PPP LAB

FOOD & WATER

Explorations 03

Three categories of PPPs distinguished on the basis of their change logic

Overall observations and questions on the composition of the portfolio

A portfolio scan of the Facility for Sustainable Entrepreneurship and Food Security (FDOV)

Abstract

This working document presents an initial analysis of the portfolio of projects approved under the first call of the Facility for Sustainable Entrepreneurship and Food Security (FDOV). It seeks to get to grips with the basic 'change logic' of these projects from a public–private partnership perspective. The main objective of this study is to investigate the types of PPP dynamics that have been created in the FDOV portfolio, focusing especially on the engagement of private partners.

The document defines several groups of projects within the overall portfolio. The change logic of each category is described in terms of the type of lead private partner, the other partners involved, the core focus, the type of projected benefits, and the ongoing business or financial proposition. In addition, specific observations and questions are raised for each category and where relevant further sub-categories are distinguished. The document concludes with some overarching insights and questions about the FDOV portfolio as a whole.

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1. Introduction

In 2012, the Ministry of Foreign Affairs (MoFA) of the Netherlands initiated two new financing instruments that aim to stimulate Public–Private Partnerships (PPPs) for development. The Sustainable Water Fund or FDW (an abbreviation of its Dutch name) focuses on stimulating public–private collaboration in the water sector in order to contribute to water safety and water reliability in developing countries. The Facility for Sustainable Entrepreneurship and Food Security (FDOV, again after its name in Dutch) focuses on stimulating public–private partnerships within the sphere of food security and private sector development. The creation of these two financing mechanisms is seen as an innovation in Dutch development financing. This creation of the facilities is based on the assumption that PPPs can play a role in achieving development objectives and can address certain types of challenge in ways that are different from and more effective than the instruments used to date. These two financing mechanisms are operated by the Netherlands Enterprise Agency (Dutch abbreviation: RVO).

Key parameters of FDOV

- The first call for FDOV projects took place in 2012, leading to the approval of 29 projects. These 29 projects form the basis for this document.[1] A second batch of 20 projects was approved early 2015 and is expected to be included in an updated version of this scan in 2016.
- Two FDOV subthemes are defined by the Ministry of Foreign Affairs as:
  - Food security
  - Private sector development
- FDOV partnerships must consist of at least one company, one public body, and one non-governmental organisation (NGO) or knowledge institution.[2] At least one of the parties must be based in the Netherlands, and at least one in the country where the project will be implemented. The applicant may be any kind of partner.
- The minimum financial contribution of the partners is 50% of the total project costs and at least half of this contribution should come from private actors. Through FDOV, the Dutch government thus adds a maximum of 50% of the total project finance.
- The Dutch Ministry of Foreign Affairs will also be partner in the partnership.[3]
- The extent to which projects are sustainable is assessed against the FIETS criteria (financial, institutional, ecological, technological, and social sustainability).
- All PPPs should be based on a business case (that is, on a revenue model) and must be financially sustainable.[4]

[1] For the first round of the FDOV portfolio, a total of 29 projects were approved. However, despite approval, three projects were halted prematurely on request of the applicants. These are not included in the analysis. Furthermore, one project consists of several standalone projects; these have been included separately to avoid skewing the analysis. This brings the total number of projects analysed in this scan back to 29. [2] The FDOV has developed a specific set of definitions of private, public, NGO, and knowledge partners. See the list of definitions of the Ministry of Foreign Affairs: http://english.rvo.nl/sites/default/files/2015/01/Begrippenlijst%20Faciliteit%20Duurzaam%20Ondernemen%20en%20Voedselzekerheid%20%28Dutch%29.pdf. [3] This differs from FDW, where the Dutch Ministry of Foreign Affairs is not officially part of the partnership in the projects. [4] See for further explanations section 2 of this report.

To learn about the relevance, effectiveness, and quality of Dutch-supported PPPs, in 2014 the Ministry decided to fund PPPLab Food and Water, a four-year (2014–2018) action, research, and knowledge initiative. Its mission is to extract and co-create knowledge and methodological lessons that can be used to improve both implementation and policy. This PPPLab working document presents an initial analysis of the FDOV portfolio of projects resulting from the 2014 call, and seeks to get to grips with the basic 'change logic' of these projects from a public–private partnership perspective. Three categories of PPP will be delineated within this portfolio. These categories appear to have clear and distinct profiles, as determined by:
a) the developmental issues they seek to address and the related benefits they seek to produce; and
b) the composition of the partnership and the types of business drivers, business cases, and financial sustainability that propel them.

This working document thus creates an initial overview of the types of PPP that the FDOV has attracted or funded.[5] In 2016, this categorisation will be tested and validated against the projects that have been approved through the second FDOV call.

The categories of PPPs distinguished in this document may prove useful for better understanding and addressing the proposals, progress, sustainability, and impact dimensions of (groups of) individual PPPs, as well as the overall composition of the PPP portfolio. The categorisation may help the actors engaged in PPPs and the broader professional community to locate their own projects within that landscape, to deepen key strategies, to pose questions on the effectiveness of one's own project, or to open up perspectives on alternative strategies or projects. The findings may also be of direct interest to the funding and supervising agencies (MoFA and RVO) in guiding and monitoring the current projects, as well as in shaping the FDOV instrument towards the future and discussing priorities for future funding.

The findings presented in this working document will be used by PPPLab for a further series of more specific research and learning questions. The following studies are directly linked to this document and will provide further analysis:

- A similar analysis of the FDW portfolio (published in June 2015).
- An analysis and comparison of various financing instruments in food security and the position of FDOV in this field.
- A deeper analysis of the PPP projects in terms of business models and financing strategies. This study was carried out cooperatively by PPPLab, Rebel Group, and BoPInc. In the first stages, a method was developed to analyse the business models of PPPs more systematically. These activities will continue and produce written outputs in 2016.
- A midterm review (MTR) of FDW initiated by the Dutch Ministry of Foreign Affairs, which feeds the general development of the FDW instrument and the preparations for the next FDW call. The lessons learned might also provide insights for FDOV. The FDW MTR was undertaken in the autumn of 2015.

