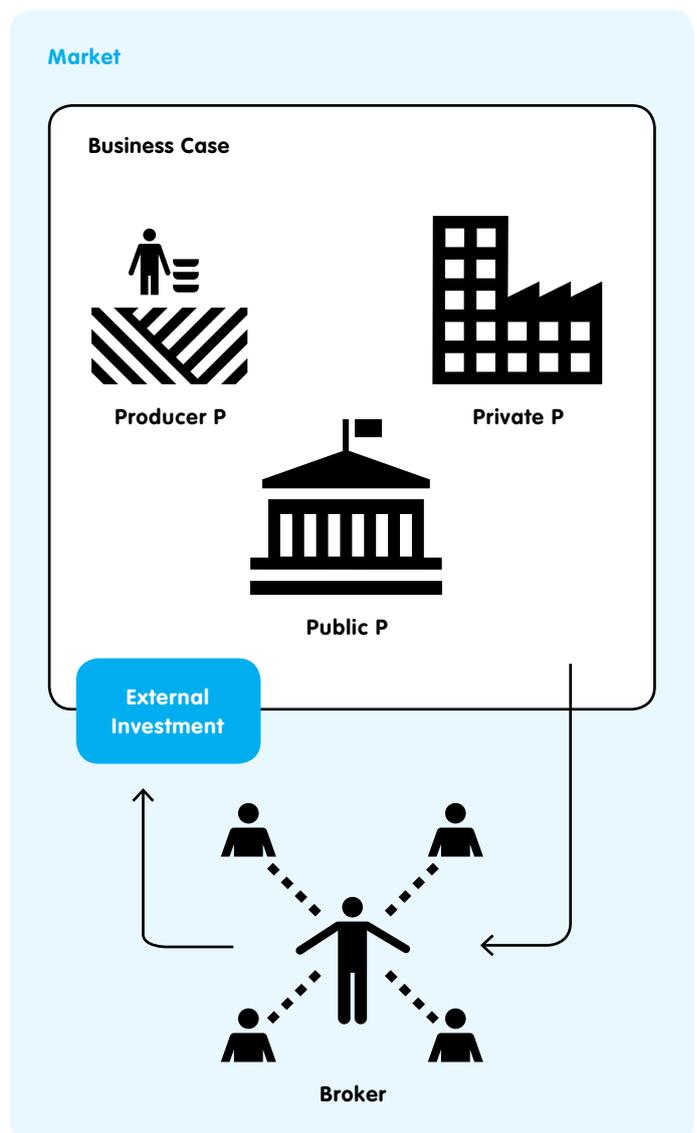
The Project has built on the study conducted by the Institute for Development Studies (IDS) *“Brokering Development: Enabling Factors for Public-Private-Producer-Partnerships in Agricultural Value Chains”* (June 2015) in which 4P business cases in Ghana, Rwanda, Indonesia and Uganda were evaluated.

IDS recommended a brokered approach for 4P development and implementation. The Project has also taken the 2016 Food and Agriculture Organisation (FAO) study *“Public-private partnerships for agribusiness development”* as a benchmark to test and validate our results and outcomes.

This paper was developed as a reflection paper on how 4P brokering can be developed in the future as a project-based or even market based service and not, as was the case in the Partnering for Value project, as an ad-hoc added service.

Figure 1 shows the set-up of the partnership brokering which was developed during the project in which partnership brokering, as well as additional investment brokering we positioned as external services.

Figure 1: The set-up of the 4P partnership and investment brokering



## The Partnering for Value project was specifically linked to these IFAD investment projects:

**In Uganda**, the Partnering for Value project was linked to the IFAD-funded VODP2 (Vegetable Oil Development Project). VODP2 has a combined regional and sectoral development objective to strengthen the oilseeds sector (sunflower seeds, sesame, soy and groundnuts) in Northern and Eastern Uganda. The primary focus is to improve productivity of smallholder farmers and establish market linkages with agribusinesses through hired service providers. The Partnering for Value's role was to develop a 4P brokering mechanism to strengthen the development of market linkages alongside VODP service providers to yield the desired results.

**In Senegal**, the project was linked to the PAFA (Projet d'Appui aux Filières Agricoles) and PAFA-extension programme. PAFA was already working with a PPP system which Partnering for Value has been refining. PAFA has a strategy that supports producer groups to transform into SMEs through (in most cases) a cottage industry approach. The PAFA beneficiaries are divided in producer associations, processors and marketing enterprises who are linked through Value Chain Networks (CNIF). The different actors and the value chain networks are supported through a reclining subsidy approach. The Partnering for Value project has worked on strengthening enterprise management systems and business capacity building as this was seen as the limiting factor for sustainability and further growth of certain value chains. The project has also supported some of the CNIFs in professionalising their services to members.

**In Mozambique**, the project was linked to the PROMER program, a multi-component rural market development program. The program has built in a component for the public sector to set up PPPs, but as the public sector did not have capacity to do so, Partnering for Value was called in to strengthen this system. PROMER has an investment component through which it can co-invest (up to 50% and \$ 250K max) in agro-enterprises, which has mainly gone to hardware. PROMER also has a service provision component like VODP2, which focuses on producer and producer group services, including making market linkages.

**In Vietnam**, the project was linked with the Program for Adaptation to Climate Change in the Mekong Delta in Ben Tre and Tra Vinh Provinces (AMD) and the Sustainable Rural Development for the Poor Program in Ha Tinh and Quang Binh Provinces (SRDP). Both programs have regional market development objectives and are meant to establish a number of PPPs. However, due to lack of capacity and capability in the public system as well as a weak developed agro-PPP legislation which allowed little room for investment, the program had failed to do so. Again, this is where Partnering for Value came in. AMD and SRDP also have a co-investment fund to support enterprises.

**In El Salvador** the project was linked to the National Programme of Rural Economic Transformation for Living Well – specifically to the Rural Adelante and Rural Territorial Competitiveness projects (AMENCER RURAL) which aim to strengthen rural cooperatives to take up market functions related to agro-processing and value addition. The IFAD projects are investing in the cooperatives to set-up or improve facilities like warehouses, cool chains, processing activities, etc. Partnering for Value was called in to support the project in establishing sustainable links with (potential) buyers through development of 4P business planning exercises, coaching and mentoring.

In the paper, which consists of four sections, we analyse in the first section how the 4P approach fits (or can be positioned) in the wider market development context from both a theoretical and practical lessons learned point of view. We reflect on how 4P relates with the M4P and Inclusive Business concepts. Section two reflects, based on the lessons learned of the Partnering for Value project how 4P can be used as an approach in the IFAD context of national programme implementation through recipient governmental partners. Section three then continues with reflections on the added value of the brokering approach for 4Ps. Finally, Section four looks deeper at the fit of the 4P brokering services taking examples of the development projects Partnering for Value project has worked together with and as a kind of back-ward reflection assesses how these projects could be designed different in the future if 4P brokering were part and parcel of the design.

This paper is part of a wider set of knowledge products developed and reviewed in close collaboration with SNV's country teams. The complete set of knowledge products consist of

- This final 4P project paper, as a reference paper for project designers and project managers;
- 4P guidelines and tool book for brokers and project implementers;
- A set of 10 case studies describing in-depth learnings from success and failure of real 4P cases;
- A set of three vision papers, in which recommendations are given on how to develop a 4P business case from the inception phase up to brokering third-party financing for further investment.

In *"How to do Public-Private-Producer-Partnerships (4Ps) in Agricultural Value Chains"*, IFAD describes the 4P concept as follows:

**Definition:** 4Ps involve cooperation between a government, business agents and small-scale producers, who agree to work together to reach a common goal or carry out a specific task while jointly assuming risks and responsibilities, and sharing benefits, resources and competencies.

A 4P ideally serves **multiple development objectives**. For example, it can be a mechanism to include IFAD's target group in value chains led by private companies. Private investment can facilitate access to markets, technical assistance, knowledge, technology and capital. Finally, intensification of production and development of value chains can generate significant employment opportunities.

The **main characteristics** of a 4P (as opposed to PPPs) include the following:

- (a) Private-sector involvement is planned early on so that it becomes part of project design and implementation, and partnership results are systematically monitored and evaluated as part of the project's results framework.
- (b) To the extent possible and relevant, the private-sector partner is selected through a competitive or rigorous selection process that ensures transparency and objectivity, and meets the project's social, economic and environmental objectives.
- (c) Producers play an active role in the negotiations and partnership arrangements (both formal and informal), governance and monitoring.
- (d) A 4P is a true partnership in which each partner has clear roles and responsibilities, and shares risks and benefits. Private-sector partners are expected to allocate matching financial resources.
- (e) Linking with the private sector through a 4P ensures that interventions are sustained beyond the project lifetime because they follow business logic and all involved parties benefit. A 4P should be seen as an entry point to scaling up project results through private-sector investment.

## Section 1:

# Understanding 4P in the wider market context

### Key Lessons

4P has the potential to go much further than an inclusive demand and supply arrangement between an enterprise and a group of smallholder producers. A well-structured and organised 4P programme gives broad meaning to the role of the public P. 4P finds a balance in organising and coordinating the market system and catalysing pro-poor development with strategic investments. All partners need to be selected based on predefined criteria and often need capacity development. Also, investments through small (matching-) grants need to include an assessment of financial readiness and a development plan towards it.

### Purpose of this section

**Positioning of 4P as an approach in the wider development approaches such as Market Systems and Inclusive Business thinking.**

### Covered in this section

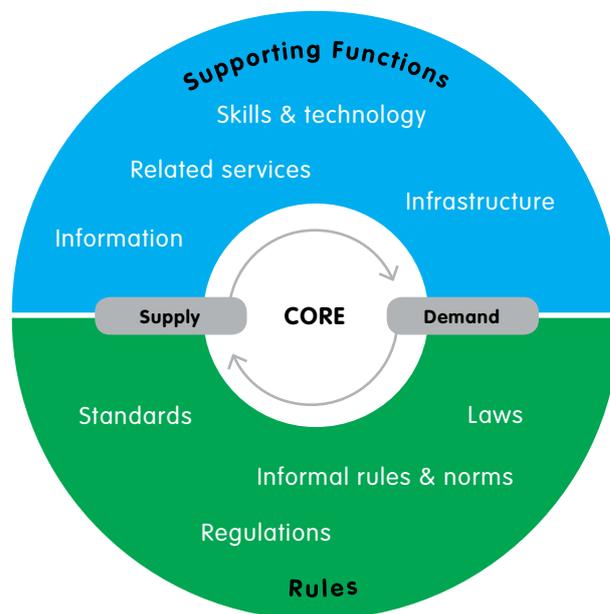
- **Theoretical background of the 4P concept and links to other development approaches**
- **4Ps and systemic change**
- **Justification for public funding of inclusive agribusiness links between private enterprises and smallholder producers**

## 1.1 The 4P as trigger for Market System change

Figure 2: The market system according to the M4P approach (Springfield Centre 2015)

One of the key aims of the Market System Development or M4P thinking it to work from the start or the facilitation of systemic market change where all (or most) market actors adopt a different, more sustainable way of working (see box 3 below). The M4P approach argues that to make market systems work for the poor, all stakeholders ranging from public and private players, need to be involved.

A Public-Private-Producer Partnership (4P) can bring those different players and functions together. At the core (see figure 2) the private sector and producers are brought together through 4P brokering and their capacities strengthened to build lasting business relationships. The contribution of the public partner is focused on strengthening the capacities of especially the producers to be supply partners for the private enterprises. Next to that there is also an important contribution and role to play for the public sector to improve the supporting functions, such as extension services as well as the rules, especially on provision of food safety certificates or other business enabling conditions.



Box 3: Rationale for Developing Market Systems (taken from the M4P guidelines)

The rationale for developing market systems stems from an appreciation of their importance in reducing poverty. Economic growth (the main contributor to poverty reduction) and expanded access to basic services are critical in developing competitive and inclusive economies. These require:

- Systems for the exchange of goods, services and commodities that operate efficiently for everyone but especially the poor as consumers, producers or employees
- Systems for the delivery of basic services, such as education, health and water, that can build people's capacities to escape poverty

The 'systems' for economic exchange and basic service delivery have traditionally been regarded as very different, yet both are multi-functional; they require a mixture of different functions to be undertaken such as regulation, information and delivery. Both are multi-player; they require a range of public and private players. In both, appropriate incentives and capacities are central to efficient and more inclusive systems. The term 'market system' describes these shared features and provides a common lens through which both can be viewed.

Improving the lives of the poor – stimulating growth and expanding access – means transforming the systems around them. Market system change is a change in the way core functions, supporting functions and rules perform that ultimately improves the poor's terms of participation within the market system.

Sustainability is a prime concern of market systems development. This means considering not just the existing alignment of key market functions and players but how they can work more efficiently and inclusively in the future, based on the incentives and capacities of market players.

Traditionally, when market outcomes have not been pro-poor, the response has been for governments – on their own or supported by donors – to provide goods and services themselves. Often, the result of this intervention is to distort markets and 'crowd out' the private sector. And because Government and donor resources are limited, these direct interventions have either failed to meet the needs of the poor, or have generated temporary and unsustainable supply.

Source: The Operational Guide for Making Markets Work for the Poor (M4P) Approach – 2nd Edition - The Springfield Centre (2015) – funded by SDC and DFID

## 1.2 The 4P compared to Inclusive Business

Changes in the services and rules will not only be to the benefit of the selected 4P case but benefit a much wider constituency of enterprises and smallholder producers who can all access these improved services and rules. In the context of the Partnering for Value project we have developed a series of 4P business cases, incorporating poor smallholder producers into the supply chain of an enterprise. These business cases do not stand on its own but are each also part of a wider market system. Facilitating 4P Business Cases and thereby triggering pro-poor and smallholder inclusive growth can act as a possible catalyst for the way market players work together as partners.

