Vision Paper 3: Securing a Return on Investment with Capacity Building Support

The need for post-deal TA as part of 4P financing

Introduction

One of the aims of Public-Private-Producer-Partnerships (4Ps) is to build profitable business cases which can leverage external financing through investments made by IFAD projects. In vision paper 1, “Towards Finance Ready Business Cases”, we looked at the needs for capacity building support to let 4P partners become finance ready.

Investing in the quality of the business cases does however not stop once finance is secured. To ensure a return on investment, there is a need to continue with capacity development after the deal has been signed. Experience from the Partnering for Value project learns that the private and producer partners often need continued capacity building support on business management and working in partnerships during the implementation phase, at least for the first few agricultural seasons. This paper highlights what this support entail,s based on lessons learned from the

> 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-practices on brokering successful Public-Private-Producer Partnerships (4Ps) within the context of IFAD funded rural development projects.

Partnering for Value project.

Two important conditions need to be met following the investment deal. First, a capacity building plan needs to be developed and incorporated in the budget of the 4P agreement. Second, the 4P broker guides and monitors the implementation process to effectiveness of the plan. Before we turn to how this can be done, we explain what type of capacity building is necessary and why the financier would benefit from this.

Why capacity development is needed after securing financing

Brokering a 4P partnership is a significant milestone, but, it is only the start: this is when implementation of the partnership begins. The financier of a business case, investing in either the enterprise or in a cooperative, wants to see that the invested capital creates a return whether the financier is a bank, an equity investor or a public implemented project with a grant facility. Even though the definition of return on investment differs per financier, most financiers indicate that continued 4P support would reduce the risk for their investment significantly. Capacity building and support helps partners to manage their economic activities in a decent way, enabling them to collect and interpret data, and use data for decision-making and business planning. A lack of this support could lead to implementation delays, partners not being able to rely on each other, a low level of trust or unmet business objectives. What we learned from Partnering for Value is that well-coordinated capacity building support in combination with coaching and mentoring of the partners ensures that the 4P partnership delivers not only on its pro-poor inclusive development goals but also leads to economic success.

We have already argued that ample time is needed to create a fully funded 4P business case. To enjoy the success of the partnership, investment in capacity building is needed. In the next section, based on our experiences, we will elaborate what type of capacity building is most effective to let the 4P become a success

What type of capacity building is needed for the different partners?

For the enterprise

Becoming a partner in a 4P partnership should not be a form of philanthropy or Corporate Social Responsibility, but should be based on the belief of the enterprise that successful business models can be built with smallholder producers. Enterprises often want to stabilise their business performance by securing long-term access to the raw materials they need of proper quality. Therefore, they want to strengthen their supply chain relationships, but enterprises often need to learn to work with smallholders and farmer group dynamics. They also need to continue to improve their own business skills, even after securing finance. Investors will for example require for balance sheets, profit and loss statements. In the Partnering for Value project, we observed that many enterprises partnering in 4Ps are SMEs that do not yet have strong formal accounting systems in place. In order to reach the goals of a 4P business plan, it is therefore of utmost importance that such systems continue to be built in the post-deal phase. They enable an enterprise to make informed decisions regarding business management and planning.

For the producers

For most producers (and producer organisations) being part of a formalised partnership entails a transition from the informal to the formal economy. This has major consequences for the farming household, as they need to start farming as a commercial enterprise. The producers need to develop business management skills. They also need to be able to comply to the requirements of the market, for which technical skills are necessary. Producers also need to shift their mind-set from short-term thinking to long-term partnering and develop more strategic planning skills. This transition takes time and needs to

> In Senegal, during the implementation of the business plans we have been working with a number of small enterprises to strengthen their management and marketing skills so they can broaden their market access.

be facilitated during the implementation phase of the 4P.

For the public partners

Besides being a (co-)investor in the partnership through a matching grant, the public partners themselves also often need to develop new capacities and skills. The public sector needs to develop an understanding for the needs of the private and how they can contribute to an enabling environment. In most business cases of Partnering for Value, a number of bottlenecks were identified for 4Ps to further develop, such as access to finance, registration of cooperatives or the establishment of market standards, that can be addressed by the public partner.