The next batch of PPPLab activities are getting underway in the last quarter of 2015, and include studies on business models, scaling and system change, partnership arrangements (focusing especially on the role of the public actors), and partnership monitoring.

[5] *It is important to note that the observations and findings in this document are based on 29 approved projects from the first call of FDOV. It is expected that a broader study of all submitted proposals will follow later as part of the work of PPPLab.*

2. The PPP change logic: key concepts and research methods

In this study, the term PPP change logic refers to the key way or logic through which the PPP seeks to achieve development objectives. The change logic of each project is analysed through the following elements:

- The type of **lead private partner** driving or supporting the project.
- The types of **other partners** involved.
- The **core focus** or **intervention** in relation to the agricultural value chain.
- The **anticipated (pro-poor) benefits** of the PPP.
- The underlying medium or long-term **financial or business case(s).**

With these five elements, the analysis does not look at the specific theory of change for the issue concerned (for example, improving dairy products in country A or introducing crop rotation in region B); rather, the interest is on the 'meta-theory-of-change' with regard to public–private collaboration: how is a PPP used to create development results?

To get to grips with these PPP logics, nine specific questions, with sub-questions, were asked for each project. On this basis, the key elements of each individual project were described.[6] From the brief project logics that were extracted, an 'emergent' analytical process of simply listing the key common elements and differences between the projects was used. Projects with similar characteristics were grouped together, and it appeared that a relatively clear grouping of projects with related business logics was possible along the agricultural value chain.[7]

In the following chapter, the key elements mentioned above are used to distinguish and describe different categories of PPPs. First, however, a few concepts need to be clarified.

The term **lead private partner** is used to refer to the private partner with a key role in the business case or the financial sustainability of the project (thus, not necessarily the applicant or the partner that provides the largest financial contribution). According to the broad FDOV definition, a private partner or business is *"any entity that performs economic activities, regardless of how it is financed. An economic activity consists of offering goods or services in a market economy. Even entities performing economic activities on not-for-profit or not-for-loss basis may qualify as private sector in the partnership"*.[8]

[6] Detailed interviews were not possible at this stage. The present analysis will be checked and sharpened as projects develop in practice and provide feedback and further experiences. [7] In its simplest form, an agricultural value chain is linear, bringing and transforming the product from the producer, through various steps, to the consumer. More complex representations integrate secondary and tertiary.players and mechanisms that support and enable the primary chain. For a simple visual representation, see Chapter 3. [8] Refer to the definitions used by the Ministry of Foreign Affairs at: http://english.rvo.nl/sites/default/files/2014/08/Definitions%20Facility%20Sustainable%20Enterprise%20and%20Food%20Security.pdf

Considering this broad definition for businesses, the private contributions to PPPs also vary in nature. In this working document, a distinction is made between four types of private contribution:

- **Corporate Social Responsibility or foundation money.** Contributions of this kind consist of grant money based on philanthropic motives and thus no return on investment is expected. However, it must be noted that CSR money is increasingly used strategically by companies - for example, to improve their reputation or sociopolitical 'license to operate'.
- **Business development or R&D money.** Such contributions are used as investments to pilot or develop the products or services of the company concerned, with the ultimate purpose of marketing this product or introducing it to the market. No direct return on investment or specific rate-of-return is expected in the short term, but the investment is made to develop business for the company over a longer term and is thus weighed against other opportunities and their possible benefits
- Investments that cover **additional operational costs for staff or for activities that the company is already deploying.** Often these are reflected in 'in kind' contributions. These are nevertheless commercially weighed by the companies in terms of their cost/benefit ratio - and thus in terms of the rationale behind actually putting extra effort in - as they are part of the present primary business model and direct costs of the company.
- **Financial investments** aimed at strengthening the core business of the company. A direct return on such commercial investment is expected and the private actor runs more financial risk than if CSR/foundation money or BD/R&D money (not requiring a return) were used as a contribution to the project.

In this working document, the distinction described above is used in analysing private contributions. Although not a topic for further investigation in this scan, it can be expected that the type of private contribution has implications for the degree and character of private engagement, the nature of the business cases, and the financial sustainability perspectives of the projects.

According to the requirements of the FDOV, the projects should be based on a business case (that is, on a revenue model) and must be financially sustainable. It is important to note that the Ministry has used its own specific definitions with regard to these terms. A project is **financially sustainable** when all the activities that are to continue after termination of the PPP can continue without the subsidy of foreign donors. This continuation does not have to be based on commercial money, but may use public funding. A project has a **business case** if the project, or part of it, is based on a revenue/earning model. A business case therefore usually involves the engagement of a private actor to initiate and continue an activity (a product or a service) so as to create value and serve the market. One important detail is that within FDOV, a **business case** or **revenue model** is defined as the degree to which the project generates sufficient turnover to meet operational and maintenance costs, pay financial expenses, and possibly earn a profit. Under FDOV rules, however, projects are not allowed to earn back the full investment within the first ten years. The term **business model** is closely related to the term business case. The former is often used in a wider sense, referring to the overall idea of how an entrepreneur or partnership expects to create value and to continue doing so.

In this report, the focus is on an initial scan of the business case and the financial sustainability described in the proposal. A deeper look at these dimensions of projects is presented in separate PPPLab work that explicitly focuses on business models and financing strategies.

3. The FDOV portfolio and three categories of PPPs

To gain an initial sense of the overall playing field of the 29 FDOV projects studied, here are a few initial general observations:

The projects:

- There are large **differences in scale** among the projects, which range from providing services to 150 selected farmers to projects targeting over 175,000 farmers.
- A main driver of projects in the FDOV portfolio is the push to **sell, disseminate, or apply Dutch expertise (from firms, knowledge institutes, and NGOs) and innovative technology and relations** in developing markets.

Composition of the PPPs:

- Of all the partners within FDOV, **the private sector** has the largest representation (49% in absolute numbers). The second-largest representation in FDOV is from NGOs (24%).
- Most FDOV **applicants** are also companies (52%), followed by NGOs (38%). None of the projects have a public actor as an applicant.
- In 21 of the 29 projects, **local companies** from developing countries are partners in the PPP. They often contribute finances and resources. In addition to local companies, local subsidiaries of multinational firms are represented in 9 of the 29 projects.
- Apart from the financial engagement of the Ministry, the involvement of **public actors** in the FDOV portfolio is limited. Local governments are part of the PPP partnership in only 9 of the 29 projects.
- In numerous cases, a strong role is played by **service providers** (from the civic, commercial, or knowledge realms) who do not contribute financially but gain income from providing their services. In several cases, these are the applicants, providing the long-term strategy behind the program or serving as the project manager or coordinator.