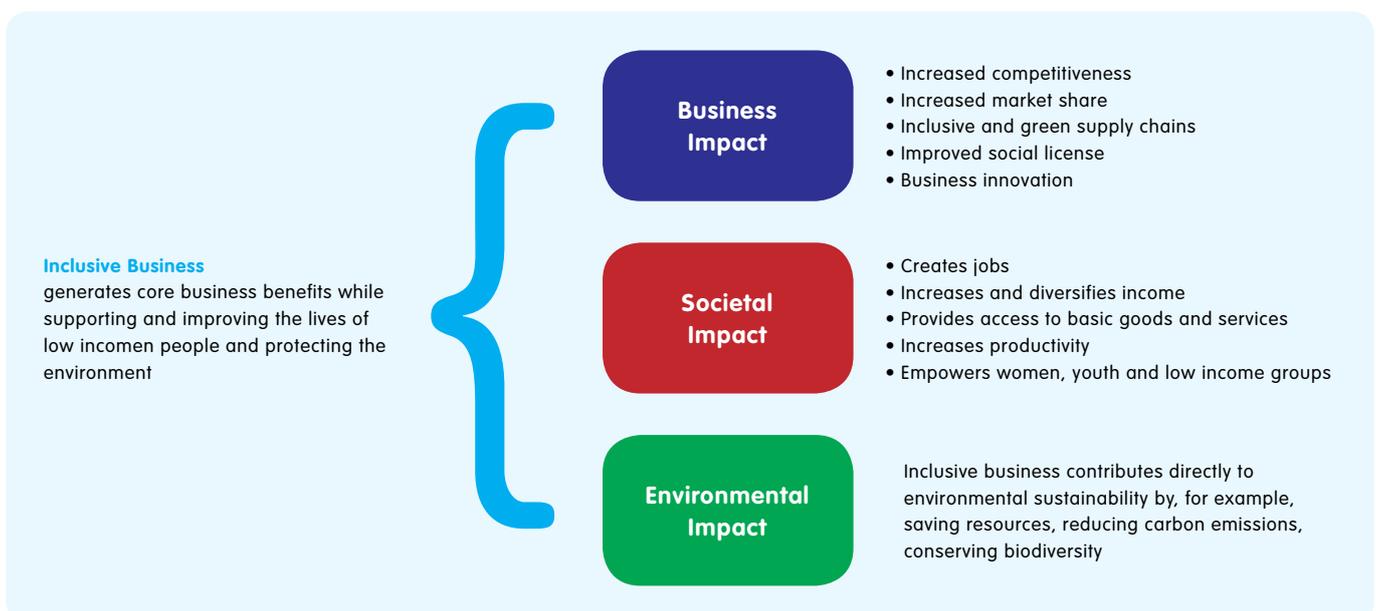
The 4Ps provide good examples how markets can operate different and ultimately act as best practise to trigger wider market system change. As example, the 4P cases in Vietnam have, through the joint review by businesses, public sector and policy institutions led to a dialogue process to review and adjust agri-business PPP guidelines. In Uganda for example, evidence from the 4P cases on access to finance, or better the complications to access finance, is contributing to a debate on facilitating better access to finance and the development of new financial products by for instance Opportunity Bank, specifically geared towards agri-business SME's and cooperatives

Inclusive Business (IB) is a strategic, innovative, commercially-viable business initiative, which unlocks entrepreneurial opportunities for low-income markets to engage in the value chain. IB creates shared value for the businesses, low-income markets and the environment. Reaching producers at the bottom of the pyramid and linking them to the supply chain or agro-enterprises has been successfully tried and tested by SNV under their Inclusive Business approach (see box 4).

A 4P arrangement ensures that smallholder producers are respected partners and not relegated to the receiving end of public-private partnerships (PPPs). Usually, there are asymmetries in the balance of power in these partnerships, since smallholders are typically not invited or considered as partners at the negotiation table.

Where-as in Inclusive Business there is often only a focus on the enterprise-producer partnership, the 4P also specifically includes the public sector as a partner which makes 4P broader than the IB approach. It can however also complicate it more as with more partners involved there are also more and different rules which will govern the partnership.

Box 4: The SNV Inclusive Business Model



What we have seen from the 4P Business Cases, compared to many other IB cases is that the selection process can be significantly different. In IB, it is mostly the lead enterprise who selects the producers to work with, often resulting in picking only the low-hanging-fruit, and not really reaching the poorest segments of the active producers. Including the Public P as a partner in the 4P approach changes the set of criteria for the selection of both the enterprises and the producers as the aim is to truly inclusive to the poorest. In that sense, the 4P approach appears to be reaching deeper down to the bottom of the pyramid.

#### Examples of encountered policy issues

- Investments in research for variety development, cultivation technologies, pest & disease management and water management
- Aggregation systems and registration of cooperatives
- Education and curriculum development for better trained agricultural experts
- Gender and youth focus
- Local taxes, formal and informal payments and their impact on profit and loss
- Resource access and ownership as well as use of collateral
- Access to finance
- Law and regulation enforcement, stimulating compliance to contracts
- Import and export regulations

Even though in both IB and 4P a brokering or facilitation approach is followed to establish the partnership, there are also differences such as a more neutral position of the 4P broker towards the partners and the above mentioned stronger emphasis on matching only those enterprises who are truly committed to working with the poor.

The experience from Partnering for Value project is also that especially in the early stages of the 4P arrangements, the producers need capacity building support through coaching and mentoring to improve their understanding on the ways markets function especially with regards to price-setting mechanisms, enforcement of contracts, regulatory issues, payment modalities, good agronomic practices and general business management.

Having the Public as partner enables that investments in producer capacity building can be made to prepare them to be eligible and trustworthy partners.

### 1.3 4P Business Cases as Entry Point for Policy Dialogue

Part of the objective of the Partnering for Value project is to provide evidence for policy dialogue in the countries where the project is implemented. 4Ps exist in different market development stages, from self-sufficiency, pre-competitive, competitive up to strategic markets. Issues identified during the 4P cases can be used as examples to start a policy debate or review.

#### Involving partners in dialogue

A critical issue is to engage all 4P partners in policy dialogue, which means engaging public sector at all levels. This can for example be done during regular review meetings with all partners; through these, current issues and bottlenecks in the value chain can be identified, and accordingly discuss strategies that can tackle specific policy bottlenecks. Often this is seen as only the responsibility of the public sector; however, on-the-ground knowledge of the other partners is necessary as valuable inputs to such a discussion. Perhaps public partners have the responsibility to enable policy discussions, but they need the knowledge and experience from private and producer partners to have sufficient evidence for policy change recommendations.

There is an important role for the brokers to play during the implementation of the 4P. Brokers are neutral in the partnership and have the oversight to identify policy bottlenecks. They also have a role in making sure that all partners indeed get the opportunity to provide input for policy dialogue. Most policy issues can probably not be influenced directly by the 4P partners and need to be escalated to others. 4Ps can be a good vehicle to organize a strong, unified voice of different stakeholders in the value chain when combining a number of 4Ps in larger policy review platforms. For example, they can jointly develop policy briefs in which they call for action.

## Section 2:

# Determining Factors in Design & Implementation of 4P

### Key Lesson

The design and brokering of a 4P partnership needs to be a market opportunity driven process with a long-term vision on economic viability combined with intermediate milestones for pro-poor inclusive development and entrepreneurial capacity development. The 4P partnership should be formalised with a partnership agreement to ensure commitment. This formalisation should be built around a commitment to each other and preferably not be based on an exclusivity relationship.

### Purpose of this section

**To analyse which market dynamics are most conducive for 4P development and how factors influence the design of a 4P partnership.**

### Covered in this section

- **The enabling factors that create the conditions for a successful 4P**
- **The determining factors for the design process of different business cases**
- **Attracting additional financing**

## 2.1 Enabling Factors Which Influence the 4P Opportunities

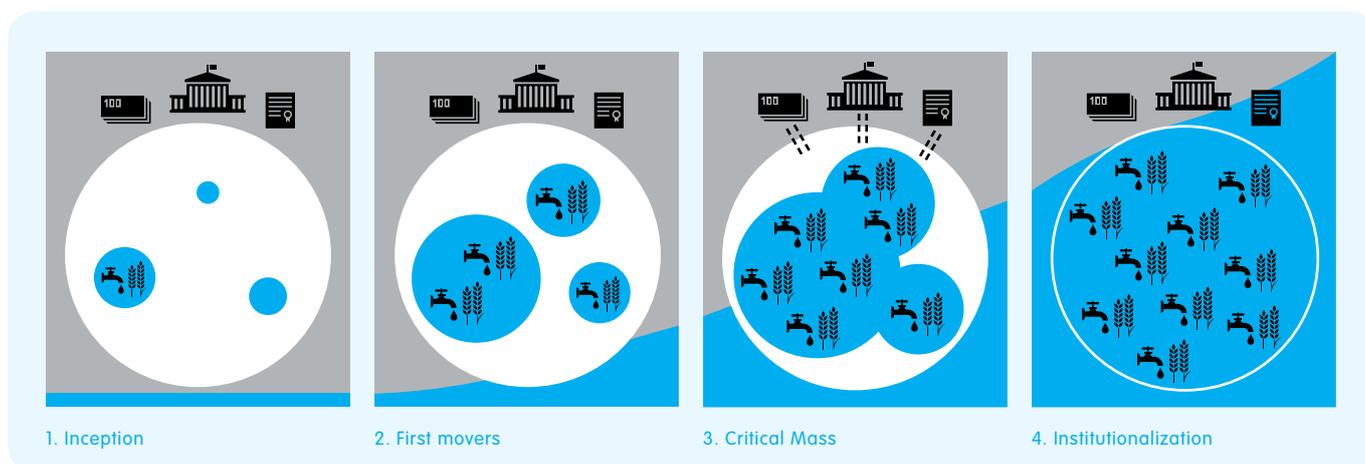
4Ps can be used as a catalyst in a market system to demonstrate that strong cooperation between value chain actors (enterprises and smallholders) can contribute to a successful transition towards professional and commercial farming in a particular value chain. Under the Partnering for Value Project, 4P arrangements have been brokered in many different contexts. Experiences in brokering and negotiating the partnerships have given great insight in the conducive conditions for 4P partnerships. Every value chain operates in a particular context, which needs to be taken into account before assessing whether a 4P is a viable opportunity. Some of the contextual factors that need to be taken into account are:

- The development phase of the sector/value chain
- Structure of the market and supply chain
- Geographical location
- Type of producers and producer organisations the 4P is engaging with

### Box 5: Stages of sector transformation

It is common to think about sector transformation processes as occurring in several stages. A specific version of this logic has been developed by Simons (2014) in his work with NewForesight on agricultural value chains. This logic sketches a pattern in which disparate small initiatives for market development (stage 1) start to gain some direction, coherence, and influence through groups of 'first movers' (stage 2). These first movers gradually build more credibility, influence, and volume, until a sufficient critical mass is reached (stage 3). Only through and after that can a major transition towards new system dynamics, new rules of the game and institutionalization take place (stage 4).

Source: PPPLab Food and Water, 2016, From Simple Models to Rich Strategies



## 2.1.1 Development Phase of the Sector / Value Chain

Before assessing whether 4P is a suitable opportunity in a particular value chain, it is important to determine the value chain's stage of development. In a phase where there is very limited private sector activity, the opportunities for 4P will be very different compared to a stage where there is a vibrant private sector. The PPP-Lab<sup>1</sup> study on sector transformation describes this very well. See box below.

In the Partnering for Value Project, most 4P business cases have been developed in so-called inception or first mover market stages. In these situations, only a small number of formal businesses are present, most producer groups are still poorly organised, markets are informal and dominated by traders who rule the markets by spot-market price setting. Entering such markets is a high risk for the private sector, and smallholder producers are short-term price oriented rather than focused on longer term market security and stability.

SNV experience shows that the level of coordination and flow of information in a sector heavily impacts a 4P. Less coordination is a good opportunity for 4P to bring structure but also means that the 4P needs more time to become sustainable. More coordination means 4P is there to address more specific challenges that require a shorter life span of intervention. The main point is to know the value chain and its evolution to inform design. When there is less coordination and information flow then those two elements should be built into the 4P either internally (sharing of info, meetings etc.) or externally through platforms/engaging other stakeholders.

