AIP-Rural
Australia-Indonesia Partnership for Rural Economic Development

Kementerian PPN/ Bappenas

Australian Government

Working with the Private Sector for Development: **Experiences and Lessons from AIP-Rural**

AIP-RURAL **LEARNING SERIES**

This publication has been funded by the Australian Government through the Department of Foreign Affairs and Trade. The views expressed in this publication are the author's alone and are not necessarily the views of the Australian Government.

AIP-Rural is supported by the Australian Government and implemented by Palladium and Swisscontact.

In collaboration with the Springfield Centre.

Working with the Private Sector for Development:

Experiences and Lessons from AIP-Rural

Daniel Nugraha

Introduction

Development context

Development agencies are increasingly recognising how businesses' investment, innovations, expertise, efficiency and influence can contribute to development goals.[1] As a result, many have been working more and more with the private sector.[2]

The market systems development (MSD) approach, described in Box 1 below, seeks to learn from these mistakes. A central tenet of MSD is that achieving development goals sustainably and at scale is not only about who a program works with, but why and how it works with them.

This case study presents the lessons from an MSD program – AIP-Rural – on *how* to work with the private sector. It starts with the background context, then Section 2 describes how AIP-Rural sought to avoid falling into the traps described above. Section 3 describes the lessons the program has learned through applying its approach, and Section 4 summarises this case study's key lessons.

AIP-Rural context

AIP-Rural is a suite of four MSD programs, funded by Australia's Department of Foreign Affairs and Trade (DFAT) and operational in Indonesia since 2013. Each program aims to increase the incomes of smallholder farming households in rural Indonesia. PRISMA, the biggest of these programs, does this by working with businesses and government to reduce barriers to farmer productivity and market access. [3]TIRTA increases access to water for poor farmers by encouraging investment in tertiary water management. ARISA tests ways to stimulate collaboration between researchers and industry into new technologies for farmers, and SAFIRA improves access to financial services through value chain financing.

AIP-Rural's breadth of private sector partnerships makes it an interesting program to learn from. By December 2018, AIP-Rural had worked on 188 interventions with 180 partners, 145 of which were from private sectors.[4] The program's distinctive approach to private sector partnerships (Section 2), lessons learned from four and a half years of testing and modifying the approach (Section 3) and results achieved (Section 4) also make AIP-Rural's

1 Bella, J. et al. (2013). "The Private Sector and Development: Key Concepts"; Donor Committee for Enterprise Development (DCED) website. The private sector provides approximately 90% of jobs in developing countries, drives economic growth and supplies many essential goods and services, according to International Finance Corporation (2013). "IFC Jobs Study: Assessing Private Sector Contributions to Job Creation and Poverty Reduction."

2 Rodrik, D. (2006). "Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's Economic Growth in the 1990s: Learning from a Decade of Reform," Journal of Economic Literature 44, no. 4: 973–87; Fourth High Level Forum on Aid Effectiveness (2011). "Expanding and Enhancing Public And Private Co-Operation For Broad-Based, Inclusive And Sustainable Growth."

3 With an AUD 77m budget, PRISMA began in November 2013. Its first phase ends in December 2018; Phase 2 begins shortly after. The program is implemented by Palladium and Swisscontact. Some interventions are delivered together with 13 other implementers, referred to as "co-facilitators."

4 Based on data from the program's Management Information System, correct as of December 2018.

experience worth sharing.

Indonesia context

When AIP-Rural began, almost all of the country's large businesses were uninterested in working more or in better ways with farmers in eastern Indonesia, the program's target area. Eastern Indonesia is poorer than other parts of the country, and farmers here were often perceived as more subsistence-oriented and possessing less business acumen than other Indonesians. Higher operational and logistics costs, differences in climate, and cultural differences also deterred potential investors, as did the inherent risks of investing in agriculture. These combined perceptions and barriers meant that few firms saw eastern Indonesia's farmers as attractive customers or suppliers.

Persuading businesses to invest more and invest differently in working with eastern Indonesia's smallholder farmers was therefore difficult: AIP-Rural's ability to influence businesses and support them to overcome challenges would be central to its success or failure.[5]

How AIP-Rural started work with the private sector

To succeed, AIP-Rural would need an approach to working with the private sector which addressed the challenges and avoided the pitfalls described in Section 1. This section outlines the key features of the approach it took.

Models: deciding which businesses to work with

Beyond one partner ('crowding in'). AIP-Rural's efforts to stimulate sector-wide change generally commenced with one partner. When this partner's new or improved business model (developed through its work with the program) showed signs of benefiting both the partner and the farmers it worked with, AIP-Rural began looking for other companies to adopt the same or similar changes.[6] There are three main reasons for AIP-Rural's drive to spread innovation quickly beyond one partner. Firstly, working with multiple firms reduces the risk of a business model failing as a result of problems specific to one firm. Secondly, working with multiple partners also reduces the risk of program support giving a single firm an advantage over competitors such that it monopolises any innovation introduced. Thirdly, multiple partnerships can help interventions achieve sector-wide change faster.

5 This case study defines 'failure' as an intervention or program not achieving its intended results, or those results not lasting as intended. Failure can happen at multiple levels. For example, businesses fail to invest in agreed partnership activities; businesses fail to change the way they do business; farmers fail to adopt the new products, services or information supplied by businesses; or farmers fail to benefit from newly adopted products, services or information, perhaps due to a misunderstanding about how to apply the product correctly, or external factors such as adverse weather or commodity price crashes.