Contribution of partners:

- In terms of financing, there are very **different public-private combinations**. Private contributions range from strategically employed corporate social responsibility (CSR) money to real commercial or investment capital (see the list in the previous section).
- In general, proposals provide limited details about **financing strategies**.

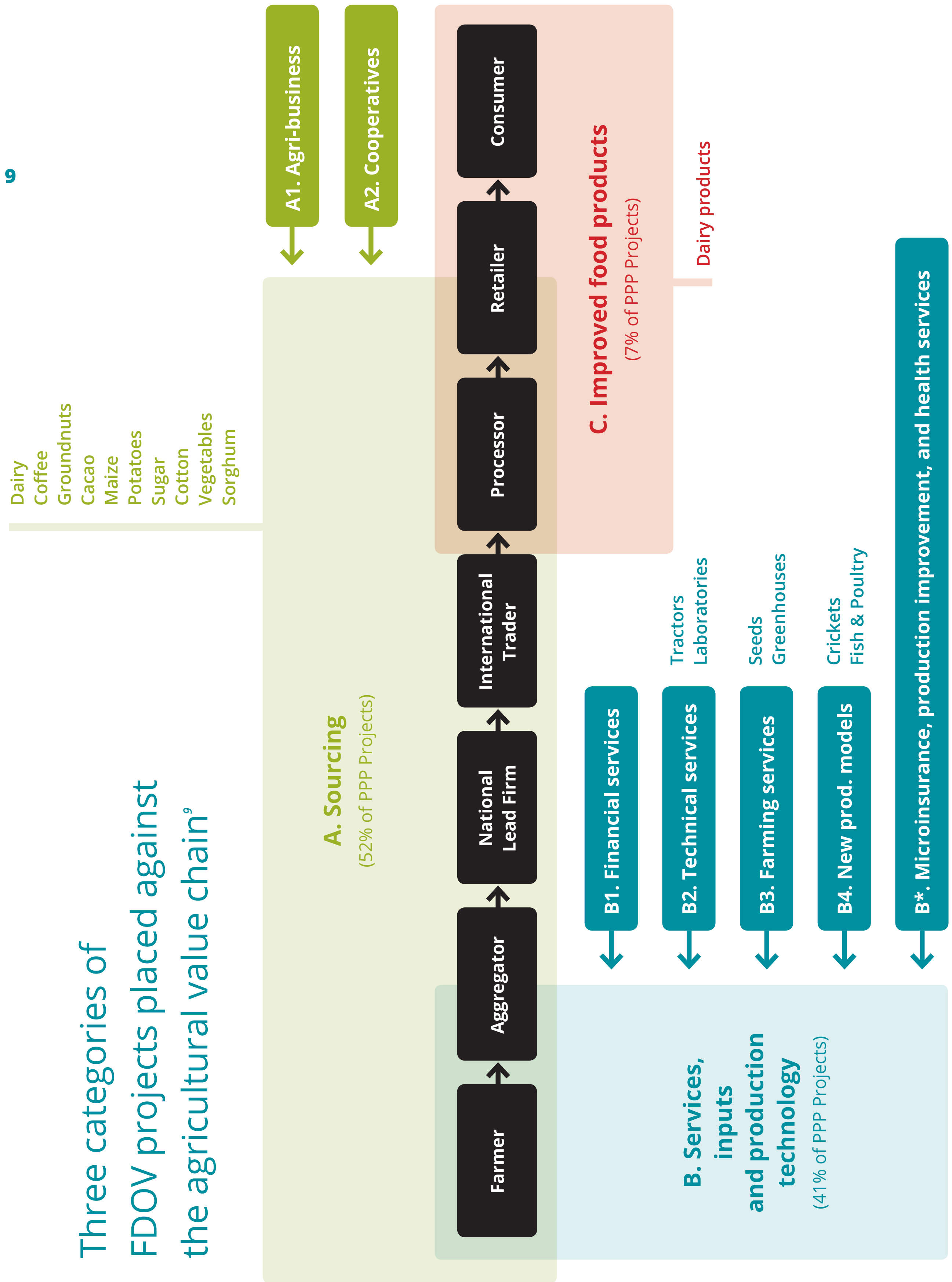
As indicated, the PPPs were analysed in terms of their change logic, which is based on two main parameters: the **developmental issue(s)** that the PPPs seek to address and the **kind of business driver** by which they are propelled. From the analysis of PPP logics, it appears that the FDOV projects can be categorised along the 'value chain' of an agricultural product or commodity from farmer to consumer. This is illustrated in the figure on the next page.

The three main types of PPP that can be distinguished in the FDOV portfolio are:

a: Sourcing
b: Services, inputs, and production technology
c: Improved food products

The PPPs of each category do not only share common characteristics in the position of their main activities in the value chain; the analysis below will show that the PPPs in each category also have similarities in partnership arrangements, business models, financing strategies, and so on. The PPP change logics and key characteristics for each category are described under the headings below. An indication of certain subgroups within these categories is also given.[10]

[10] *For a description of how each individual project has been classified in these categories, see Appendix II.*



* *Not every primary agricultural value chain necessarily has all these actors and steps, but this is the generalised logic. Aggregator is used as an umbrella term for the primary actor that receives produce from the individual farmers. In general, this is a cooperative, a farmers' organisation, a private trader or a processing company. The term lead firm can refer either to a trader, a processor, or a combination of these. Sometimes the aggregator and the lead firm coincide. Trading and processing may follow different sequences, and an in-country chain will not have the international actors involved in the way presented here. Certain international or national firms may also cover various steps, such as a retailer or restaurant chain buying directly from farmers (organisations).*