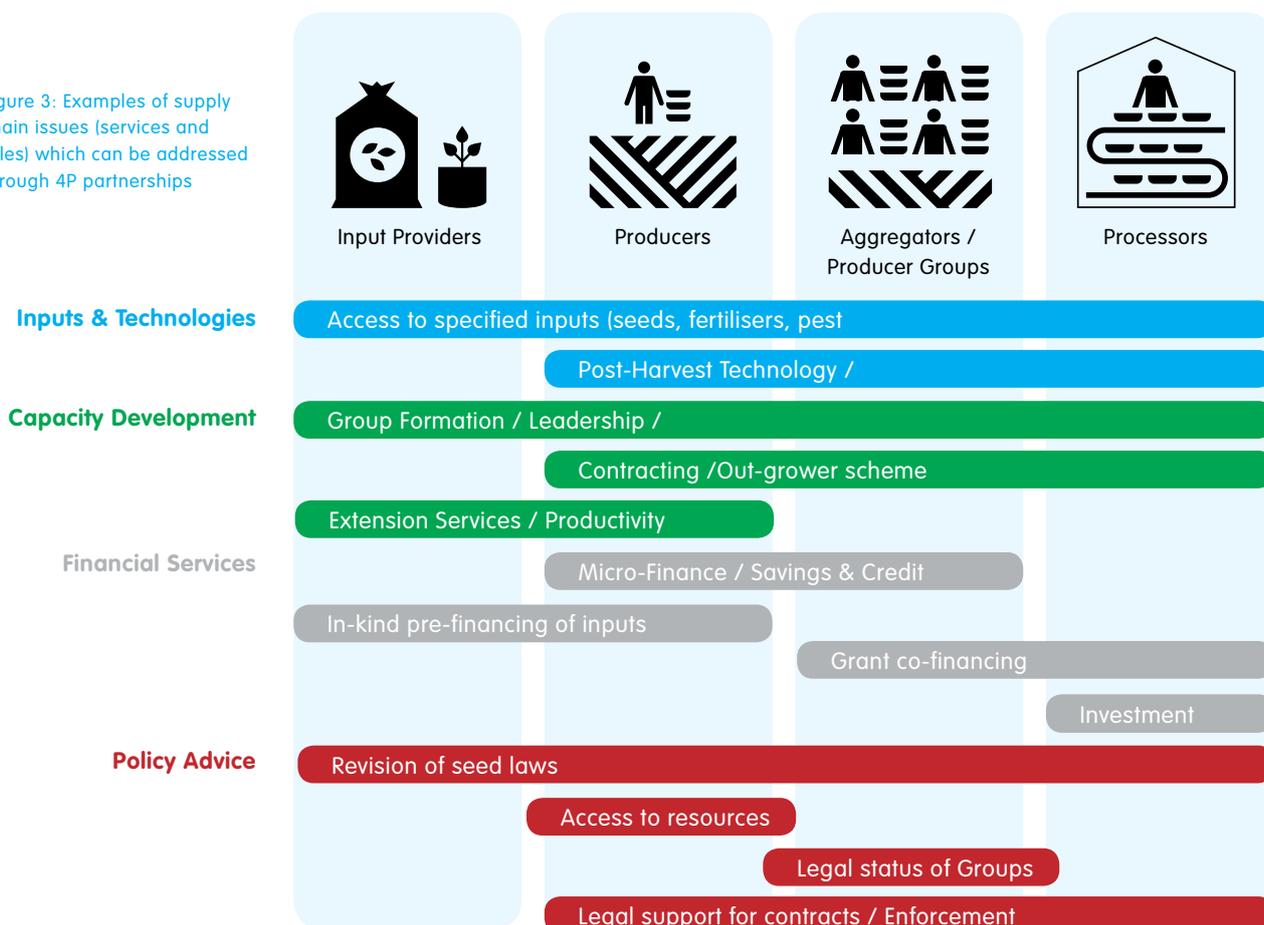
<sup>1</sup> The PPPLab is a four-year action research and joint learning & support initiative (2014-2018) to learn about the relevance, effectiveness and quality of Dutch supported public-private partnerships (PPPs). For more information see [www.ppplab.org](http://www.ppplab.org)

## 2.1.2 Common issues identified along the supply chain

From the 4P business cases in the five project countries a number of development issues have been identified during the partnership business plan development which could be clustered among a number of themes or categories. These issues can be clustered around access to services (inputs and technologies), access to finance (micro-finance as well as SME finance), access to knowledge services or capacity building (especially on business management and leadership) and ability to influence the business enabling environment and policies. These issues are not only affecting producers but they also affect other stakeholders along the value chain. At the same time, the solutions to solving the issues can in many cases be identified through the 4P partnerships where one of the partner takes the responsibility to help solve the problem, or even combined. For example in the sunflower 4P business case with Ngetta Tropical Holding, the processing company Ngetta, is sourcing high quality seed materials from South Africa and distributes this to the smallholder partners while the IFAD funded VODP-2 project is funding capacity building services for the producer groups through service providers.

Figure 3 illustrates how a number of the issues concern multiple actors in the value chain and how through partnerships they can jointly find solutions, as with the example of Ngetta above. Another example is for instance the Betrimex coconut juice case in Vietnam where the company is supporting the producers with the contracting procedures and organic certification. The public sector is supporting that with technical and group management trainings. A third example is a business case from Senegal where a millet processing company, Alif Group, was helping a producer association to secure a micro-finance loan, by guaranteeing that they would purchase the raw materials. A last example is the use of matching grants, as we have seen in many business cases, where enterprises or cooperatives get a matching grant from the public partner to stimulate and trigger more investment and social inclusion as a financing condition for the 4P. A good example is the red-beans case with AgroProErick in El Salvador where the IFAD funded project supported the cooperative to expand and upgrade their ware-housing conditions which made them eligible to become suppliers to leading supermarkets in the country.

Figure 3: Examples of supply chain issues (services and rules) which can be addressed through 4P partnerships



## 2.1.3 Structure of the Supply Chain

From the different 4P business cases we have learned that the structure of the supply chain and the roles the different actors (enterprises, traders, agents, cooperatives, smallholders) play, affects the opportunities and design for a 4P. In this section we will discuss how different types or models of supply chain organisation influences the orientation of a 4P partnership and the win-win solutions which can be identified. Those win-win solutions are often found in making the supply chain relations more efficient in terms of aggregation or bulking or more effective in terms of access to services, finance, capacity development for improved business management, and policy influence for a better business enabling environment.

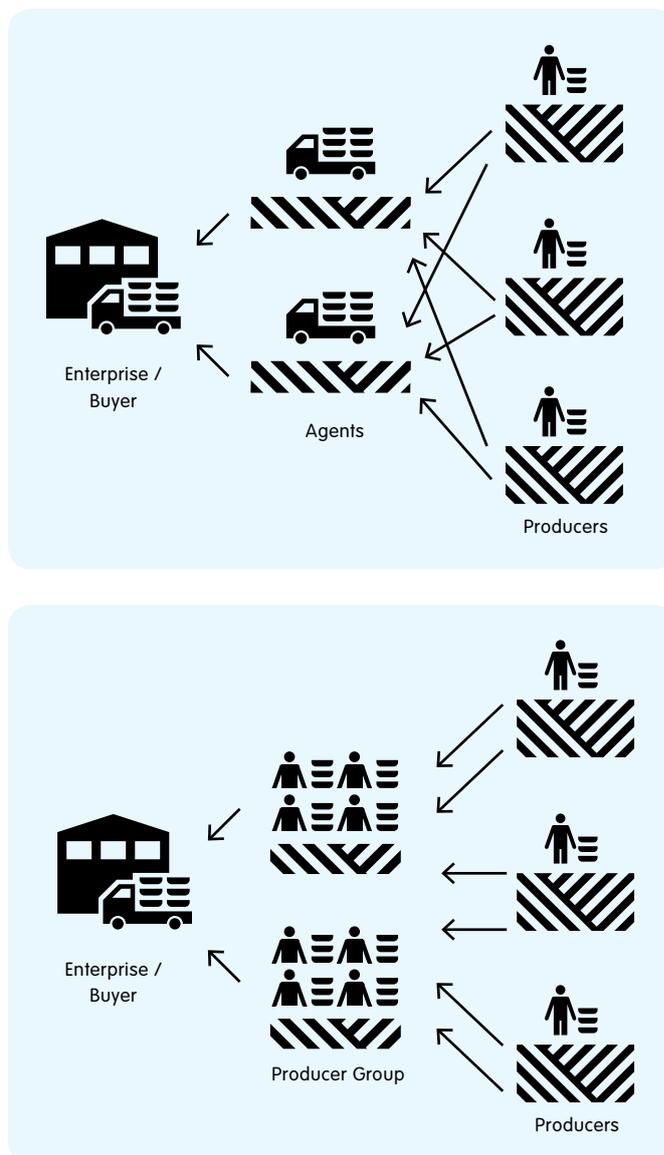
**Many agent-buyers and many producers in weakly formalised markets.** In most supply chains, we observe that there is a relatively large amount of (informal) buyers or agents sourcing from an even larger amount of unorganised smallholder farmers. See figure 4 - top. This leads to short term decision-making behaviour. Producers are not confident if they will find a buyer, and buyers face challenges to fulfil their demand. This leads to situations where market players are hesitant to invest in productivity improvements or supply chain arrangements as there is too much uncertainty and risk of loss-making.

Processors try to connect to producers by providing services like seed supply but are at the same time often frustrated about weak enforcement of contractual obligations when producers do not sell in return or do not pay back the investment costs, creating distrust between the parties.

In markets where there are both many agent-buyers and many producers, processors outsource the sourcing of raw materials to these agents as it is not the core business of the processors. This model is not favoured by smallholders as the relationships with agents are often poor, built on distrust and often result in lower prices for their production as the processor (partly) calculates these costs in the buying price. It is also generally not favoured by the private sector who see it as the next best alternative. It is not favoured because it quickly becomes more about volumes than quality.

In SNVs experience a 4P offers an opportunity to embed the aggregation, bulking and trading in a producer

Figure 4: From agent-led to producer group-led aggregation as opportunity for 4P

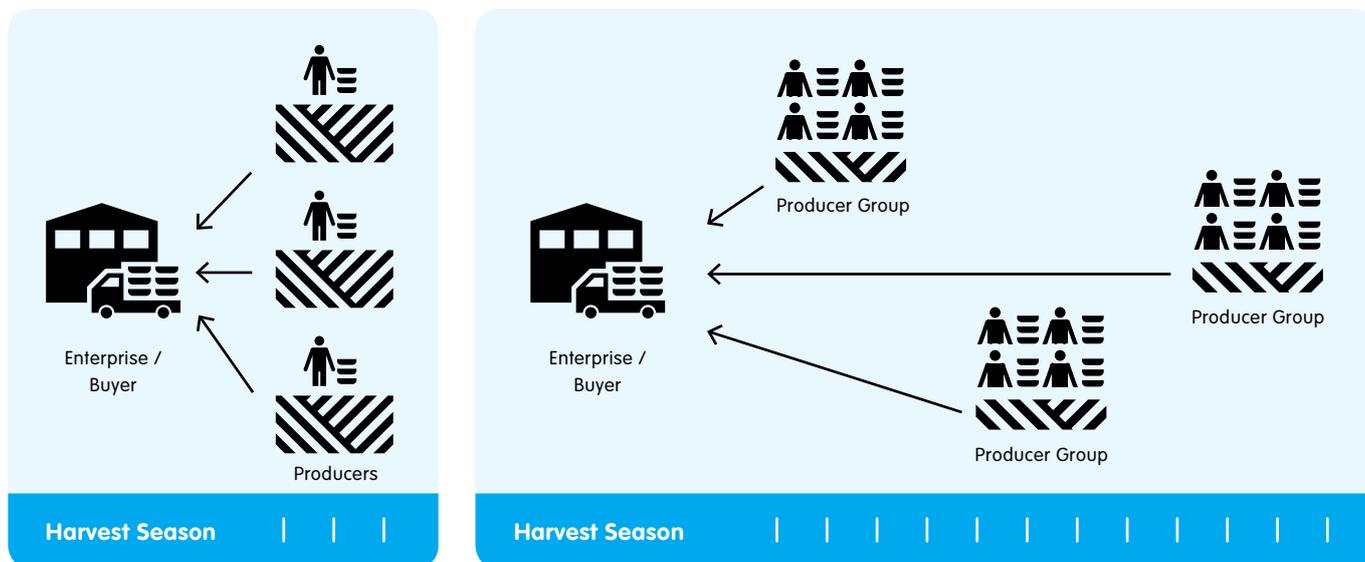


organisation, like pictured in figure 4 – bottom.

A pre-requisite is that the smallholders need a high level of organisation to take over the role of aggregator and agent. Farming as a business though is difficult for many smallholders. It requires good leadership, correct incentives and the producer organisations need to adhere to good governance principles. To establish these capacities takes a rather lengthy period of time and intensive facilitation, coaching and mentoring by a 4P broker.

The 4P case with AgriNet, an animal food processor, in Uganda is a case where the enterprise is transforming to a sourcing and contracting system with soybean producer groups. These producer groups are supported by the IFAD/Government VODP-2 programme and through the 4P partnership sustainably linked into the supply chain of AgriNet.

Figure 5: Spreading of fresh material flows, through better planning with producer groups



**One buyer with a large number of smallholders.**

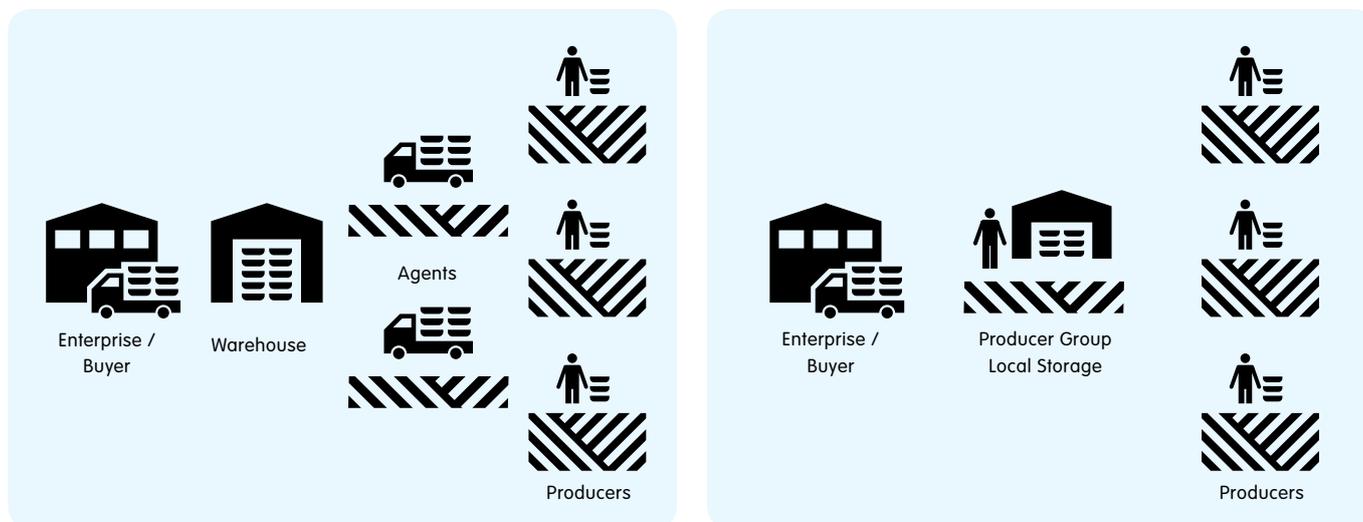
In a number of value chains, the position of smallholders is weak due the fact that they all harvest at the same moment and there is limited processing capacity. As a result, prices drop during harvest times and buyers fully control the price setting. (See figure 5 - left) This is especially the case with one-time-per-season harvests which need to be processed rather quickly. Cassava is a good example of that.

