



## Vision Paper 1: Towards Finance Ready Business Cases

Building 4P business cases that are attractive for external investors

**SNV**



TheRockGroup



# Introduction

One of the aims of Public-Private-Producer-Partnerships (4Ps) is to build profitable business cases that can leverage external financing through the investments made by the IFAD projects. We believe that such investments will benefit both the enterprises and the smallholder producers. Agricultural SMEs will not be able to access finance if they don't have a strong business case. Becoming investment-ready needs to be an important goal of the SMEs and other partners from the start of building a 4P business case.

In this vision paper, we highlight key learnings from the Partnering for Value project regarding building such an investment-ready business case. We believe that from the start of brokering a 4P partnership, a clear vision must be formulated on the additional investment needed and the pathway towards securing that investment. This vision is leading when building the 4P business case, and thus also in the capacity building and support provided to the 4P partnership. We believe that IFAD can play a key role in this

This paper is part of a set of three Vision Papers developed by SNV in cooperation with TheRockGroup, based on learnings from the Partnering for Value Project. This project (2015-2018) aims to develop best-practice on brokering successful Public-Private-Producer Partnerships (4Ps) within the context of IFAD funded rural development projects.

pre-investment phase.

Below, we provide recommendations on what IFAD can do during the pre-investment phase to build finance ready, but at the same time inclusive, 4P business cases.

### Selection of high potential 4P business cases starting from market demand

An inclusive partnership between smallholder producers and agricultural SMEs starts with the identification of an unmet market demand. Taking market demand as a starting point helps to identify the most potential 4P business cases. The better we can select the most potential business cases and match the most suitable partners from the beginning, the easier the process of building a profitable 4P business plan becomes.

Although the process for the identification of 4P business cases will depend on the local context, we recommend working with an open call for 4P concept notes. Obviously, if a value chain only consists of a limited number of enterprises, an open call is not the most suitable way; in a better developed market however, such a process would make use of the competitive environment in which companies must compete on best quality 4P ideas. In such cases, a 4P broker could organise a launching event to attract interested enterprises in an efficient way.

### Selection of suitable 4P partners

Having identified an unmet market demand, selection of the right 4P partners is key. Potential investors make use of certain criteria to identify business entities that are finance-ready. It is up to the 4P broker to make an inventory of those criteria in any context. In general, we recommend keeping the following in mind during the selection process:

Before Partnering for Value, 4P partnerships with young businesses in Mozambique had failed, because they lacked experience in working with producers in their region, and started with an over-opportunistic attitude

It is important that all partners work with basic business principles. Every partner needs to be comfortable working with concepts such as a cost and benefit analysis, a profit and loss statement, resource management and supply and demand commitments. In practice, we often see that enterprises and producers interested in 4Ps do not yet have the capacity to apply these principles. The potential that a 4P brings as a learning platform, can be part of the justification of the use of public money to invest in a 4P partnership. Often, there is a need for capacity building in business management skills. This is explained later in this paper.

- In most cases, investors are more willing to work with mature firms than with emerging enterprises. Mature firms often have better business processes in place, can show results and data from previous years, and already have an established network of business partners;
- In terms of producers, we recommend working with producers with an effective aggregation system for produce. We recommend working with mixed producer groups where possible. These producer groups are often self-selecting within their communities and comprised of both poor and (slightly) better-off farmers who are model farmers in their communities. These better-off farmers can act as initial leaders and role models for others. In practice, it often turns out that these mixed producers groups already have some experience with business management and negotiating deals with agro-enterprises;
- In general, we recommend selecting partners that have the proven ability to work together in a formalised, structured and disciplined manner to become a trustworthy and reliable business partner. Only in such cases can a strong 4P business case be established which allows partners to work towards agreed objectives. Eventually, investors need to be convinced that the business entities they finance are reliable and committed to achieving the objectives of the 4P business plan.

When selecting high potential 4P ideas, the private partner is automatically identified. Naturally, selection

of producer groups is done in consultation with the public and private partners. The enterprise should be involved in the selection of producer groups as it needs to have trust in the partnership from the beginning.

## Building a strong 4P business case

Matching demand and supply is an entrepreneurial arrangement for which all partners need to develop their own specific business objectives based on solid data. Individual understanding of how their own business functions is key in developing a 4P business plan which describes the vision, ambition and commitment for the partnership.