A. Sourcing

Sourcing is the largest category of projects within FDOV, containing 15 out of the total of 29 PPPs. These PPPs are located in Indonesia, Vietnam, Tanzania, Kenya, Rwanda, Malawi, Mozambique, Zambia, South Africa, Ghana, Mali, and Nicaragua. The key characteristics of the projects in this category are as follows:

- The **lead private partner** is a national or international firm that is directly engaged in buying and processing or trading a specific commodity (or combination of commodities). They seek an increased, efficient, quality, sustainable, or assured supply.
- **Other partners:** The firms work with NGOs, local private sector, and knowledge partners to strengthen the productivity, profitability, and sustainability of the supply chain.
- The **core focus** is on improving various dimensions of farmers' production of certain commodities (both local food crops and high-value export crops) and the handling and processing of these commodities.
- The development **benefits** of the project are better production and increased income and employment for rural and farming households, possibly in combination with broader improvements to the chain in various dimensions, such as chain governance, engagement of local private sector, and better environmental management and climate adaptation. Where it concerns local food commodities, there can also be an aspect of improved access to nutritious food and food security or safety.
- The **business case** and **financial sustainability** underpinning the projects is a combination of a) the lead firm investing in the production of its supply, b) the improvement in the quality and/or quantity of production and increased sales of this production for the farmers, and c) improved business for intermediaries in the chain. Secondary business models may also be strengthened for input and service providers.

The character of these projects:

- These PPPs often also deal with production enhancement (see category B), but this element is set within a business dynamic that is determined by the sourcing (buying and selling on) of the produce.
- The lead firms do not only relate to farmers to buy their products, but also seek to support and strengthen existing production systems in various ways. Roughly three types of other relation with farmers can be seen: production inputs and services, training and capacity development, and financing.[11]
- The ambition to address social and sustainability issues is a logic or driver behind many of these projects. In most cases, however, this is connected to the interest of one specific buyer in the produce. There is only one project that has engaged various (international) buyers who are also mutual competitors in the market, presumably to address joint or precompetitive issues affecting the production of that commodity in the region concerned.
- Within the overall sourcing category, a further categorisation can be made regarding the type of organisation with which the PPPs work in order to engage with farmers. An initial analysis suggests that these subcategories tend to have some significant differences in other characteristics as well (see next page).

[11] The project in Mali stands out in the sense that it aims to establish a completely new value chain (sweet sorghum) including three new production models for its by-products. In that sense, it resembles projects of category B4 (discussed later). The project nonetheless fits better within the sourcing category, as the main business driver of the lead firm is to buy these new products from the farmers in order to process and eventually sell the produce on the market.

	A1. Local agribusiness (clusters) (8 PPPs)	A2. Cooperatives or other forms of producer organisations (7 PPPs)
Type of intermediary working with (and sourcing from) farmers	The lead private partner works with **local private sector/businesses** to link to farmers.	The lead private partner works with **local cooperatives/producer organisations** to link to farmers.
Provides access to	Relatively strong focus on **access to technology and hardware** (mechanisation, drying facilities, warehouses, production technology) through the private sector.	Relatively strong focus on **access to services and knowledge** for farmers by training them and developing their capacity.
Type of applicant	All applicants but one are from the **private sector**.	5 of the 7 applicants are **NGOs** or **not for profit**.[12]
Ownership	All business models created through the PPP will be **owned by companies**, whether in-country or international.	**Diverse pattern of ownership** of business models (private sector, farmers, cooperatives, NGOs).

- The above differences do not necessarily relate to the commodities or contextual factors influencing the projects. They rather seem to be connected to the development outlook of the applicants, as well as to the interests of the primary in-country partners.

[12] *One of these is a not-for-profit firm.*

Composition of the partnerships:

- In the sourcing category, three types of lead firms can be distinguished: processors, traders, and retailers. The financial margins and the interest in investing locally can vary greatly by the company profile and the specific market strategy or niche. For example, processing firms that realise a significant value-addition have larger margins than traders, whose large trading (financial) volumes may be impressive but who may be very sensitive to even small price differences. Retailers, who sell directly to consumers, have interests and margins that differ from those of processors and traders.
- More than half of the lead private sector players in this group are large multinationals. Most of these lead firms are not Dutch. This suggests that the engagement of the Dutch private sector in these commodity projects is relatively modest. On the other hand, as an important hub for international trade, various international commodity traders have branches in the Netherlands and secondary players emerge alongside that. Moreover, these projects are clearly supportive of broader Dutch efforts and reflect a major Dutch policy priority: increasing the sustainability of major international commodity chains.
- Of the in-country private sector companies involved (especially national lead firms), a significant number are subsidiaries of large international players. As their turnover and profits are controlled by their international parent firms, the impact on the local economy may be smaller or less direct than in the case of lead national firms that are fully locally owned.
- Of the sourcing projects, 47% of the applicants are NGOs (a considerably higher proportion than in categories B and C). Several of these are building on previous collaborations between the NGO and the lead firms concerned. These activities tend to link up with broader Dutch ambitions regarding sustainable and green value chains. The NGOs see major opportunities in the sourcing projects in terms of such social development objectives. The NGOs also have direct ‘business’ interests in terms of their broader program objectives, as well as their own operations and turnover.
- Interestingly, aand unlike in category B and FDW, none of the projects under the sourcing category have research institutes as an applicant.

Contributions of partners and business drivers:

- In mmost cases, the largest financial contributions are from local processing or trading firms or large multinational firms.
- The exact nature of these financial contributions is difficult to further analyse from the project documents. In some cases, it seems to concern commercial investments, and in other cases grants from CSR-type funds; in others, it seems to concern investments for operational costs that the lead firm makes in working with its suppliers.
- The basic driver of these projects on the private sector side is the need to ensure an (increased) sustainable supply. This does not only concern volumes, but also local relations, sustainability, and the threat of poverty in the supplying areas and communities.
- In several cases, the FDOV project also builds on earlier projects between the lead firm and the NGOs concerned. The nature of finance during such earlier projects or collaborations also cannot be traced from the documents.