SNV experience demonstrates that in these situations 4P opportunities can be identified by improving the planning and timing of the planting and harvesting seasons with the producers. As illustrated in figure 5 - right.

For less perishable crops like grains or beans, storage capacity at producer and enterprise level is very often a limiting factor. Often there is only one (or a few) large warehouse and during peak harvest times producers are in a weak position to store and negotiate a good price (figure 6 on the left). An option here is to invest in decentralised storage of raw materials. The producers themselves become responsible for aggregation and local storage and the enterprise organises collection and transport whenever the local storage is filled or when they need raw materials for processing (figure 6 on the right). This reduces the search and transport (often through agents) costs for the enterprise. A precondition for this model to work is to have clear and detailed sourcing contracts that describe at what moment the ownership of the raw materials transfers from the producers to the enterprise and when payments happen.

One of the 4P cases is a cassava case in central Vietnam where the producers have little option but to supply to one factory as the next factory is too far away and transport costs is a deciding factor. The processing of cassava requires freshly harvested cassava root, there is a good opportunity for the processors and farmers to work together to time the season and harvesting. This allows for more stable prices for the roots as a result of harvesting time sequencing as well as a longer processing season allowing the processor to increase the efficiency of the installed capacity.

Figure 6: Bringing enterprises and producers together through shared storage responsibilities



**A limited group of producers around a single buyer.**

These situations occur in supply arrangements with strict quality conditions like organic or fair-trade products. Production becomes more specialised and the processor needs to establish a quality based supply and therefore a strong partnership with the smallholders. Organic, fair trade or niche markets require strict compliance at producer level which may be beyond the current capacity of producer groups.

Experience of SNV shows that 4P partnerships can be possible in these value chains. They require a lot of investment in the capacity building of the producers to adhere to the strict conditions set by the buyers as well as chain governance in which enforcement of the rules and regulations is possible.

**The nature of the raw materials.** The options for partnerships and the types of partnerships are partly determined by the nature of the raw materials. Opportunities for 4Ps are best in those situations where there is an equal distribution of negotiation power between the enterprise and the smallholders. The most influential factor is the difference between perishable and storable goods. There are good 4P opportunities in perishable goods as they depend on good and timely planning (in order to avoid waste and spoilage) which requires cooperation and coordination between enterprises and smallholders.

**Balance of supply and demand.** The balance between supply and demand influences the possibilities for partnerships as this influences the negotiation power between the parties.

In a market with over-supply, there is little incentive for the enterprises to engage in partnerships as it is very easy for them to find enough raw materials in the market at a relatively low price. Similarly, in a market with under-supply this can shift the power balance to the producers as they can choose who to sell to.

In most of the Partnering for Value 4P cases there is an unmet demand of high quality produce and an over-supply of low quality produce co-exist. Working on this level of detail is a very good opportunity for 4P partnerships as such partnerships can focus on transforming and professionalising smallholder production. The 4P can develop services (public and private) that help producers improve the quality of their produce and therefore increase their access to a particular market. A condition for this is that a grading system exists (or is introduced) along the supply chain which provides higher prices for higher quality of produce.

*In the Betrimex coconut case in Vietnam the company, a coconut juice processing enterprise, together with local authorities, is re-training smallholder producers into certified organic coconut producers. The partnership is working because there is very good integration and collaboration between the buyers and the smallholders. The company provides attractive price incentives for certified production. Transparency and accountability needs to be high along the entire supply chain as traceability is a requirement. The Betrimex coconut case is an interesting but rather exceptional case in the range of 4P partnerships.*

**Price versus stability.** The most common complaints between enterprises and producers relate to price negotiations; producers consider the price offered by the buyers too low and buyers consider the price asked by producers unrealistic.

Practice learns that poor producers are often cash-strapped and feel under pressure to sell quickly to the highest bidder at that moment, as they have urgent household expenses like school fees or medical bills that need to be settled. During in-depth talks with more mature producer groups however, when given the choice between long term security and a high price, the vast majority prefers long term security as this provides incentives for production surpluses for the market.

SNV experience shows that a lot of effort needs to go to supporting producers and producer organisations in calculating their production costs and profit as well as keeping records. This does not change the short-term price seeking at once and through a number of seasons the producers need to be supported and reminded on profit vs price and certainty of relationship. Introducing a farm record system combined with detailed sourcing agreements takes a minimum of three years of close guidance of the broker to be successful.

In the Petacones cheese case in El Salvador the enterprise, cooperative and public sector are working together to improve the fresh milk cold chain by installing local, group based, milk-cooling tanks where the individual farmers can deliver their milk twice a day. The group takes responsibility for safe handling and storage of the milk. The enterprise collects the milk every two days and does sample testing of the quality before it is used for processing into cheese. Before the cooling tanks were installed, the farmers could only sell their milk individually to the local market.

**Exclusivity, choice and the issues of side-selling.**

A complicated issue which partly has to do with the way the market is organised is the issue of exclusivity and side-selling. Enterprises complain a lot that producers brake the agreements and side-sell to others, which producers complain that enterprises are not paying a fair price. This is one of the most complex issues to address when shaping and negotiating a 4P agreement. From most cases we learn that producers do not like to be locked into exclusive agreements, unless there

is high level of existing trust between the producers and the buyers. At the same time, we have also seen in a number of cases that producers or producer organisations over-commit how much they can supply as they have no capacity to predict and plan how much they can produce. We came across producer groups who easily committed to supply an amount of grain that they never had produced before. On the other hand, we have also come across enterprises who are offering prices below the going market rate, upsetting farmers and triggering side-selling.

A few elements are important here which are also highlighted in the box below. Essential is an open and transparent direct communication between the enterprise and the producers / producer organisation. Equally we recommend that an agreement should not entail a fixed price before the season but rather describe a mechanism how the price is determined and mutually agreed. Another way of dealing with price fluctuations is to work with so called first-buyer choice agreements where the producer group has the obligation to offer the produce first to the partner buyer. Only if both parties cannot come to a purchase agreement, the producers are free to sell to other interested buyers.

In case the enterprise provides inputs as deferred payments, the communication should be clear enough about the cost of these inputs, the price offered for the produce and the way the input costs are balanced with the payment for the produce.

In any way, the partnership, over time, will need to develop a discipline that an agreement is an agreement which should be respected. Producers should not over-commit and at the same time be free and flexible to have multiple agreements with multiple buyers for agreed volumes while being able to sell remaining volumes to others.

## Side selling, a long-term problem or temporary behaviour?

For a 4P to function well, the partnership needs to be built in a consultative manner based on mutual trust, backed by a formalised agreement and supported by a conducive enabling environment which stimulates partnerships and provides mechanisms that enforce agreements and settle disputes. A common issue mentioned is the occurrence of so called side-selling to other buyers, a potential “killer” for partnerships of which producers usually get the blame. For a 4P to be successful it is important to understand what needs to be done to avoid side-selling becoming an insurmountable challenge. It is clear that trust has to be built, combined with willingness to understand each other’s interests but also to communicate better about expectations and to build in mechanisms to hold each other accountable. Simply forbidding or banning side-selling through regulation will not bring the desired effect.

### **Building partnerships based on mutual trust**

In order to reduce side selling by smallholders, the 4P broker has to invest in trust building. Discussions need to be facilitated during which the partners explain to each other why and how they need each other in the long run.

### **Start small and grow**

For a partnership between enterprises and producers to develop, it is important to start small and allow a test phase in which the conditions can be tested, jointly reviewed and improved or re-negotiated. Do not force producers to sell more than they want to as part of the 4P. Producers often do not like to depend on only one buyer as they prefer to spread their risks. It is recommended to discuss and agree on a certain percentage of production they would like to sell to the company. It is important to do careful planning, ensure commitment and to agree on risk mitigating measures in cases of failed harvest.

### **Communication is key**

Partnerships are generally doing fine till the actual day or timeframe of selling. At that moment, clear and transparent communication is needed on how buying will take place and how the price is set and for how long.

### **Price-setting and cost deductions**

It is important is that producers have the feeling they get a good, market conform, price and that there is enough transparency about the calculation of the price and re-payments of inputs which were supplied on credit. This involves using scales (or other ways of measurement) that are formally approved by the relevant bureau of standards.

### **Detailed agreements**

Detailed terms and conditions need to be documented and explained in understandable language. All conditions from inputs, production, processing to trade need to be clearly described in as much detail as possible. This includes seed variety but also payment terms, day of collection, buying points, timeframes, buying frequency etc.

### **Local legislation**

The private sector is hesitant to start a partnership if local legislation does not enforce compliance with agreements, especially in terms of side-selling and recovering investments made in inputs and/or post-harvest storage. It is important to ensure that the local public sector is involved (instead of the broker) in the formulation of the agreement and that they understand their role and responsibility in this.

## 2.1.4 Geographical location

A number of issues identified in during the development of the 4P business cases and their possible solutions are influenced by the geographical location, especially of the producers. Some of the the key issues are highlighted in this paragraph.

### **Access to inputs and the opportunity for input shops.**

One of the key issues identified in the 4P business cases is a lack of reliable and good quality inputs (seeds, fertilisers, pest & disease control materials, tools etc.). A solution often thought of is to establish regular input supply through small village based shops. However, in our experience, this is not always a workable solution as this depends very much on the geographic location where the producers live. In remote, low population density areas, it is often not (yet) feasible to set up shops as there is not enough demand and supply to run a viable business on it. In these situations it appears to be a lot more viable to develop a model where the buying enterprise also takes responsibility for the input supply. In the Ngetta sunflower case in Uganda, the Betrimex Coconut case in Vietnam and the JFS case in Mozambique this model was developed as in each of these cases there was no viable option to set up commercially viable input shops yet.

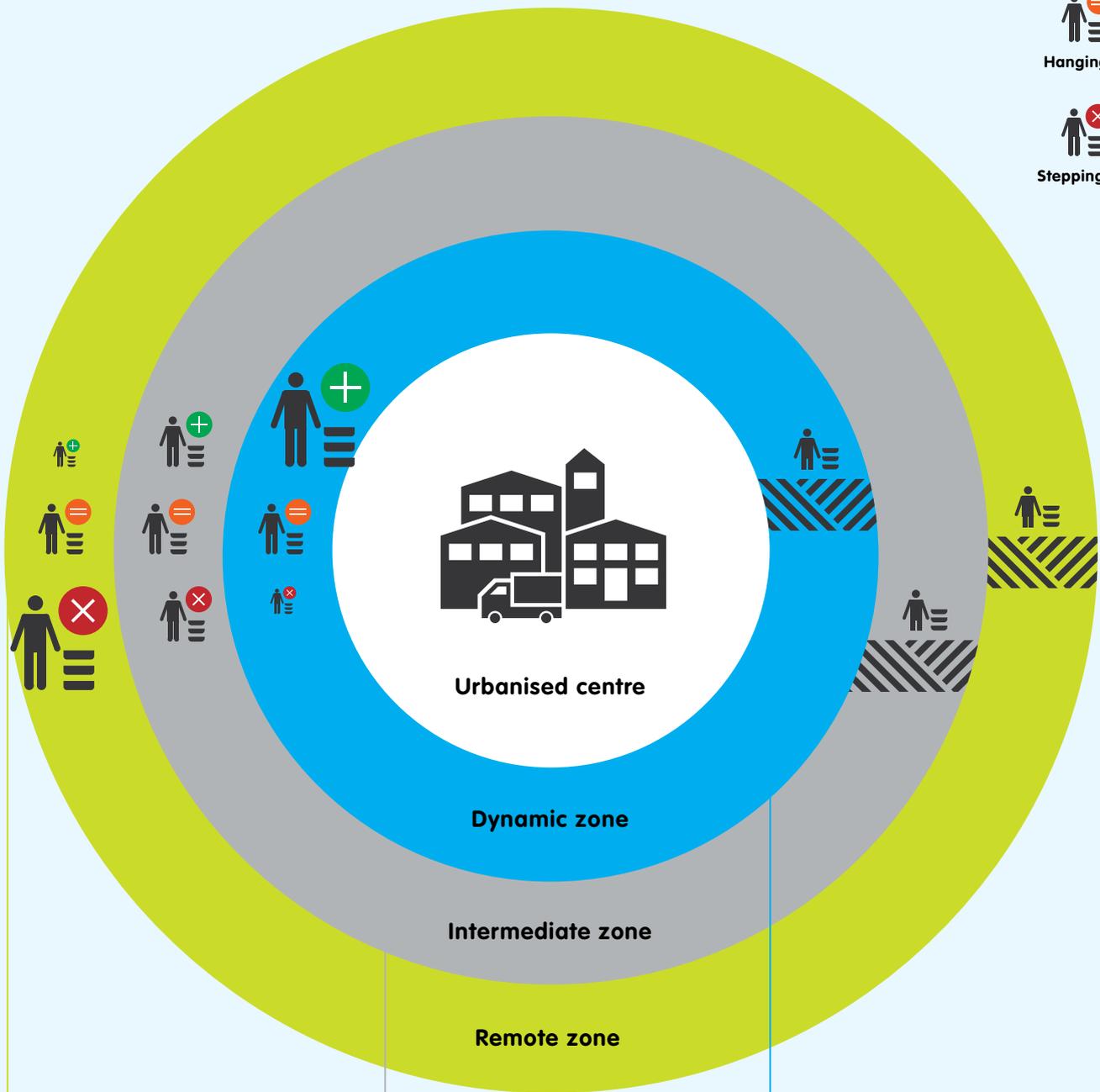
**Entrepreneurial spirit of smallholders and group management capacities.** A second key issue influenced by geographical location is the level of entrepreneurial skills and experience of smallholders and producer groups. More remote living farmers tend to be still more dependent on a traditional partial self-sufficiency farming system which produces irregular and unpredictable levels of tradable surpluses. These surpluses are in most cases also not in line with the required quality standards. In these remote locations, there are mostly also very few (formal) established enterprises. In most cases they are served by informal traders with a rather poor business reputation. While offering good opportunities for 4P partnerships through a focus on professionalising smallholder farming and direct relationship building with enterprises, a strong focus is needed in these situation on the business management skills development besides the technical upgrading.