As not all partners have the same experience working in an entrepreneurial setting and imbalances in access to market information must be overcome, the 4P broker plays an important role in explaining how markets function, why data is important for decision making and how reliable communication of accurate market information can take away insecurities.

Beside the the 4P broker role to stimulate an enterprising mind-set, an essential part to build the 4P partnership is a tailored plan to strengthen the participating partners' capacities.

## Need for tailored capacity building

Public partners also play a key role in making 4P partnerships finance ready. As mentioned, our experience with Partnering for Value has taught us that many enterprises and producers interested in 4P, lack the necessary business management skills to become eligible investees for potential investors. In the project countries, we have seen that capacity building and extension services offered by public programmes often solely focus on improved

agronomic skills. We recognise the value of these services, but we argue to them expand to include:

- Services for producer groups: capacity building in entrepreneurial and business management skills, including record keeping, improving the capacity to interpret these records, and (production) planning. In doing so, producer groups will be able to use these records as a basis to negotiate with their off-takers regarding quality, price, etc. Such capacity building instigates entrepreneurial thinking and a mind-set shift to farming as a business.
- Services for enterprises: capacity building and support in business management, depending on the maturity and needs of an enterprise. We have observed that most enterprises need support in setting up formalised accounting systems that are necessary to develop profit and loss statements, cost and benefit analysis, etc. which required by an investor to assess an investment request.

Naturally, facilitating capacity building in business management requires a different expertise than providing technical or agronomic training workshops. It is therefore relevant to consider service providers with more suitable skills to provide such services.

## Keeping the 4P inclusive

While preparing 4P partnerships to build a strong business case and become finance-ready, it is important to keep in mind that the ultimate objective of the 4P framework is to build inclusive partnerships. As most investors look for a high return on investments, it is easy to focus on profitability of the business case and only involve mature, highly skilled 4P partners. However, 4P partnerships are meant to provide poor farmers the opportunity to become

In Partnering for Value in Uganda, the SNV team worked deliberately with 4P brokers with a business background. They proved to be of great support to 4P partners in training them in basic business principles.

In Partnering for Value in Senegal, none of the 4P enterprises had formal accounting systems in place. The SNV brokers therefore focused on building formal financial structures for the enterprises to make them attractive for potential investors.



entrepreneurs in formal markets. Investors that look for social (and environmental) next to economic value, such as impact investors and development banks, therefore should be targeted.

The 4P broker has important to ensure that the 4P business case is inclusive. The public sector is relevant because it has a solid insight in local conditions and needs, which helps to ensure inclusion of vulnerable groups. At the regional or national level, the public partner facilitates and ensures that the proper support services (e.g. certification, business licenses) and legislation (e.g. land titles, contract farming) are in place. These are needed to govern inclusive partnerships effectively.

The 4P broker has a key role to play in making sure that producers are viewed as serious partners with an equal say in the partnership. They support producer groups to develop their capacities to engage in meetings and negotiations with the enterprise, while raising their confidence to continue doing so when the broker eventually pulls out of the partnership.

## Concluding remarks

Building a 4P partnership and business case is a complex and challenging endeavour. Often a 4P partnership needs additional external investments to achieve its ultimate objectives. This paper provided several recommendations for the pre-investment phase that helps the 4P partnership to become investment ready.

We argued to take an unmet market demand as a starting point, to identify high potential 4P business cases and select the most suitable 4P partners accordingly. To identify the most suitable 4P partners for such a business case, several key criteria were provided:

- The private partner should preferably be a mature firm and have basic business principles in place;
- Producers should have entrepreneurial ambitions and be organised in some form of producer organisation, preferably consisting of a mix of poor and better-off farmers;
- The public partner should be able to facilitate the right support services and legislation to develop a suitable business environment for inclusive 4P arrangements.

A 4P broker plays a key role in stimulating an entrepreneurial mind-set in all 4P partners, increasing the appeal of the business case to potential investors. At the same time, the 4P broker should ensure that the producers become equipped to be a serious partner and have an equal say in partnership negotiations.

In short, a 4P broker can significantly support the 4P in becoming attractive for investors, while ensuring that it remains an inclusive partnership.

Interested to learn more? Detailed insights will be shared in the coming months through a number of knowledge products written by SNV, such as the final 4P Project Paper, 4P Brokering Guidelines and ten case studies. In February 2018, a final learning event will take place at IFAD headquarters.

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