B. Services, inputs, and production technology

The services, inputs, and production technology category consists of 12 PPPs located in the Philippines, Ethiopia, Kenya, Tanzania, Rwanda, Burundi, and Congo. These PPPs do not deal with the marketing or trading of the agricultural produce. Instead, their main characteristics are as follows:

- The **lead private partner** is usually a national or international firm that provides a technological service, input, or production model for farming or rural households. They do not source products from farmers.
- **Other partners:** Generally, there is a strong presence of NGOs and knowledge institutions in these partnerships. In two cases, a knowledge institution is the applicant; for all other cases, the private sector is the applicant.[13]
- The **core focus** for the lead firm is not on the commodity, but on the provision of a service, input, or technology to farmers. The primary emphasis is thus on improving the conditions, means, and methods of production. The lead firms sell to farmers (rather than buying from them, as in category A).
- The projected development **benefits** of the PPP are to create improved access to inputs, services, and technology for farming (and other) households, leading to improved and more sustainable production, and ultimately leading to increased income and employment for this group. Additional benefits may include strengthening the local service sector and economy, better management of natural resources, or increasing the resilience of local farming systems and communities.
- The **business model** and **financial sustainability** underpinning the projects is based on a combination of a) establishing, improving, or expanding the market for the service, input, or technology of the lead firms and b) improved production by the farmers. Also, in several cases, the business model of an intermediary (a local retailer or service provider) is at the heart of the project.

The character of these projects:

- This category covers a wide range of projects, from microfinance and laboratory facilities, to more direct production technologies like tractors or greenhouses, and even new production models for fish and insects. Category B can therefore be divided into four subcategories, depending on the type of service and the level of engagement with the actual agricultural process. This subdivision also relates to certain other differences in the characteristics of the PPP projects concerned.
- Almost all these PPPs have budgeted for the technical component of inputs, such as equipment for laboratories, software or software development, seeds, drying facilities, field machinery, breeding equipment, and production plants or facilities.
- A key question with all these PPPs is to what extent the innovative measures connect with the reality of the farming population. In general, a good analysis of the match between technology and various categories of the target groups is missing from the proposals.
- Next to the four subcategories distinguished on the next page, there is one outlier (tagged B*) in category B: a PPP in Burundi that focuses on an integrated approach to investing in local social and public institutions, such as microinsurance, production improvement, and health services to strengthen community resilience. This PPP is led by an international cooperation branch of a Dutch insurance company and has entered a partnership with an NGO specialised in health services and with a knowledge institute specialised in agricultural research. This project fits within category B, as it focuses on providing services to smallholder farmers and rural households to improve their production and resilience. At the same time, the project is an outlier compared to the other four subcategories, as it mainly focuses on strengthening public or collective services (insurance and financing of medical costs) rather than commercial services (finance for rural production). The private money seems to come from CSR motives of the involved Dutch insurance company, as it lacks a market in Africa.

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[13] *Note the difference here with the sourcing category, where CSOs are also found as applicants (in 47% of the cases), next to firms.*

	B1. Access to finance through lead firm (2 PPPs)	B2. Technical services by agribusiness (3 PPPs)	B3. Farming services by agribusiness (4 PPPs)	B4. New production models in collaboration with several chain partners[14] (2 PPPs)
Type of service	(Micro)finance services or an intermediate platform for these	Tractors for ploughing, laboratory analysis for dairy and banana farmers	Seeds and greenhouses	New production models in fish and insects
Link with agricultural process	Not engaged with production technology	Technical services relating to production process, but no direct input during cultivation.	Access and use of production technology in the actual cultivation process	New overall method for the cultivation process.
Providing services through	Local banks (partners in the PPP) or platform for microfinance institutions	Franchise models in 2 out of 3 cases. The other case concerns a laboratory service that, without the PPP, could only be procured internationally.	Direct to farmer groups or cooperatives (Access to (micro)finance is also part of the projects)	Not precisely defined, but probably to farmers and farmer groups

Composition of the partnerships:

- All the main firms engaged as co-financier in these projects are Dutch or national; there are no companies from other countries.
- The local firms in this group are independent local firms and not subsidiaries of large multinationals. Their interest is in marketing the product or service to farmers, households, and SMEs.
- The lead firms work through their own outlets, franchise systems, (networks of) local business partners, or farmers' organisations to market their product to individual farmers.

Contributions of the partners and business drivers:

- The nature of the financial contributions is difficult to assess on basis of the project proposals. As in category A, it seems to concern commercial investments (at least in a majority of the cases) or CSR money that is being used in a strategic manner to foster the primary business of the lead firm.
- In most cases, this money comes from independent local or Dutch firms (usually smaller in size than the multinational firms in category A). They are basically pursuing market entry or a larger market share with their products.
- Knowledge institutes mainly contribute by supporting the development of the technology. NGOs mostly take on the role of embedding the technology in the local context (both in terms of the local providers and the users) and are also engaged as project managers.

[14] *Of the sourcing projects in category A, the project in Mali - with its focus on setting up new production models around sweet sorghum - has some similarities with this subcategory. The main business driver of the lead firm, however, is focused on buying the new produce, rather than selling inputs or technology to the farmers, as is the main focus in the present category.*

C. Improved food products

This category consists of two PPPs located in Kenya. The PPPs focus on the production and marketing of enriched food for poor consumers.

- The **lead private partners** in these PPPs are a combination of Netherlands-based (international) producers of nutrients and national firms producing food items for the consumer market.
- **Other partners:** the firms work with local public agencies to improve the outreach and acceptance of their products in the local consumer market. Knowledge institutions are absent from these PPPs, and one of the two projects engages NGO partners.
- The **core focus** of the projects is on producing and marketing improved, enriched, or fortified food products and on selling these to consumers who are close to, or at the base of, the pyramid.
- The development **benefits** for consumers consist of increased access to nutritious food at affordable prices. A significant part of both projects focuses on the creation of a demand for the fortified food products.
- The **business case** and **financial sustainability** underpinning the projects is that of the production and marketing of the food items by the national firms, and the underlying marketing of the micronutrients of the international firm.