**Value chain choices.** The geographic location, in most cases, has a strong influence on the best value chains to select of the 4P business cases. This is of course also influenced by the proximity of the (processing) enterprises. In most remote situations, logistics are a challenge and therefore the value chain choice should rather be on non-perishable crops and commodities like grains, oil-seeds, coffee etc. Like in Senegal, Mozambique and Uganda where millet, soybean, sunflower and sesame were selected as crops to work with. In some cases though the processing enterprise was close to the producers which made it possible to work with perishable produce like the milk case in El Salvador or the cassava case in Vietnam.

The influence of the geographical location on the success of 4P partnerships is very well explained by DFID's Conceptual Framework on Agriculture. In this framework, poor farmers either need to professionalise (**stepping-up**) or leave agriculture and find employment in another sector (**stepping-out**) to improve their economic situation. Some farmers will need temporary support for a phase 'in-between' (**hanging-in**), which ensures food and nutrition security until they can demonstrate that they are capable to step-up or until opportunities emerge for them to step-out .

The opportunities for stepping-up not only depend on farmer's own capacities but also on their geographical location and the market conditions there. DFID distinguishes three market zones (dynamic, intermediate and remote). When closer to towns, there is often much better infrastructure, the population density is higher, electricity is present, there are more services available, etc. These factors enable smallholders to professionalise. Remote areas are economically less interesting for enterprises to operate in, as economies of scale are not favourable or certain pre-conditions for business are not present, such as good infrastructure.

Figure 7: Different 4P options in different geographical zones



**Remote zone**

- Poor infrastructure
- Low population density
- Low number of economically active farmers
- Traders are not willing to invest in this area and only source through local intermediary companies

**4P Opportunity**

- Support (existing) intermediate local companies who source from smallholders and aggregate to supply to traders
- Financing through the intermediary companies for access to improved inputs
- Cash Flow Support for the companies

**Intermediate zone**

- Reasonable market infrastructure
- Medium population density
- Growing number of economically active farmers
- Traders are interested to source from this area or source through agents

**4P Opportunity**

- Strengthen Smallholder Owned Cooperatives to become more entrepreneurial
- Smallholder Aggregation
- Sourcing Agreements with Traders
- Group-Financing with off-take agreements as collateral
- Savings and credit systems operated by group

**Dynamic zone**

- Good market infrastructure
- High Population Density
- High number of economically active smallholders
- High number of traders who source directly from larger farms or through agents

**No real 4P Opportunity**

- Work with traders to raise their interest to expand their sourcing from other zones

## 2.1.5 Type of producers and producer organisations

The aim of the 4P approach is to bring producers as equal partners into the arrangement, in many cases represented by some form of producer organisation. In different countries, there are different producer organisations with different names and labels; farmer cooperatives, federations, unions, associations or groups. Though the naming is of secondary importance, we have learned that the level of formality and professionalization of the group is of utmost importance to the success of the 4P.

As mentioned earlier in the paper, key requirement of producers and producer groups is that they have to be a market driven entrepreneurial group which embraces market principles and is bankable.

### Working with those groups and members who have an entrepreneurial spirit

In many situations, smallholder producers are in a transition from subsistence farming to producing a surplus or a commodity for the market. Even when they are commodity farming, like with coffee or coconuts, they mostly do not put all their efforts into this as they also maintain a small family farm to produce food for the family. Seldom do they have the confidence to focus only on their commodity and use the profits to secure their living. This is not only economically driven but also culturally influenced. A farmer is often expected to produce for his family first.

When starting to produce for the market, it is no longer only the farmer knowledge that counts for the production, but more importantly the market defines qualities that determine the production methods used. This means that producers have to update their knowledge, specialise and optimise productivity in order to earn a profit. They need to be able to access market information, understand the opportunities and meet them. For a farmer to invest in upscaling their production, they need certainty whether there will be a buyer and a good price and certainty over production means (land, technology, capital and labour) and services (extension, credit etc.).

Understandably, this is a complex situation of change which needs to be analysed at the start and correctly guided throughout the 4P arrangement to ensure that the producers can deliver what the buyers expect and only to work with those who show willingness and readiness to make the transition to professional farming.

An example where local government and farmers have made the switch to entrepreneurial farming is coconut case in South-Vietnam, led by the Betrimex enterprise. Here, the farmers are professional coconut farmers working with high-yielding, modern varieties. In the 4P business case they are making the transformation to organic production where the public sector is transforming and providing the required extension services, the private sector facilitates the transition with the required inputs and gives price incentives and a buying guarantee.

### Matching the right producers to the right enterprise

One of the hurdles mentioned by businesses in working with producer groups is their legal registration. In the case of traders, you can sign a contract with them and take them to court in the worst-case scenario. With a producer group, this is often a lot more complicated. It is often not clear who their legal representatives are and whether they really represent what the members want.

Enterprises have little skill or expertise to work with producer groups, or even have had negative experiences and suffered losses. A 4P can help to increase their understanding about smallholders and raise their willingness to work directly with producer groups, even to invest in the producer groups. For this to work the legal registration of the groups will be a prerequisite.

### Best practise to start and organised groups

By and large we see two ways in which groups are organised. Either they are people grouped together because they fit a similar income profile or they are grouped together because they are living in the same administrative/geographical unit and produce the same crop. The first are often groups that are set-up for social and economic support in projects which focus on savings and credit. The second are often production cooperatives.

The PAFA programme in Senegal, formed Value Chain Coordination Committees (CNIF). These platforms of enterprises and producer groups coordinate and support activities along the supply chain. An important role they play is in the facilitation and management of contract farming arrangements where they monitor the adherence to the agreement and can settle conflict where needed.

The crucial element influencing 4P success is the way the groups are formed. Many groups are formed by donors or government and not out of a need identified by the members themselves. For most of these groups this eventually results in a lack of cohesion. The leadership of the group needs to be entrepreneurial, transparent and accountable to the group. Moreover, leadership has to truly represent the group and not use the group as a vehicle to push their own interest.

For this, three conditions, on which the groups should be screened, need to be met:

- The group needs to have an entrepreneurial group spirit. Moreover, they should become aware of the basic requirements for and benefits of trust, transparency, accountability and self-auditing for the group;
- To shift from cultural or traditional leadership selection towards selection of leaders based on merit;
- A support programme needs to be set up which trains future leaders and group members on entrepreneurial skills, leadership skills, etc.

Part of the support could be provided by enterprises, as they can share some of their management experience with the groups.

### Groups should include poor as well as non-poor producers

The best groups are those groups who have evidence of sales made to buyers and have good leadership. Mostly these groups are composed of already more advanced farmers and not the poorest farmers. The best performing Partnering for Value 4P business cases are those where the producer groups are composed of a mix of poor and non-poor households. This mix gives confidence to the private partner as the non-poor demonstrate better understanding on how markets function and are often the ones involved in the negotiation and engagement process. At the same time, including the poor gives them a necessary boost to make the shift towards producing for the market as they can learn from their better of peers.

### Producers as co-owners and co-investors in the 4P

It is often argued that true partnerships, whether it is a 4P, a 3P or an Inclusive Business arrangement, is only reached when each partner makes financial investments in the partnership. This increases the feeling of responsibility and ownership of all partners. To increase their feeling of responsibility and ownership farmer organisations and smallholders should financially invest in the partnership. Ideally not only an in-kind contribution but also a cash contribution through investing in increased quality or quantity of production and post-harvest treatment.

## 2.1.6 Other contextual factors influencing 4P business case development

Among the five countries that were part of the Partnering for Value project, there are big differences in the starting points for 4Ps. The political situation, the legal situation, the development history of a country, among others all influence 4P development. This diversity adds to the complexity to develop a 4P in a standardized way across a range of projects and programmes. An awareness of the local context (current and historical) should be taken into account when assessing the potential for a sustainable 4P partnership.

**Political stability.** Political instability in a country may impede private sector's willingness to take (long-term) risks and therefore their willingness to invest. In such cases, 4P models need to focus more on relationship building and surplus trading rather than big investments in cash commodities or agro-processing with high demands on food safety and hygiene. It is important to analyse the willingness of enterprises to invest and to build on that in the first place. Introducing co-investment through matching-grants or a risk facility can motivate the private sector to make a commitment for an investment.

In Northern Uganda, a region still recovering from the civil war, farmers are enthusiastic about producing sesame as it is both a food and a cash crop. The 4P case under implementation focuses on trading of the predicted surpluses. Producers groups are asked to estimate and commit to how much surplus they can trade and OLAM as buyers has committed to purchasing this. OLAM has also committed to small scale investments in local post-harvest storage to build trust and confidence with the producer groups.

**Legal Basis and Resource Ownership.** The legal status (and registration processes) of producer organisations, businesses, land tenure rights of smallholders and access to resources heavily influence the development of 4P cases. Where the legal status is uncertain, either because the process of becoming registered is too complex or because the actual status itself is unclear, participants will not be willing to invest in long term opportunities or high-risk ventures as the risk of losing is then perceived too high. 4P cases should in such cases be built along rather quick turn-over transactions along short supply chains. Direct sourcing with short communication lines, annual crops, low-external input use crops etc. are important elements to consider here.

### **National Agricultural Strategies for smallholder farming.**

In their national agricultural strategies, countries have different views on agriculture. Some still see it as subsistence farming while others see it from the 'farming as a business' perspective. These different perspectives have a big impact on how public support services are designed. Ideally, a 4P should work with those farmers and government actors who have the perspective of farming as a business.

**Historical trends.** Relevant historical events need to be mapped and understood in order to bring certain reservations or hesitance into the right perspective. Interviews with village elders (both men and women), business owners who have handed over to their children, retired government officials etc. can bring about many details from the past which influence present day sentiments and decision making.

To be able to shape 4P arrangements it is important to understand the current market situation and history. This determines also the type of message and level of dialogue needed to explain expectations to each other and define expectations at the right level.

In a sunflower seed business case with Ngetta Tropical Holdings in Uganda, we spoke with a producer group who were very fearful of losing control over their group through top-down group formation, as was the case with many development programmes who set-up large producer cooperatives. When going into detail, it turned out that the group members had previously been involved in failed state-controlled cotton production cooperatives and had lost their confidence in such organisational form. Now they have formed a much smaller group themselves, based on self-selection and performance of the members, slowly expanding with new members who show the same interest and commitment.

**Private sector dynamics.** The history of the private sector is important to understand as it influences the possibilities for partnerships. State-owned enterprises had less focus on quality. When more commercial oriented private enterprises replace them in the market, producers have to be made aware on the changes in the demand for quality.

## 2.2 Determining Factors for the Design of a 4P

In many situations, the private sector is still relatively young and the value chain immature showing opportunistic behaviour. This creates a restless and tense situation resulting in a race-to-the-bottom for raw materials. Though interesting in the short run for producers, it comes with high levels of price fluctuations and little prospects of long term partnership building as price-seeking and side-selling instances are high. There can also be situations where there is great loyalty and trust between producers and enterprises, for instance because the enterprise remained during a conflict or civil war. This can be an excellent platform to build a 4P from.

The Petacones Chees factory in El Salvador, has been in existence for over 80 years. During the civil war, it built up great loyalty with the dairy cooperatives who are loyal providers of fresh milk. This is similar to the 4P with the company JFS in Mozambique, a 100-year-old company, specialised in cotton ginning, who have remained during the civil war and are now expanding into new value chains like sesame, building on their good reputation with the farming communities.

**Climate change, resilience and adaptation.** Many of the areas where the poor are living are threatened by the effects of climate change. A good understanding of the current risks, levels of resilience and possible adaptation measures is needed in order to inform the 4P partners on the best development scenarios.

Climate smart agriculture technologies need to be introduced. These can be new and better varieties, soil management technologies but also good communication between producers and enterprises when there are risks of adverse weather conditions which may threaten the production season or harvests.

In a 4P cassava case in Quang Binh Vietnam the processing enterprise and the producer groups jointly decided to harvest the cassava earlier than planned when a cyclone threatened the area. This resulted in the producers saving their production and the processor could continue operations.

To set up a successful 4P there are a number of determining factors for which a due diligence should be done during the design process of the 4P.

- Market: An unmet market demand for a specific quality of output co-existing with an existing producer practise which does not yet meet these specific quality indicators;
- Producers: An entrepreneurial spirit, considering their farm as a for-profit operation;
- Producer organisations: Be able to act as an enterprise, with clear accountability and transparency to its paying members;
- Public sector: Be able to work with and think as the private sector. Understand how they make decisions based on opportunities and not on compliance protocols. Be held accountable and provide the enabling environment;
- Private sector: Need to operate as a formal business with an auditable management system, and be ready to understand and work with smallholders;
- Financial sector: Ready to invest in agriculture and/or in SMEs and producer organisations.

## 2.2.1 Selecting the private sector actors

Identifying and selecting the right partners is a specific role and strength of 4P brokers who should screen them against a set of pre-determined eligibility criteria. These eligibility criteria will depend on the objectives and specifics of the project. Mostly they include a least:

- Companies that demonstrate willingness to source from smallholders;
- Companies have an established track record and are profit making;
- Companies and producers are willing to co-invest their own resources;
- Producers demonstrate they are capable to produce significant surpluses.

Often there are also specific eligibility criteria with a focus on women, youth, innovations etc.

Each time the list of eligibility criteria need to be developed and agreed between the public partner and the business case broker.

**Mapping the enterprises in the project area.** The first step is to map out the existing enterprises in the area or sourcing from the area.

**Listening to the concerns of the enterprises.** Understand the markets of the enterprises. This will clarify the way they choose to engage with producers.

**Testing commitment to try and explore a new business model.** To change to a new business model, or strengthen an existing one, can be seen as a high risk. In agri-business profit margins are often not high and there is not always a big appetite for change. Start small and plan a road ahead to expand or scale up.