The role of the broker in providing post-deal support

The work of the broker is not finished after the investment deal is signed. Whereas the role of the broker during the pre-deal phase is focused on bringing the partners together and facilitating negotiations, in the post-deal phase this shifts towards mentoring, coaching and capacity building. It is much more focused on strengthening the partnership and moving towards a phase that the partners can run the 4P by themselves.

In most of the business cases of the Partnering for Value project, we have seen that working in a 4P is new to the partners. Of course, producers are to some extend used to selling their produce to the market, enterprises know how to buy raw materials, and the public sector is already providing extension services to boost agricultural productivity. But to do so in the form of a well-coordinated partnership by choice is a novel concept.

> In Vietnam, the SNV team worked with the coconut juice processing enterprise Betrimex, to develop a training programme on organic coconut farming so producers could be certified

Arguably, the producers need most support in this phase as they tend to be the partner that is most disadvantaged in terms of skills and experience. Many do not have any experience with long-term strategic planning. Lacking resources, they often sell their produce to the agent that offers the highest price, instead of creating structural relationships. To gain their trust to become involved in the partnership, intensive monitoring in joint planning, reminding, motivating as well as developing a focus on market compliance, is required. Producers also need to learn how to manage their farming business by themselves and not remain dependent on others.

Private partners require support on providing more market transparency to the producer partners. Private partners often fear that others misuse information they share and that this information will end up with their competitors. At the same time, they often do not realise that withholding market information contributes to distrust by producers.

Coaching the public sector should focus on changing mind-sets from thinking for producers to thinking with producers. Public sector partners also needs to be coached to cooperate with private sector partners, especially considering the different ways and speed of working.

By using a joint planning, monitoring and reviewing process, the 4P broker stimulates partners to become more open and transparent to each other, enabling a business planning process that is based on mutual trust.

Length of support

Clearly, this capacity building support from the broker

> In all five countries Partnering for Value introduced a regular face to face review through which the 4P partners jointly reviewed the progress of the partnership, discussed and agreed on improvements and jointly set targets for the next season of production period.

can’t go on forever; not only from a financial point of view but also to transfer ownership of the 4P partnership to the local partners. The Partnering for Value project taught us that a minimum implementation and support period of three agricultural seasons is required, to change mind-sets, to build trust and before the broker can pull out from the 4P partnership. When producers are still very inexperienced in producing for formal markets, or when working with start-up enterprises we even recommend taking five agricultural seasons. This period should be counted from the moment a deal has been agreed and signed, not before. In cases where the investment takes place in facilities like ware-houses or processing, the support period should be after the facility is completed and operational. Private funders might even require professional support (and control) for the full length of their investments.

Financing the support

Cost for the broker and capacity building should be part of the 4P business and investment plan which are approved by the financier. In a project-funded situation this can be part of the public contribution to the 4P. However, when looking at the size of the 4P business cases under Partnering for Value and the cost of brokering, the question rises is whether it can be included as part of the overall investment costs, like business consulting in developed economies. We instead recommend financing the brokering and capacity building from a separate technical assistance facility. Using this method, the partnership’s inclusiveness also can be monitored better.

Concluding remarks

Guiding a 4P business case to a return on investment and pro-poor inclusive impact, is a long-term process which needs to be supported with capacity development, both in the pre-deal and in the post-deal phase. We argued in this paper that all partners, private, producer and public, are in need of specific capacity development support after the deal has been signed to ensure the success of the 4P business case:

- Producers need continued support to manage their farm as a business;
- Private partners have a need to stregthen their skills to improve their supply chain relationships with smallholder producers. They also need continued support to improve their business management skills;
- Public partners need to find their role in supporting both private and producer partners and create an enabling environment.

Arguably, the most important role for the broker is to establish a culture of cooperation to achieve shared goals. For this, time is needed so partners can learn to work, reflect and grow together.

Interested to learn more? Detailed lessons learned will be shared 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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