The character of these projects:
- In terms of development results, the target group in category C is consumers rather than farmers (as in previous categories).
- The projects are part of a larger project initiated by AIM (the Amsterdam Initiative against Malnutrition) consortium, which is focused on introducing nutritious food for the emerging consumer at the base of the pyramid in Africa. The main elements of this project consist of marketing, advocating, and locally embedding the enriched food.
- Because it is acknowledged that the targeted consumers are not used to the food items, projects include (experimental) activities and studies on the marketing and retail side, as well as advocacy aimed at the policy level and behavioural change campaigns aimed at consumers.
- Through the creation of (institutional and consumer) demand, it is expected that a viable market for the food products will be created and that business activities can continue after the end of the projects.

Composition of the partnerships:
- In both projects, there is a strong presence of one specific Netherlands-based multinational firm that is active in the production of micronutrients.
- Both projects work through national lead firms that are nationally owned (there are no subsidiaries of international firms).
- There is frequent mention of the role of the national government and public actors, especially when it comes to promoting and backing the production and consumption of enriched food products. Such an emphasis on public organisations is fairly unique within the FDOV portfolio.

Contributions of the partners and business drivers:
- Unfortunately, there are no details available on the budget of the larger AIM PPPs. It can be expected that the lead firms, as well as the national firms, will make business development investments, as through these projects they are trying to develop a market for their nutrients or enriched food products.
- Regarding the business case, the private partners are clearly benefiting from the demand creation initiated by the PPPs. The Ministry is significantly contributing to one project by guaranteeing to create a demand for the fortified food products in the first years of the projects. This offers the private partners an opportunity to begin viable operations in the enriched food products market. Eventually, it is expected that this institutional demand will gradually convert into consumer demand.

4. Overall observations and issues emerging from this analysis

Having distinguished three main PPP categories and several subcategories within these, some general observations can be made across all the categories regarding the composition of the FDOV portfolio and the wider ambitions of the instrument.

A. Findings on the FDOV portfolio

We must note here that the comments below are intended as an initial sense-making exercise and an identification of initial key observations and questions. They seek to create a starting point for further discussion, learning, and investigation.

PPP Partners: who is involved in FDOV?

- **Private sector leadership**, in terms of financial contributions and lead actors, varies widely among the projects - from Dutch SMEs to major multinational firms with a presence in many countries. In the sourcing category (A), only a small part of the northern firms engaged are Dutch, while a significant number of in-country firms are subsidiaries of the northern firms. In the services, inputs, and technology category (B), the (lead) northern firms are all Dutch, while the in-country firms tend to be independent and locally owned.
- The difference in the Dutch private sector presence between categories A and B seems to represent the nature of the Dutch agriculture sector, which has specific strengths in technology, knowledge, and chain development, but less in global trading.
- The limited **engagement of (semi)governmental actors** in the FDOV projects is a very clear pattern and may be a topic for further investigation, especially because such actors can play a vital role in making PPP efforts sustainable while fostering scaling and institutionalisation.
- **NGOs** play quite a variety of roles in this portfolio of PPPs, ranging from initiator or applicant to project manager or local connector, as well as adapting innovative technology to local solutions, developing and extending capacity, shaping participatory processes, and performing community development work. **Knowledge institutions** are mostly involved in research and further improving or adapting the technology used in the projects.

PPP business cases: indications of the sustainability of FDOV PPPs?

- In all categories, whether A (where lead firms secure their supply from farmers), B (where lead firms sell inputs or technology to farmers), or C (where lead firms sell enriched food products to consumers), it is clear that the PPPs are driven by the **direct business interests** of the private (lead) sector parties.[15]
- The exact **financing combinations and patterns** in the FDOV projects are, however, difficult to deduce from the proposals. The graduation of financing mixes over time is even less visible.
- The PPPs show quite a **variation in terms of the types of private sector financing** (CSR, business development, investments that cover operational costs, and real commercial investments). The information available in the proposals does not allow precise analysis of the specific type of money contributed.
- All projects make clear that they need **public finance** or **donor money** to be able to further develop a new solution, as well as help in taking certain risks or scaling the project. Without public funding, the projects would not happen or, at best, the developments and innovations would occur at a much slower pace. Analytically, however, it remains a challenge to assess why the specific **amount of public money** requested is needed.[16]

[15] The single project classified as B, dealing with microinsurance for crop and health risks in Burundi, is an exception. Here, the Dutch lead firm seems to be involved on a CSR basis without market ambitions in the country concerned, Burundi. [16] The proposal format has not specifically requested this.*

- Across the FDOV portfolio, attention is paid to **scaling and sustainability**, but the degree of specification on this varies considerably by project. From a perspective of strengthening effectiveness and impact, this is another possible further research theme.
- In addition, it is difficult to get to grips with the **balance between the international and national economic benefits** of the PPP, as this is also a point that is hardly detailed in the proposals. Except for certification of certain commodities, it seems that **local value addition** (for example, by introducing local processing) in the international value chain projects is not given much attention in this portfolio of projects (or perhaps is not made explicit).

Aid and trade: does FDOV foster Dutch business and expertise?

- The type of Dutch business involved differs quite a bit across the three categories of projects. Many of the lead companies in the sourcing category (A) are not Dutch. The inputs, services, and production technology category (B) seems to serve the interests of Dutch firms, and especially the more medium-sized business community. Both projects in the improved food products category (C) are related to the same Dutch multinational. These distinctions may be an entry point for looking more explicitly at the mix of Dutch business interests served through the FDOV.
- There is considerable engagement of Dutch service providers in the FDOV portfolio, including commercial, NGO, and knowledge players. Through this, FDOV is contributing significantly to the use and spreading of Dutch development, management, social, and technological expertise.
- Especially in categories B and C, but also for many projects in category A, the viability of local business propositions is essential. This has not necessarily been a major point of attention in the proposals. A significant number of the proposals contain little market or competition analysis for the specific products or services concerned.

B. Emerging policy issues and questions

This scan is aimed at distinguishing types of PPP and the variations in key change logics through which PPPs are used to achieve their development objectives. The patterns and trends described also point to some interesting policy issues and questions relating to the FDOV instrument.

