Foreign direct investment (FDI) in low- and middle-income countries increased 30 times during the past 30 years, while official development assistance (ODA) only grew roughly threefold (see Figure 1). The broad consensus in the development sector is that this increase in FDI can and should be leveraged to achieve targeted development goals – public funding is not enough.

In order to mobilize private resources, governments in the global north have long been using PPPs. Popularized during the 1970s, PPPs have mainly focused on infrastructure projects involving both governments and the private sector. A PPP in its original sense is a long-term contract between the government and private partners where the incentives for both parties are clear: the private partner is reimbursed for delivering public assets
or services and the public partner gains flexibility by leveraging private funds and lowers cost by outsourcing tasks to a more efficient private sector. However, the efficiency and effectiveness of such partnerships is still largely up for debate (Hodge and Greve 2009).

PPPs in international development, so called public-private development partnerships (PPDPs), are more broadly defined and include many types of arrangements involving both the public and private sector, as well as NGOs. To better understand PPDPs, it is important to examine the underlying incentive structure because incentives are the drivers of partnerships and often they are quite complex and can foster or hinder success in partnerships. Table 1 shows an overview of the comparison between traditional PPPs and Agri-PPPs, a thematic subset of PPDPs.

Broadly speaking, the motivation for the development sector to engage in Agri-PPPs is to encourage private sector investments in markets beneficial for the poor, generate market transformation towards more sustainability, and leverage business know-how such as expertise in specific fields like insurance or knowledge of local markets. The private sector’s motivation for collaboration stems from a growing market demand for sustainably produced goods: by engaging into Agri-PPPs, the private sector can certify their produce and by doing so increase the value for the customer, and also help the company’s public relations. Furthermore, some private actors believe in the theory of “creating shared value”, which states that the long-term success of private firms is dependent on the society and the environment in which they operate and have therefore aligned interests with the development sector (Porter and Kramer 2011).

Value Chain Development: Most Common Type of Agri-PPP

In a comprehensive study by the Food and Agriculture Organization (FAO), 60% of all reviewed Agri-PPPs were oriented toward value chain development (VCD Agri-PPPs) aiming at improving market sustainability while providing certification (Rankin, Nogales et al. 2016).

VCD Agri-PPPs can generate dividends for small-scale producers as well as the buyer. Producers and buyers benefit through yield increase and stabilization, and higher value goods through certification and increased quality. The local community can see benefits due to the mitigation of negative environmental and social impact.

Swiss donors, NGOs, and private firms are involved in multiple Agri-PPPs. Three examples of VCD Agri-PPPs in cacao production with Swiss involvement include: the SECO-funded Sustainable Cocoa Production Program (SCPP) project in Indonesia, the SDC-funded PROCACAHO project in Honduras, and the Lindt-funded Kakao Sambirano Vanona (KASAVA) project in Madagascar.

In each, an NGO is implementing a cocoa value chain project to build capacity for farmers and certify cocoa beans with the help of private sector funding. All of the companies involved in these projects are multinationals that buy the produce. The private sector is primarily involved in project steering, not in its implementation. The major difference between the projects is that SCPP and PROCACAHO have public donors involved, whereas KASAVA is completely funded by the private sector.
Working with the private sector: an added layer of complexity

Whether Agri-PPPs lead to better development outcomes is an empirical question that has not as yet been closely examined amidst the rising enthusiasm for PPPs in development. Some preliminary evidence points to positive outcomes of Agri-PPPs, but evidence on the long-term impact and whether Agri-PPPs justify the opportunity costs for either the public or the private sector is lacking (Poulton and Macartney 2012).

Conceptually, inviting the private sector to join in an Agri-PPP is attractive in that it brings in additional resources, knowledge and market impact for agricultural development. However, this can also be viewed as using ODA funds to support private projects, since the private sector stands to gain from Agri-PPPs. As well, the goals and motivations of private sector actors can generate tensions and an additional layer of complexity in achieving development goals. Some specific challenges of Agri-PPPs include:

• **ODA as private sector subsidies:** It is not always clear how much subsidy is needed for private sector involvement, if any. For example, KASAVA was financed completely by private funds, whereas PROCACAHO and SCPP have public support.

• **Goal alignment:** Aligning the goals of the public and private sectors is not trivial. The private sector is mainly interested in high quality and low-price produce to sell to their customers, maximizing their profits. In an Agri-PPP, this profit motive has to be aligned with a development objective.