**Offer to invest in their management capacity as well.** It takes capacity on the side of the private sector to work with smallholder farmers as business partners. A trustful, long-term relationship can only be built when a business is willing and makes effort to understand the realities and conditions smallholder farmers work in and adjust his business strategy to that. This requires training and capacity building on the side of the business as well. and conditions smallholder farmers work in and adjust his business strategy to that. This requires training and capacity building on the side of the business as well.

## 2.2.2 Selecting the producer partners

**Mapping the production areas.** The first step is to map the current production areas. If needed this can include a climate risk assessment to determine if (near) future production remains possible.

**Verify against the specifications set by the market.**

Identify the current production capacity vis-à-vis the quality described by the buying enterprises.

**Test commitment and representation.** A key factor is to assess whether the producers are willing to make and keep their commitment to be reliable suppliers. In many cases, the producer organisations representatives easily say yes. This needs to be verified and tested through records.

**Offer to invest in the business and management skills of the producers.** Producers not only need an improvement in production capacity but more important they need an investment in their business and management capacity. Only those willing to learn can be selected.

## 2.2.3 The role of the public partner

**Setting the eligibility criteria for 4P.** The public partner, from the start, has to set clear rules and regulations for funding the 4P partnerships, especially on the eligibility criteria, selection of the best 4P business cases and possibilities for (matching) funding.

**Providing accountable support.** By engaging in the partnership, the public partner also commits to providing timely and accountable support to the private and producer partners. This support can be financial support in the form of matching grants but more important also capacity development support in the form of trainings or other capacity building activities.

**Managing the partnership agreement.** The partnership agreement should include clear performance management milestones and reporting agreements. These are needed to be able to measure the performance of the partnership and to be accountable to each other. The partnering for value project has developed a 4P partnership scorecard for this.

## 2.3 4P checklist

A number of elements are important prerequisites for the 4P process. Without them being present, or established and carried out at the beginning of the 4P Business Case Development, the partnership implementation process becomes challenging later on, if not impossible.

- All partners should feel comfortable to be transparent towards each other. Partners have to understand each other's motivation and should be given the opportunity to clarify this to each other through participatory partnership development exercises.
- Due diligence is necessary among partners. Required checks and balances need to be done to ensure that all partners have the management capacity as well as the financial means to participate in the partnership.
- Ensure that the right partners are present at the table, also the relevant public partners. In the agricultural sector, often not one single public entity has the necessary decision-making power. The involvement of local governments, regional governments, ministries etc. can all be relevant. This needs to be well understood and coordinated to ensure that there is broad support for the partnership.
- Ensure that there is true representation. This is especially relevant for the producer groups. In most cases, the meetings will only happen with a small delegation of the producers. Feedback and support needs to be verified and validated. But this also holds for private and public partners for whom it needs to be ensured that representatives with the right authority are taking part and who have the backing of higher management levels.
- Partners need to show commitment in tangible ways, such as by having regular meetings and by visiting each other.
- Commitment can be further ensured if partners make concrete investments in each other; for example, by enterprises investing in trainings/seeds/materials for the farmers, and farmers investing in better knowledge application to enhance quality of production.
- Partnerships seeking growth will need to show commitment and willingness to go through a process of formalisation and commitment to each other. This is needed to establish trust between the partners and avoid monopolistic behaviour. The formalisation through recording business records, registration and agreement signing between partners is also needed when accessing finance.
- Partners need to agree that the partnerships are not based on exclusivity but rather on commitments to each other. Any partner should be allowed to engage with multiple other partners (for instance a producer group can have supply agreements with two or more buyers) as long as the agreements are transparent, based on realistic planning and target setting and on keeping mutually agreed commitments.

## Section 3:

# The added value of 4P Brokers

### Key Lesson

Enterprises often perceive working directly with smallholder producers as costly and inefficient. While smallholders often accuse enterprises of offering conditions and prices they cannot work with. The facilitating role of the broker is essential to establish trust between the partners.

### Purpose of this section

**To provide evidence on the added value of the broker for the establishment of more inclusive and effective pro-poor 4P arrangements.**

### Covered in this section

- **The roles of the broker in the partnering process**
- **The key characteristics of 4P brokers**
- **Embedding brokers in development projects**

### 3.1 Brokering as a participatory and consultative process

An IDS study for IFAD on 4Ps concluded “agricultural value chain PPPs are a variation on, rather than a radical departure from, other value chain approaches, bringing similar opportunities but also similar challenges”<sup>2</sup>. The key differentiator from 4P, as compared to wider known and used PPP is that producers are included as partner instead of merely seen as beneficiaries. However, these 4Ps do not emerge by itself. The new or ‘innovative’ element of the Partnering for Value project was to add an independent 4P brokering function, under the assumption that a brokering service would lead to better and more sustainable outcomes. In earlier set-ups, the development and facilitation of partnerships was mostly in the hands of the government-led project implementation units. The 4P brokering mechanism has been established and tested in five countries, to be able to learn and develop best practices on how to broker successful 4Ps in different contexts.

The brokering approach of the Partnering for Value project has been developed building on experiences from similar partnership initiatives and SNV’s experiences in Inclusive Business. A sustainable 4P business case and partnership needs to be brokered in a participatory and consultative process in which each partner takes part. The brokering process should be built on the principles of equity, transparency and mutual benefits.

SNV experience shows that brokering works best if it is seen and implemented as a demand-led approach. A broker needs to adopt a market driven approach to develop a 4P business case. The entry point is the market opportunity of the agri-business matched with suitable producers and the right public services. A broker needs to have a firm understanding of how agro-enterprises work and smallholder production systems.

The Partnering for Value project has demonstrated that all partners see the broker as a valuable contribution in building better partnerships. This role is not only key in bringing partners together, but also in being supportive during the initial production seasons when partners are starting to learn what it means to be in a partnership.

### 3.2 The Brokering Process in Steps

The broker facilitates the 4P partnership from inception through implementation in a number of steps. The broker is instrumental in identification and matchmaking of potential partnerships. Supports the drafting of a business plan, based on thorough market analysis and dialogue between the partners. The broker provides coaching and mentoring as well as supervision during implementation where partners have to establish their own capacities to work together.

The brokering process has been divided in 4 key steps of:

- **Identification and Matchmaking** in which the broker maps out the sector and the unmet market demand, identifies potential partners and supports them in the development of a concept 4P note and a possible matchmaking with other 4P partners;
- **Business Plan Development** in which the broker supports in-depth analysis around the business case (both quantitative and qualitative) and facilitates the development of a business plan by the 4P partners;
- **Implementation** in which the broker oversees partnership, coaches, mentors and contributes to capacity building of the partners;
- **Monitoring and Evaluation** in which the broker organises participatory reviews of the partnership on a seasonal basis. Evaluates how the previous season went, according to plan and facilitates planning for the next seasons with the partners.

The broker is a temporary actor in the 4P who establishes a partnership but should not be an inherent part of the partnership. Such a process takes a minimum of 3 to 5 years in which at least 3 agricultural seasons need to be implemented for partners to build up trust and the confidence to continue the partnership on their own.

The broker plays an essential role to change mind-sets of partners towards a more favourable smallholder – agro-enterprise relationship.

2) IDS, 2015, Brokering Development: Enabling Factors for Public-Private-Producer Partnerships in Agricultural Value Chains.

### 3.3 Core qualifications of the 4P broker

A specialist brokering service has added value when the broker has certain qualifications. From experience of Partnering for Value and the feedback received from the private, producer and public partners, several key characteristics of 4P brokers have been identified that contribute to the success of building a sustainable 4P partnership.

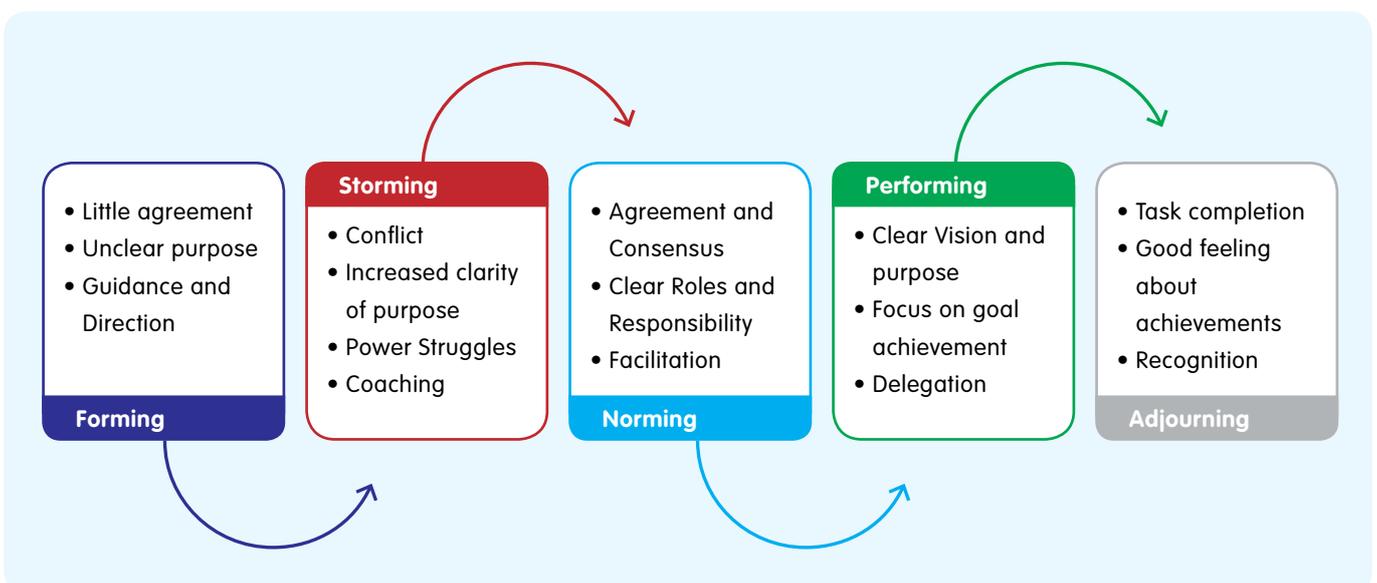
A 4P broker should be:

- A **connector** who can bring the right partners together;
- An **innovator** who can develop new ideas on how partners can work together and lobby for support by the partners of those ideas;
- A **strategist** who can develop different models or scenarios for the partnership;
- A **mirror** who can help the different partners to reflect on what is best for them and what to give to the partnership and what to get out of the partnership;
- A **clarifier** who can explain to the partners how markets function, how prices are made, how others think and work, etc.
- A **mediator** who can help manage tensions in the partnership and resolve conflict when it arises.

A 4P broker should NOT be:

- A **promiser of success** as success is not made by the broker but by the partners themselves;
- A **decision-maker** as these are taken by the partners themselves and not by the broker for the partners;
- A **defender** of the partnership at all cost. A broker should therefore keep a certain distance to the partnership and not feel the responsibility to solve individual problems of producers or other partners.

Figure 8: The stages of group formation according to Tuckman



### 3.4 The added value of a broker

Partnerships between smallholder producers and agro-enterprises are rarely established without external facilitation. For the partnership to work and perform both partners need to learn to understand each-others way of doing business and establish an open and transparent communication through which expectations and issues can be discussed. Lessons from the Partnering for Value Project indicate that the process cannot be rushed and that a broker is instrumental in establishing early trust which can be developed and strengthened as the partnership progresses.

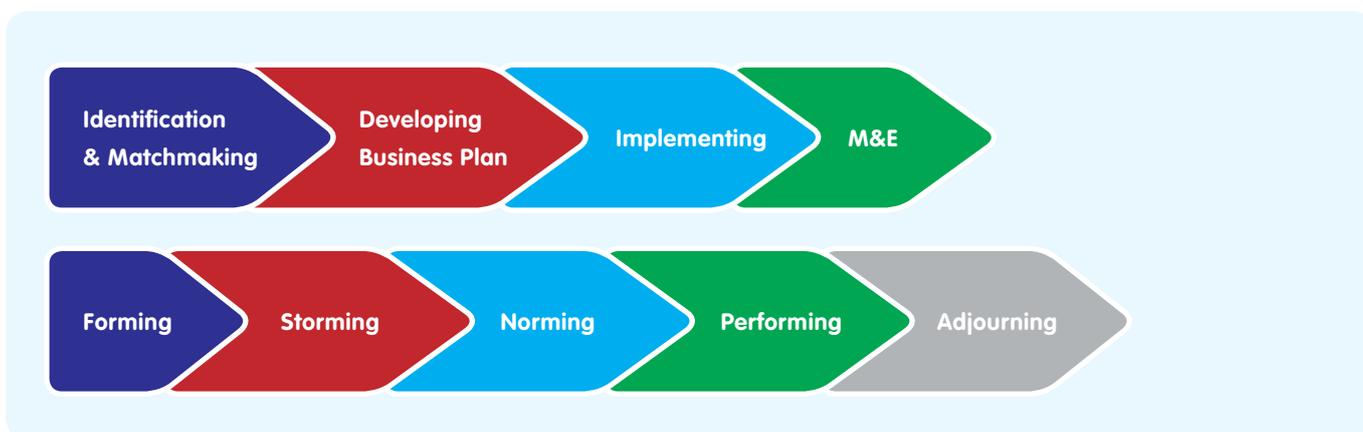
A key element in that is the partnership formation process which shows many similarities with group or team formation process<sup>4</sup>. Especially during the early stages, but also later during implementation and seasonal reviews there are significant risks that partners are not satisfied with the process or results and threaten or decide to leave the partnership.

Keeping the team development stages in mind the broker can focus on building trust at the right moments and steer the partnership through its difficult moments into a well-functioning arrangement between producers and enterprises.

Enough time and resources should be given to the first two steps on the 4P arrangement, identification and matchmaking and developing the business plan and to avoid rushing into implementation before the partners are truly committed to work with each other.

Bringing and keeping the partnership together is the real added value of the broker. In order to be able to do this the broker not only needs to have the right facilitation qualifications as highlighted in the previous paragraph but also need to be business savvy, have knowledge about smallholder agriculture in value chains and the ways of working of local and national governments.