Partnership configurations

- There is a wide variety of **partnership configurations** and related divisions of roles between the different types of partners. Our analysis of the sourcing projects (category A), provides indications that the partnership leadership (private sector or NGO) has some influence on the approaches used (the focus on hardware or capacity development) and on the choice of implementing partners (local agribusiness clusters or producer organisations).
- The roles of **NGOs** in these PPPs are quite diverse (ranging from applicant to project manager and service provider), but in general they seem to be prominent in the actual implementation of a considerable number of the projects.
- The engagement of **public sector actors** in FDOV is very low (and also when this is compared to FDW). It seems plausible that this relates to the distinct nature of the agricultural sector - which has much more direct economic and commercial value and whose production, trading, value addition, and marketing is principally in the hands of private actors - as compared to the water sector, which has important public-good dimensions and is often managed to a great extent by semipublic actors. Public actors, however, can be important for both the implementation in local contexts and the institutionalisation of the solutions and innovations that are developed. The present engagement of public actors in FDOV projects, and how this can be fostered, is a possible topic for further investigation.
- Several PPPs are part of an **existing (and wider) collaboration** between lead firms and the NGOs concerned. This means that FDOV is stepping into a longer development trajectory in which other forms of financing have played and will play a role. How do these collaborations evolve? And what do they mean for the role of the present financing in relation to sustainability, scaling, and institutionalisation?

Pro-poor orientation

- Although all the PPPs have been screened against the FIETS criteria, the **specific pro-poor qualities** of quite a number of PPPs have not been detailed very well in the proposals. There is, for example, limited or no specification of the wealth strata of the beneficiaries or of specific outreach strategies towards poorer segments of farmers and the population.
- Due to technological drive - seen especially in the services, inputs, and production technology category (B2, B3, and B4) and in some of the sourcing projects (category A) - **the adaptation of the technologies** and solutions promoted to poor segments of the market or farming population is an important factor. Especially in some of the high-end technical and production domains,[17] it is likely that certain programs will reach more well-to-do farmers than those in the poorer strata of the rural population. This in itself may be a viable strategy for socioeconomic development, but has less direct effects on reducing poverty.

Focus of PPPs

- Quite a number of PPPs, especially in the sourcing category (A), focus on exporting crops, and thus depend mostly on international and northern consumers. In general, over the last 10 years, international value-chain development efforts have been rather dominated by such commodities. In more recent years, however, increased attention has been put on commodities that are more relevant to the **food and nutrition of (poor) people** in the developing countries themselves. These different types of chains thus have fairly different socioeconomic benefits, with local food chains giving a potential direct benefit to local food security and export chains have primarily economic effects in the local sphere through increased income and private sector development.
- There are quite a number of PPPs that deal with some form of **innovation** in production or products. The nature of such innovation varies quite considerably, ranging from improving local agricultural production methods and introducing new techniques or services, to testing or adjusting foreign technology under local circumstances, more BoP-oriented delivery models, or the enrichment of consumer products. It can be noted that the innovation challenge and the stage of innovation that projects deal with may be quite different. One major difference can be seen between the majority of products and solutions, which have already been tested under field conditions elsewhere, and those that are being tested and developed for the first time in the FDOV project. Questions can be asked as to whether FDOV finance is well suited to the last category.
- The FDOV has clear ambitions to contribute to 'scaling'. In this context, it is interesting and relevant to consider whether PPPs address more **systemic constraints and improvements** - for example, in the broader value chain governance, related policy and regulation issues, multistakeholder dynamics, and so on. There are clearly a number of PPPs that have ambitions in such direction, but this could not be studied in more detail in the present scan. In terms of the longer term effect of FDOV investments, it will be interesting to further investigate project strategies with regard to scaling and systems change and to reinforce such dimensions in present or future projects.[18]

[17] Such as greenhouses and dairy. [18] This topic will be further explored by PPPLab in 2016.

Appendix I: FDOV in context

The creation of the FDW and FDOV financing mechanisms in 2012 is seen as an important development in the financing strategies of the Ministry. Four relevant dimensions of this innovation are as follows:

a. Through these financing mechanisms, the Ministry seeks to engage the private sector more actively and directly, with the main development cooperation objectives and themes of water (in FDW) and food and entrepreneurship (in FDOV). Both offer broad spaces with several possible subthemes for which project proposals can be submitted. For both, the basic logic is to combine significant private sector contributions (40%–50%) with public funding by the Ministry. The underlying rationale is that, by requesting the private sector to engage, a foundation will be laid for economic and financial sustainability and possible scaling up. In this way, public money is also used to leverage private sector funding.

b. While the Ministry has several funding mechanisms for private sector development and is currently supporting the Dutch private sector in various ways to engage in developing countries, FDW and FDOV are new in that they explicitly focus on funding mixed consortia of private, civic, knowledge, and public actors to address development challenges. This approach is also referred to as 'the Dutch diamond'. The approach seeks to use the potential innovation and realisation power of multisector collaboration. An underlying assumption is that this can help to address more complex, systemic, or collective action challenges in the domains concerned, and may lead to innovative solutions for persistent problems.

c. The creation of the two financing mechanisms must be seen in the context of broader changes that are still unfolding in the Dutch development cooperation landscape. In particular:

- The recognition that the economies of many developing countries are growing, and that aid plays a diminishing role and should be used specifically for critical social or breakthrough issues.
- The ambition to make aid and trade more mutually reinforcing, including putting a growing emphasis in Dutch international collaboration policy on serving the interests of the Dutch private sector and using its engagement for development purposes.
- A reduction in NGO funding and the anticipated replacement of the existing civil society financing mechanism (the so-called cofinancing System or MFS). The facilities thus constitute a space for new collaborations and endeavours.

d. While both facilities have several key characteristics and elements in common, they also differ from each other in the following ways:

- The minimum requested private sector contribution in FDW is lower (at 40%) than in FDOV (50%)
- In FDOV, the MoFA as financier also considers itself a formal partner in the projects (often through the Dutch embassy in the countries concerned).
- Of course, the facilities operate in very different domains with different characteristics in terms of public and private sector dynamics, engagement of Dutch actors, variations of financing strategies, and so on.

Appendix II: Categorised list of projects

In the list below, the term **lead actor** is used for the main private partner[19] with a key role in the business case or financial sustainability of the project (thus, not necessarily the applicant or the partner that provides the largest financial contribution).