• **Information asymmetry:** Private companies don’t share data freely, resulting in a challenging work relationship between the partners.

• **Inequity:** Power imbalances between the NGO, the private partner and the beneficiaries regarding decision making are unavoidable, especially if the private sector invests large sums of money.

• **Market change:** Agri-PPPs often take place within a market structure that favours few buyers opposed to many smallholder sellers (oligopsony), as it is the case in all three Swiss examples mentioned. Buyers don’t have a business motive to change these power discrepancies in the market, which narrows the spectrum of outcomes an Agri-PPP can aspire to compared to projects without private sector involvement.

• **Creating impact for the poorest of the poor:** Including the poorest of the poor in an Agri-PPP is hard to accomplish, because they don’t provide a business case: economy of scale increases with land size, the poor are considered to be too high risk, and their technological maturity is too low for participation in Agri-PPPs. Agri-PPPs are not viable for targeting the poorest, and substantial direct public support is still required for the large share of agriculture in the developing world.

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<table>
<thead>
<tr>
<th>Partners</th>
<th>PPCs</th>
<th>Agri-PPPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government and private institutions</td>
<td>Public and private institutions, and NGOs</td>
<td></td>
</tr>
<tr>
<td>Goal</td>
<td>Provision of a public asset or service through the private partner</td>
<td>Achieve public objectives, particularly value chain development, productivity and sustainability, in a public or private agricultural project through the inclusion of a private partner</td>
</tr>
<tr>
<td>Type of Partnership</td>
<td>Collaboration with long-term contract, risk-sharing and management responsibility, performance-linked remuneration</td>
<td>Private and/or NGO partners can participate as financiers, implementers or both, depending on the nature of the project, public goals and attributes of the partner</td>
</tr>
<tr>
<td>Incentives</td>
<td>Public: Increase efficiency, additional finance options</td>
<td>Public/NGO: Increase funds for development projects, market transformation, leverage business know-how</td>
</tr>
<tr>
<td>Private: Profit through payments for service or assets supplied</td>
<td>Private: Profit through certified products and creating shared value, public relations</td>
<td></td>
</tr>
</tbody>
</table>

Table 1: Comparison of PPPs and Agri-PPPs
Policy options to leverage the potential of Agri-PPPs

Agri-PPPs are an opportunity for the development sector to leverage private funds and expertise, but they are not without difficulties. The development sector has to be conscious about potential pitfalls and needs a clear strategy to harvest the collaboration potential. The following points should be considered when engaging in Agri-PPPs:

- **Assessment of market and partner:** Development partners have to analyse the market structure as well as the potential private sector partner to ensure that the partnership allows for an efficient and effective collaboration.

  - **Opportunity cost assessments** should be a standard way to prevent development actors from engaging in Agri-PPPs with partners and in markets where other arrangements could bring more impact or where the project would have been funded by the private sector anyway, without public money.

  - **Rationale for working with private partner** should be explicitly stated in the beginning of a project: what incentives do the parties have to partake in the collaboration, what do they hope to gain, and where do they have to compromise for the sake of the partnership.

- **Aligning goals:** The alignment of goals between the private and the development sector is a key issue in Agri-PPPs.

  - **Certification schemes** are one possibility to align development objectives and private goals. Development objectives such as sustainability and equity can be achieved while increasing the value of the product for the customers, which profits the private sector.

- **Capacity building:** The development sector has to be able to professionally engage with the private sector to maximize development impact.

  - **Know-how within NGOs** on how to lead projects in collaboration with the private sector has to be built. Knowledge about project steering structures that allow for a clear distribution of responsibilities and decision power between the different actors in an Agri-PPP is crucial for successful implementation.

  - **Clear concept and more research:** With the broadness of the Agri-PPP concept and the lack of empirical data on impact, it is difficult to provide clear guidelines on success factors and best practices. Resources should be invested in building a strong evidence base for Agri-PPPs, particularly on:

    - **Clear definitions** including meaningful sub-categories for Agri-PPPs, to facilitate the discussion and research (as noted by SDC 2013).

    - **More research on impact and opportunity cost** of Agri-PPPs, including making transparent the amount of ODA money dedicated to collaborations with the private sector.

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1 World Bank data, accessed 17. October 2018

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**Bibliography**


- SDC (2013). Stocktaking Assessment of the Public-Private Development Partnership Portfolio of SDC.