Figure 9: Comparing the stages of group formation with the 4P brokering process



4) Based on the Tuckman Stages as developed by Bruce Wayne Tuckman in the 1960's and 1970's

## Section 4:

# 4P in the Context of IFAD Investment Projects

### Key Lesson

4Ps as a locally implemented approach through national governments needs strong inclusion of local (sub-national) governments as public partners. It also needs a vision on sustainability post-project by capacity building for public institutions on the way markets function and how market players think and act different from public services.

### Purpose of this section

To analyse how the 4P, as a brokered approach, fits within a rural development or value chain development project and to analyse what the role of the public sector, the key implementing partner of IFAD could be in implementing 4P. Not only as a public financier of 4P but also as a capacity builder and enabling environment regulator.

### Covered in this section

- 4P in a rural development project setting
- 4P in a value chain setting project setting
- The public partner at national and sub-national levels
- Financing of 4P

## 4.1 Positioning 4Ps in different types of IFAD projects

To IFAD, the concept of 4P is not new as it has been experimented with for a number of years in different projects and contexts. IFAD promotes 4Ps as a more systematic way of working with the private sector through the projects it supports. In this way, IFAD promotes this unique approach to global stakeholders, partners and clients as partnerships that enhance the well-being of small-scale producers.

The Partnering for Value Project was, as a grant project, aligned with a number of ongoing IFAD investment projects, implemented by the receiving national governments. In the five countries the Partnering for Value Project worked with either Rural Development Projects (with a more geographical focus like in El Salvador, Mozambique and Vietnam, where there was an additional Climate Smart focus) or Value Chain Projects (with a crop or commodity focus, like in Senegal and Uganda)<sup>4</sup>. In both project environments 4P business cases were identified and brokered. This provides a good insight on how the 4P brokering approach can be positioned and how different project components need to be well aligned in order to facilitate partnerships. This was done taking into account that in new project the 4P approach could be included as a project approach and that projects will work around identified 4P business cases. As discussed in section one of this paper, these 4P business cases can then act as showcase or catalyst for

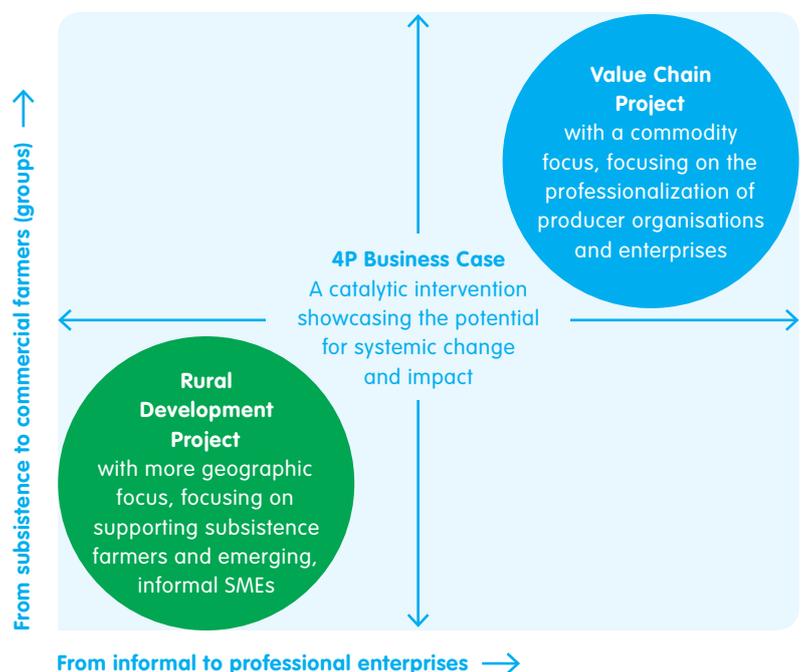
wider value chain or market system change.

From our experience working with alongside both the rural development and value chain projects, both have the aim and ambition to reduce poverty and increase smallholder income through professionalization through commercialisation and formalisation which should lead to better market integration.

In the multi-component rural development projects we observe that the 4P business case approach can bring more coherence between the different components. For instance a farmer services component which provides and extension service which is better aligned with the market linkages component by involving the enterprise in defining the farm produce quality criteria. Or financial services which are more geared toward supporting those cooperatives that are ready to engage in the business case.

In the value chain projects, we observed that the 4P business case approach can bring a multi-actor focus to develop the chain in a concerted effort working on multiple aspects at the same time such as linking the right inputs to the producers to achieve the output desired by the processors. Developing the right aggregation system which reduces search costs and risks for enterprises and increases market certainty, trust and profit for producers.

Figure 10: Position of the 4P approach with regard to different types of rural development programs



4) In the IFAD worldwide portfolio there are of course more and different types of projects, including Rural Finance or Climate Change focused projects and many having national coverage.

### 4.1.1 Positioning of a 4P business case in an IFAD rural development project

The below figure illustrates how the public partner can link and integrate 4P business cases across the different components of an IFAD-funded project and how public investment can be aligned. The main challenge is to align the interventions of the different components with the identified needs of the partners in the 4P, and to ensure smooth coordination.

Interventions of especially the production component tend to misalign with the needs identified in the 4P business plan. From a 4P perspective, the conditions set by the market (translated by the needs of the private partner) should lead the planning process. However, in practice, we often see that interventions of the production component do not match with cropping seasons, correct variety choices, the right agricultural practices, etc. These interventions are often rather supply than demand driven.

Business cases in for instance Uganda, which are supported by the VODP-2 project and Mozambique, which are supported by the PROMER projects illustrate the challenges faced in alignment and planning of activities. Producer training is only technical, but the variety choice is not always well coordinated with the preferred private sector processors choice. Producer training is also not providing enough coverage of “farming as a business”. Or producer group strengthening is not aligned with the matchmaking efforts and capacity needs assessment. Often business skills training on managing our cooperative as a for profit enterprise are lacking.

Figure 11: Alignment of IFAD programme interventions and 4P business cases. Components named in this figure are loosely based on the IFAD-funded programme PROMER in Mozambique.

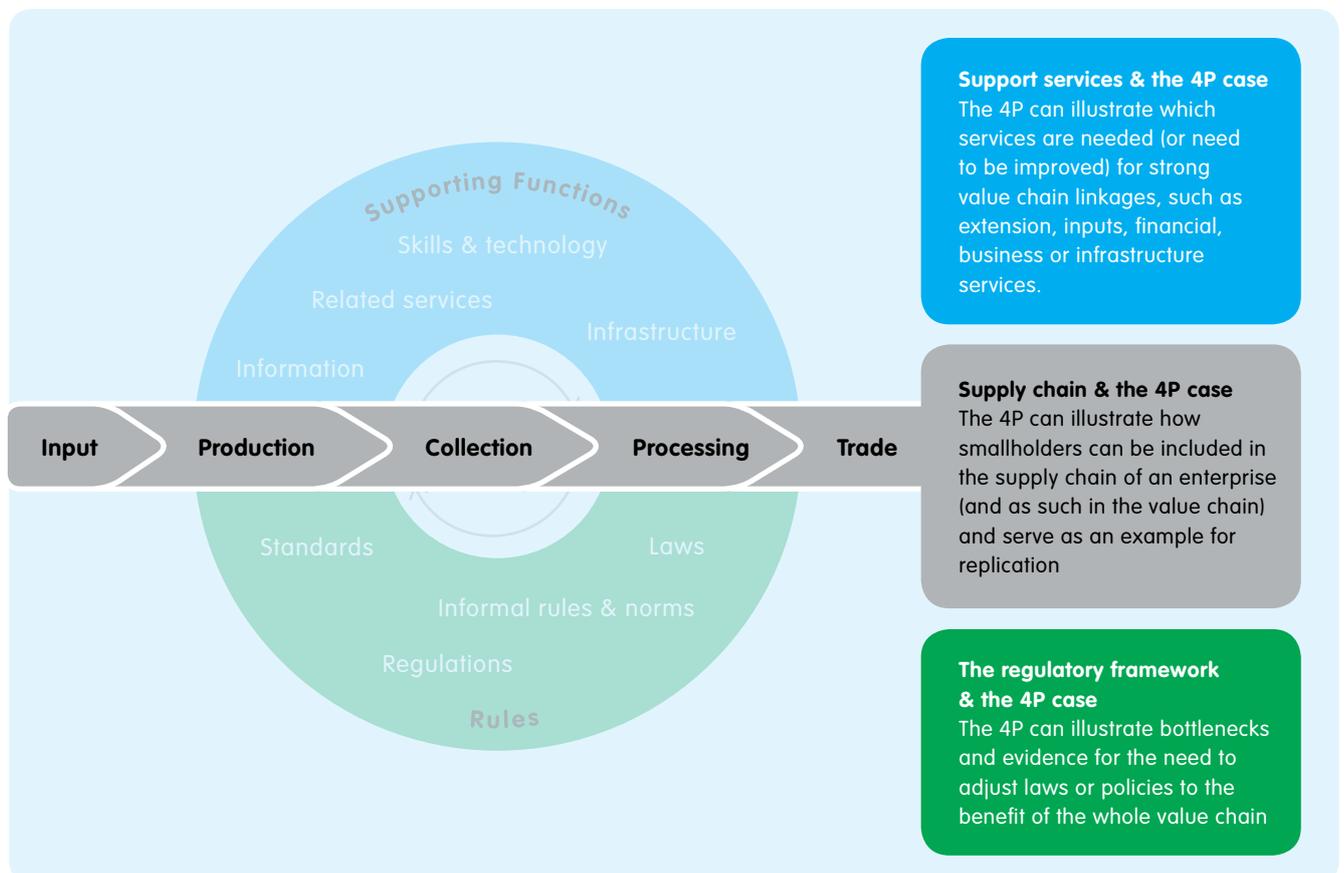
IFAD-funded project	4P Business Case	Potential pitfall:
<b>Component:</b> Production Improvement	<b>Intervention:</b> Production training	Wrong timing in season
<b>Component:</b> Production Strengthening	<b>Intervention:</b> Entrepreneurial training	No alignment with market
<b>Component:</b> Savings & Credit Access to (micro) finance	<b>Intervention:</b> Revolving group loans	No graduation to formal MFI
<b>Component:</b> Market Linkages	<b>Intervention:</b> Link with input sellers	Subsidised seed
<b>Component:</b> Market Infrastructure	<b>Intervention:</b> Improved roads	Delays
<b>Component:</b> Policy Change	<b>Intervention:</b> New seed law /variety R&D	No consultation of needs

## 4.1.2 Positioning of a 4P business case in an IFAD value chain programme

The below figure shows how a 4P business case can be a catalyst for further improvements of the overall performance of a specific value chain. The implementation of a 4P business case is likely to come across a number of bottlenecks in a value chain, especially bottlenecks regarding support services or policy and legal frameworks. As such, the 4P business case can be used to facilitate discussion and wider learning to trigger systemic change. In such cases, the impact goes beyond the support to one (or a few) private enterprises.

Business cases in for instance Senegal, which were supported by the PAFA project and Vietnam, supported by the AMD project were designed around specific value chains. Especially in Vietnam, these cases were also used to discuss wider enabling environment or regulatory framework support such as a revision of the national PPP policies.

Figure 12: A 4P business case positioned in the market system model of the M4P approach<sup>5</sup>



5) The Springfield Centre (2015) The Operational Guide for the Making Markets Work for the Poor (M4P) Approach, 2nd edition funded by SDC & DFID

## 4.2 Public Sector Support for 4P

In IFAD's work, investments are made with and through in-country national governments. In more recent years, IFAD and governments are making efforts to increasingly involve the private sector in development efforts for more scale and sustainability of the foreseen impact.

The public sector can use the 4P approach in many ways in their objectives of pro-poor development. These positive public contributions can be split in three different areas (or combinations thereof):

**Public financial support as catalytic inclusive investment in the core of the market system.** In many of the cases the governments are using capital investment in either the enterprise or the producer group. Investments in hardware serve as a kick-starter for the enterprise. Project experience learns that this can be a good way for the development of agro-business in underserved areas where banks or other investors are not yet present or where investment sizes are too small for commercial provision. The investment is also often used in areas where it is deemed too risky to invest due to high levels of poverty, low population density or unpredictable climate conditions. A good example is the PROMER programme in Northern Mozambique where private sector investment is lacking and needs to be attracted via public sector co-investment.

An important learning though is that such an investment should go hand-in-hand with well-organised capacity development support for the 4P partners to ensure that the business model does not become dependent on the initial start-up-capital.

**Public support in strengthening the delivery of (public) services.** The majority of business cases identified areas of concern regarding access or availability of essential services (either availability or quality). Most concerns are around a lack of knowledge services, input services and financial services. Depending on the needs identified in the 4P business plan these services have been improved by the participating partners. For example, companies investing in their own extension staff or the public partner putting efforts in speeding up of the release of essential crop varieties.

4P offers an excellent platform for dialogue to discuss the service areas which need attention and how provision of these services can be improved, either as

public or private service and who is going to fund the development and provision of the service. The broker plays an essential role in organising and facilitating such a platform in the early stages of the 4P.

**Public support in improving the rules that govern the market.** For 4Ps to be successful, a formal agreement needs to be set-up that is supported by a minimum level of rules and regulations. These rules usually concern contract farming, producer group establishment, certification of production and processing etc. In all the 4P cases we see that there has been a move towards signed contracts between the producers and the enterprises, supported by the public partners. In some cases we have also seen that the public sector has been actively involved in product registration, facilitating and registering certification and developing national standards.

Regulation development and more importantly the adherence to rules or establishment of a culture of rule of law are key for the success of 4P cases. They are best identified, planned and aligned through the brokering processes that happen around the design and implementation of the 4P business case.

## 4.3 Financing of 4P

Besides 4P being an agreement between partners to work together whereby enterprises source (directly) from smallholders providing more security to both these partners, the aim of 4P is also to leverage public and private financing for smallholder inclusive agri-business.