Category A: Sourcing

A1. Local agribusiness (clusters)

FDOV12GH07
Country: Ghana
Title: Building a Sustainable Cocoa Sector in Ghana
Lead actor: Continaf BV and Adwumapa Buyers ltd. (a Ghanaian company)
Commodity: Cacao

FDOV12VN03
Country: Vietnam
Title: Dairy4Growth
Lead actor: Friesland Campina Nederland Holding BV
Commodity: Dairy

FDOV12TZ04
Country: Tanzania
Title: Commercialising Food Security in Tanzania
Lead actor: Quality Food Products ltd. and New Boogaloo ltd.
Commodity: Maize

FDOV12VN05
Country: Vietnam
Title: Growing out of Poverty with Potato
Lead actor: PepsiCo Vietnam
Commodity: Potatoes

FDOV12RW02[20]
Country: Rwanda
Title: Sugar: Make it Work
Lead actor: Kabuye Sugar Works
Commodity: Sugar

FDOV12SA03[21]
Country: South Africa
Title: Agribusiness Innovation and Sustainable Entrepreneurship in South Africa
Lead actor: Manombe Cooperative Trust
Commodity: Maize

A2. Cooperatives or other forms of producer organisations

FDOV12GH01
Country: Ghana
Title: Sustainable Maize Programme in North Ghana
Lead actor: Wienco
Commodity: Maize

FDOV12MZ04
Country: Mozambique and Zambia
Title: Southern African Partnership for Sustainable Cotton and Food
Lead actor: Olam
Commodity: Cotton, maize, groundnuts and soy

FDOV12KE06
Country: Kenya
Title: 4S@scale
Lead actor: Ecom
Commodity: Coffee

FDOV12MW01
Country: Malawi
Title: Going Nuts
Lead actor: Stichting Humana and Afri-Nut
Commodity: Groundnuts

FDOV12KE04
Country: Kenya
Title: Food Security through Improved Resilience of Small-Scale Farmers in Ethiopia and Kenya (FOSEK)
Lead actor: Nestlé
Commodity: Coffee

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[19] As described above, FDOV uses a specific set of definitions for the different kinds of partners. It is important to note that private actors are defined rather broadly as "entities that are involved in economic activities, which means that they offer goods or services in a market economy. These activities may be 'not for profit' or 'not for loss'" (Ministry of Foreign Affairs, Definitions of Sustainable Enterprise and Food Security, 2014). [20] This is essentially an irrigation/water management project, but one driven by the supply needed for a factory, and so it can be added to this category. Its main local entity is a 'special purpose vehicle' (PPP) arrangement. [21] It should be noted that this PPP also works with a cooperative, but the main focus is to improve the operations of a mill. This project is therefore assigned to the A1 category.

FDOV12KE02-B5

Country: South Africa
Title: Amsterdam Initiative against Malnutrition (AIM)
Lead actor: Rijk Zwaan
Commodity: Vegetables (type not specified)

FDOV12RI07

Country: Indonesia
Title: Dairy4Development: Development of Sustainable Dairy Villages in Indonesia
Lead actor: FrieslandCampina Nederland Holding BV and PT Frisian Flag Indonesia
Commodity: Dairy

FDOV12ML01

Country: Mali
Title: More Food Feed and Fuel for Smallholder Farmers through Sweet Sorghum-based Farming Systems in Mali, West Africa
Lead actor: Mali Biocarburant SA
Commodity: Sweet sorghum

Category B: Services, inputs and production technology

B1. Access to finance through lead firm

FDOV12CG01

Country: Congo
Title: I-Bank Microfinance Bank
Lead actor: I-Bank
Commodity: Finance

FDOV12ET05

Country: Ethiopia
Title: Access to Rural-Based Financial Services
Lead actor: Kifiya Financial Technology plc
Commodity: Finance

B2. Technical services by agribusiness

FDOV12ET01

Country: Ethiopia
Title: Appropriate Solutions for Mechanisation of Agriculture in Ethiopia (ASMA)
Lead actor: TGT Enterprise
Commodity: Tractors

FDOV12KE01

Country: Kenya
Title: Providing Analytical Services for Informed Farming in Kenya (PASIFIK)
Lead actor: BLGG Research
Commodity: Mobile laboratories (no commodity specified)

FDOV12PH01

Country: Philippines
Title: PromoBanana: Protect and Modernize Philippine Banana Production
Lead actor: NEH Philippines
Commodity: Bananas (through laboratory services)

B3. Farming services by agribusiness

FDOV12KE02-B1
Country: Kenya and Tanzania
Title: Amsterdam Initiative against Malnutrition (AIM): B1, Nutritious Vegetables
Lead actor: Rijk Zwaan
Commodity: Vegetables (not specified)

FDOV12RW04
Country: Rwanda
Title: SMASH Smart Adaptive Sustainable Horticulture: A Public–Private Partnership
Lead actor: Greenport Holland International (GHI)
Commodity: Tomatoes

FDOV12ET09
Country: Ethiopia
Title: Innovative Business Model (IBM) on High Value Crops in a Farmer-based Crop Rotation in Ethiopia
Lead actor: Solagrow PLC
Commodity: Vegetables and cereals

FDOV12TZ01
Country: Tanzania
Title: Seeds of Expertise for the Vegetable Industry of Africa
Lead actor: East West International BV and Rijk Zwaan
Commodity: New vegetables (not specified)

B4. New production models in collaboration between several chain partners

FDOV12KE09
Country: Kenya
Title: Flying Food
Lead actor: Basenene Dealership and Development Association (BADDA)
Commodity: Crickets

FDOV12KE03
Country: Kenya
Title: Food Tech Africa (FTA)
Lead actor: Nutreco
Commodity: Fish

B*. Microinsurance, production improvement, and health services

FDOV12BI01
Country: Burundi
Title: Fanning the Spark: Towards Increased Food Security in Burundi
Lead actor: Achmea
Commodity: Health insurance

Category C: Improved food products

FDOV12KE02-B3
Country: Kenya
Title: Amsterdam Initiative against Malnutrition (AIM)
Lead actor: Phillips Health Services
Commodity: Dairy (micronutrient powders)

FDOV12KE02-B4
Country: Kenya
Title: AIM: Fortified Milk Product
Lead actor: DSM
Commodity: Dairy

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