Three distinct partnership and financing phases can be distinguished in the process of developing and leveraging 4P for external financing<sup>6</sup>. The first phase is a partnership development phase in which there needs to be considerable funding for capacity development to make the partners finance ready or bankable. The second phase is the deal making phase in which the

<sup>6</sup> As part of the Partnering for Value Project we have published three vision papers on how this financing could develop in the future.

partners develop their joint business plan they wish to present to an external financier. The thirds phase is a post-deal implementation phase in which the return-on-investment needs to be materialised and supported with continued capacity building efforts.

Present or future bankability of the partners is of utmost importance to select the partners. This has implications for the selection of the potential 4P partners, the capacity building approach, the right (mix off) financing instruments and a favourable policy environment.

**Bankability of the partners and capacity building for finance readiness.** For investors to be willing to consider investment it is key that there is a clear business plan, business model and financials which can be independently verified. Attention has to be paid in the development of the business case and capacity development support to the 4P partners that the right systems are put in place from the start.

A 4P process of finance readiness means a transition to the formal economy. This also applies to producer groups who need to have financial management systems in place and operate as a formal entity. If this growth and maturing of the 4P is not the starting point of the formation of the partnership there is a high risk that this can later no longer be fixed. In the five countries, there are instances where producer groups or SME's have been recommended as 4P partners without enough attention to due diligence of present bankability. The key starting point of selecting producer groups and enterprises has to be that they demonstrate the capacity to have an entrepreneurial and commercial mind-set and business management performance.

In many situations either the producers or the enterprise are not yet ready or bankable. There should be budget allocated for technical assistance for capacity development of the partners to establish business management skills and practices. This capacity development should not just take place as technical trainings but also through other communication and face to face activities between the partners. Partners explaining to partners is undoubtable the most effective way to clarify and explain. This is further elaborated in the 4P guidelines.

The first phases of the financing may have to be grant-bases or mixed grant – commercial finance, to cover the high risk during this phase of capacity development.

**Business plan development and financing instruments for 4P.** Once the finance readiness of the partners has been achieved, or is well under way, the next phase is to develop a business plan and explore which investment instruments can be used to support the partnership. IFAD is already using an instrument of matching grants into 4P business cases through which investments are made into assets of partners. This is a very good financing instrument to lift cases to a higher level of activities and further strengthen business practises. These matching grants also serve an important part of the financial market as many of the enterprises actively working together with smallholders are domestic SME's with a limited business volume and investment needs. Their funding requirements are mostly below 1M USD, an area of little interest to many investors.

A second dimension of the need for finance and the financing instruments is the existing need for working capital. A problem often mentioned by all 4P partners. Farmers need to pre-finance their production, traders need to pre-finance their stock of raw materials and enterprises need to pre-finance their processed goods. Access to finance is mostly concentrating on investment finance in hard-ware like machinery, warehousing etc. There are few instrument or dialogues happening to facilitate working capital or lines of (affordable) credit and more work is needed on this area of access to finance.

**Post-deal making and financing of capacity building during implementation.** After the business plan has been approved and the implementation starts, also a third financing stage starts. During implementation, the partners and especially the smallholders, still have a significant need for capacity building support. This TA, delivered or coordinated by the broker, should be part of the financing plan which goes with the business plan. However, in SNV's experience, it is very difficult to include these TA costs in any commercial finance arrangement as this would seriously affect the profitability and return on investment. A public contribution to these TA costs need to be included to ensure that the 4P does have a return on investment and an inclusive pro-poor smallholder impact.

## 4.4 Positioning of the brokering service within IFAD programmes

As part of the Partnering for Value project, SNV has tested and developed a 4P brokering approach in five countries. In these countries, SNV acted as the independent broker. This approach has certain advantages and disadvantages with regards to the position of the broker vis-à-vis the partners and the sustainability of the brokering service.

Funding a brokering service through an add-on TA facility alongside existing IFAD rural development projects is not sustainable for a longer time even though such a facility has the advantages that the 4P partnership development is done independent from the public-sector partner funding decision making. Projects that wish to work with 4P and 4P brokering should have a budget reservation for this brokering embedded in the overall project budget. There are multiple options for this in terms of positioning the 4P brokering, namely within or alongside the loan project, as well as in terms of funding this service.

Several options have been tested and reviewed under Partnering for Value project as indicated in the table below. In Mozambique PROMER and Vietnam AMD the projects had already the aim to develop business cases and in Senegal PAFA the project had already established a number of cases which were further supported on their implementation and exist strategy only.

Three different scenarios for brokering services to establish 4P's were identified and compared. These are the Partnering for Value set-up whereby brokers are independently hired through a separate TA facility. A set-up where the project is hiring consultants or service providers from its own budget to facilitate the development of 4P's like in VODP-2 in Uganda and PROMER in Mozambique. A third scenario where the project is using its own (public sector) staff to identify and develop business case, as was the case in AMD in Vietnam and AMENCER Rural in EL Salvador.

	Independent brokers hired through a separate grant facility	Independent brokers hired as consultants by the project	Brokers as public-sector staff of the project
<b>What it entails</b>	The brokers are hired through an independent managed, separate grant facility	The brokers are hired as consultants or service providers by the project	The brokers, as staff of the PIU, fulfil the role of brokering
<b>Advantage</b>	<p>The broker has an independent and neutral role towards each partner. The broker is not involved in decision making of fund allocations for the business case.</p> <p>Experience shows that the independent brokers already have contacts with enterprises and can easier identify potential partnerships as they are trusted by the enterprises and producers.</p>	<p>The broker can have a neutral role towards the producer and private partners.</p> <p>The broker stands close to the project and can easily align with the objectives of the project.</p>	<p>The broker understands the complexity of the planning and procurement processes of the public sector.</p> <p>The broker easily understands the overall goals of the project such as the need to identify those private partners that want to source from smallholder producers.</p> <p>Allows for on-the-job learning of local governments.</p>
<b>Dis-advantage</b>	<p>The broker may not understand the project well enough, especially the role, potential contributions and systems of the public partner.</p> <p>This set-up is costlier and the project has less control over the brokers. Potentially more difficult to manage in terms of oversight.</p>	<p>The broker can be influenced by the public partner as they are also the partner who appoints the broker.</p> <p>There is a risk that the public project will not be able to find the required quality brokers, as they might not want to work directly with the public sector.</p> <p>Governments are not always willing to pay for the services for brokers.</p>	<p>The broker is often not seen as neutral, especially by the private partners.</p> <p>The broker often does not have the commercial knowledge to raise the private sector's interest.</p> <p>Public partners sometimes lack the capacity to execute the roll of a broker accordingly.</p>

## 4.5 Funding of the brokering

When exploring the different options of positioning 4P brokering, it is best to include the role of the broker as an independent service provider in the design of an IFAD investment project, implemented by a national government. Besides the role of the broker in establishing and facilitating the 4Ps, it is also important to define there the roles and responsibilities of the public partner or partners at both the national and sub-national levels.

Remarkably, a number of brokers from the different countries working for the Partnering for Value Project, indicated that they would not consider working directly for the public partner or be hired as a service agent by the project. The main reasons they mentioned were:

- The government is not performance-driven enough to make it interesting to work with or for them as brokers;
- They were afraid that if they would work as brokers for the government, they would be drawn into their bureaucracy and be forced to work as gatekeepers for the public partner contribution to the 4P, and thus not be able to act as neutral brokers.

Business case reviews and field missions indicate that there is a clear consensus among all partners involved in the 4Ps of the Partnering for Value project that 4P brokers indeed add value. An essential question remains who eventually should fund the 4P brokering in the future. The different options depend on the specific context of the 4P and the development stage/capacities of the 4P partners.

Experience from the Partnering for Value Project shows that most 4P cases are situated in a relatively early stage market development where there is still a large need for capacity development of all partners. This means that there is also little willingness among the partners to hire business consulting services themselves and hence a dependency on these services being provided through grant instruments.

The funding of the brokering should in these early market development stages be separate from the funding of the 4P business case itself to ensure that social inclusion of the poor does indeed happen.

The funding should remain available for a long enough duration to see a case through the whole process of brokering, including three to five agricultural seasons, depending on the stage of development of the producers and enterprise. What happens beyond the period of public support depends on the willingness of the private and producer partners to continue with a brokering (or business consulting) and their agreement how to cost and fund this service. It was not in the scope of this project to analyse these options though they are worthwhile to consider for follow up studies.

# Concluding Remarks

The Partnering for Value Project was implemented from February 2015 until March 2018 in five countries (El Salvador, Senegal, Uganda, Mozambique and Vietnam). The key approach of the project was to develop, test and build capacity on an effective brokering mechanism for pro-poor smallholder inclusion in Public-Private-Producer-Partnerships.

## Key lessons learned from the project are:

- 4P has the potential to go much further than an inclusive demand and supply arrangement between an enterprise and a group of smallholder producers. A well-structured and organised 4P programme gives broad meaning to the role of the public P. 4P finds a balance in organising and coordinating the market system and catalysing pro-poor development with strategic investments. All partners need to be selected based on predefined criteria and often need capacity development. Also, investments through small (matching-) grants need to include an assessment of financial readiness and a development plan towards it.
- The design and brokering of a 4P partnership needs to be a market opportunity driven process with a long-term vision on economic viability combined with intermediate milestones for pro-poor inclusive development and entrepreneurial capacity development. The 4P partnership should be formalised with a partnership agreement to ensure commitment. This formalisation should be built around a commitment to each other and preferably not be based on an exclusivity relationship.
- Enterprises often perceive working directly with smallholder producers as costly and inefficient. While smallholders often accuse enterprises of offering conditions and prices they cannot work with. The facilitating role of the broker is essential to establish trust between the partners.
- 4Ps as a locally implemented approach through national governments needs strong inclusion of local (sub-national) governments as public partners. It also needs a vision on sustainability post-project by capacity building for public institutions on the way markets function and how market players think and act different from public services.

We are very grateful to IFAD for entrusting SNV this large grant to implement the project. As with every project, we strongly feel, that learning does not stop with the ending of this Partnering for Value Project. Brokering 4P Business Cases creates an opportunity to guide enterprise – smallholder producer partnerships towards a pro-poor smallholder inclusion impact.

Time has been short to gather enough data and build enough evidence on the potential for 4P to inform wider market system change and inform pro-poor policy development. We hope IFAD and their development partners will continue with their efforts to work with national and sub-national government to use the 4P approach.

## Literature

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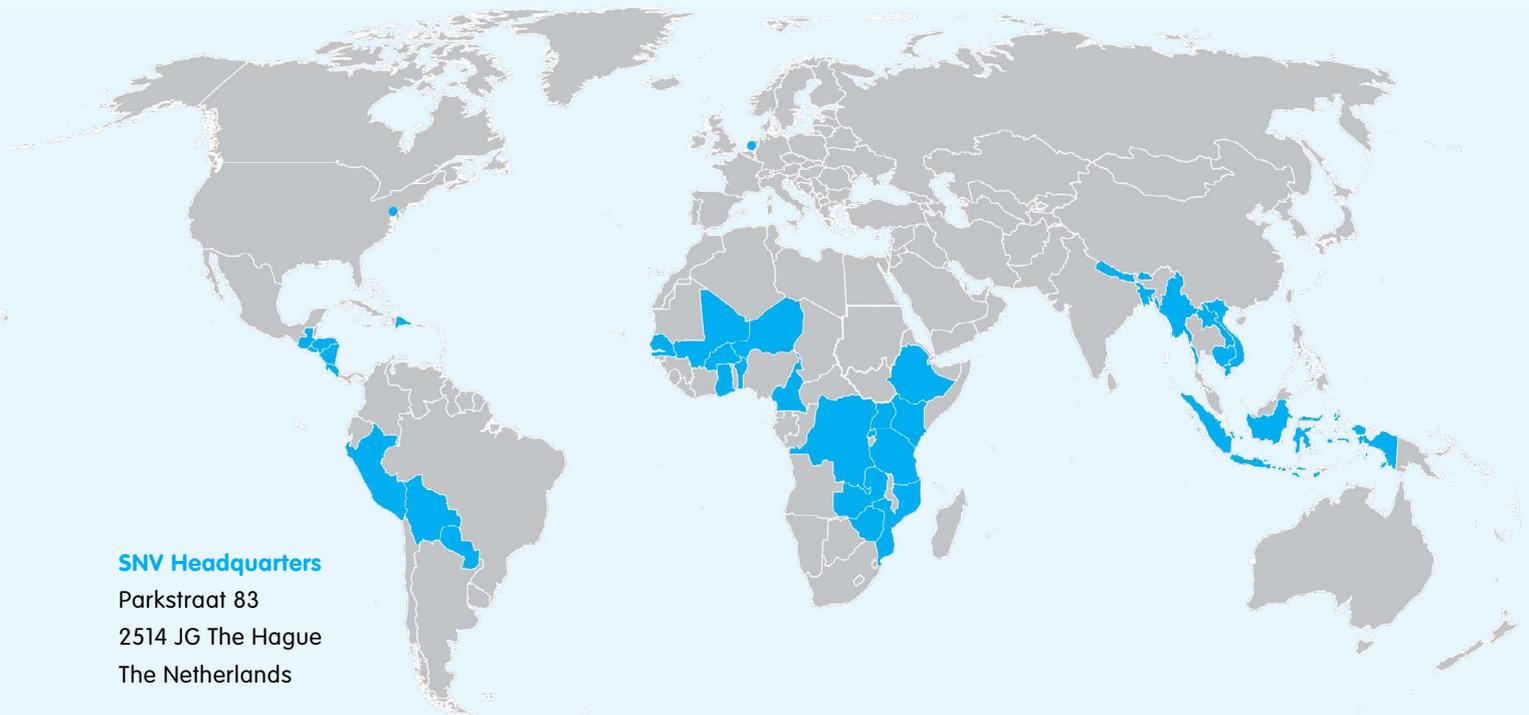
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### Hanging In, Stepping up and Stepping Out: Livelihood Aspirations and Strategies of the Poor

<http://citeseerx.ist.psu.edu/viewdoc/download;jsessionid=622140D3251C36209AC812D37E9D93A1?doi=10.1.1.622.4332&rep=rep1&type=pdf>

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