6 AIP-Rural has mainly supported and persuaded businesses in sectors that are large, stable and profitable enough to involve several competing businesses. The authors however recognise that in some small, risky and unprofitable sectors or sub-sectors, market conditions can lead one or two firms to dominate. Here, finding more than one or two firms to partner with may be impossible.

Box 1:
Market Systems Development (MSD)

MSD is an approach used by development programs to make markets function more efficiently and beneficially for poor women and men. Specifically, MSD offers guidance on how to diagnose market-wide problems affecting them, nd how to intervene to address these problems. Typically, MSD interventions aim to influence the business models of firms which buy from, sell to and advise poor producers. Interventions can also influence rules, laws, government policies and public service delivery.

To achieve this influence, MSD programs partner with the businesses or government agencies whose behaviour or rules the program wants to change. The program offers these partners support in the form of technical advice, research, training or co-funding, based on what is needed to persuade and enable them to change. MSD interventions aim for sustainability and scale; interventions are temporary but aim to catalyse long-lasting benefits.

Source: The Springfield Centre (2015) The Operational Guide for the Making Markets Work for the Poor (M4P) Approach, 2nd edition funded by SDC & DFID. Note: the MSD approach is sometimes referred to as Making Markets Work for the Poor (M4P).

Multi-tier supply chains and distribution models. Learning from other programs, AIP-Rural was cautious about pushing large, influential, 'lead' firms to work directly with farmers.[7] Instead, it tended to encourage larger firms to work through intermediary service providers (ISPs) such as retailers, agents or collectors in order to reach farmers with products and services (see Figure 1). The main reasons why AIP-Rural did this:

- *Sustainability*. Retailers, agents and collectors already earn their income by working with farmers, and so are likely to continue working with farmers after AIP-Rural support ends. In contrast, if the program were to become an intermediary between farmers and large firms, there is a high risk that the commercial relationship between them would break down when program support ends.
- *Scale*. Firms are usually reluctant to hire additional staff to manage outreach to farmers and broker trade with them. Without this, the only way to reach scale is through ISPs.
- *Familiarity*. Many crop buyers and agricultural input suppliers already reach farmers through ISPs. This familiarity was useful when AIP-Rural identified firms with products and services which could benefit more farmers than they were currently reaching. The program encouraged firms already using ISPs to engage new types of ISP or to engage ISPs in new regions. Those which found the ISP model new or challenging could access support from the program, including assistance in finding, assessing and making deals with potential ISPs.

Processes: guiding how AIP-Rural engages with the private sector

The processes that development programs use to form and administer partnerships influence the scale and sustainability of their results. In this section we describe the key processes that AIP-Rural used at the start of the program.

Identifying which partnerships to pursue. AIP-Rural approached its partnerships as a means to an end – the end goal was (systemic) change across a whole sub-sector, benefiting rural women and men. This meant that in order to decide which companies to partner with, the program first needed to understand which changes in which sub-sectors were possible and desirable. It used the following process, identifying:

- *Sub-sector-wide constraints*. Analysing the factors preventing farmers from earning more, and their underlying causes. Among other tools, AIP-Rural used 'constraints trees' here.[8]
- *Potential solutions*. The types of goods or services needed to solve the problem.
- *Who might have the capacity and incentives to deliver solutions, sustainably*. Businesses already delivering the solution but delivering it sub-optimally, or those interested in entering the market.
- *How businesses could deliver solutions*. Why the market had not yet solved the constraint (what was preventing firms from doing this) and how business models could change to overcome these barriers.

Building and managing relationships with private sector partners. AIP-Rural gave its staff written guidance on how to do this, key features of which are outlined in Box 2.

Formal agreements. AIP-Rural has generally used the following written formats to define its private sector partnerships:

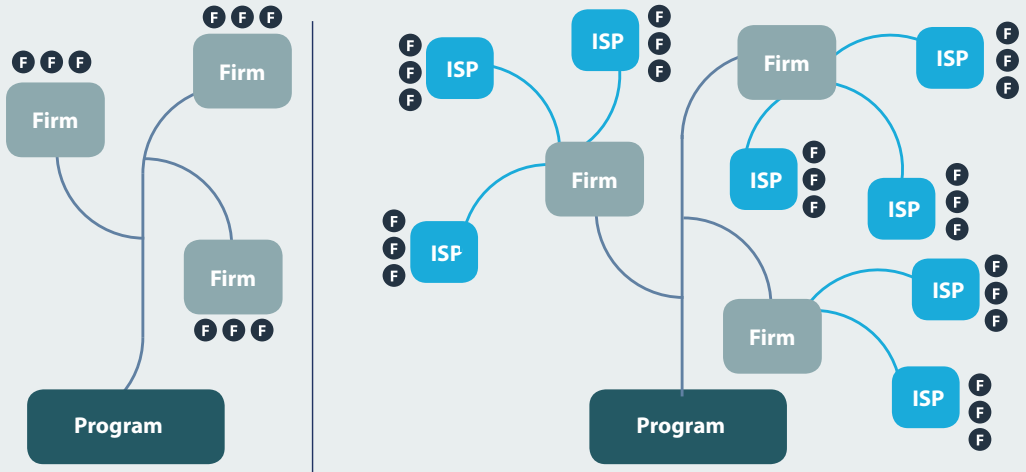
- *Memorandum of Understanding (MoU)*. No transfer of funds between the parties; each party uses its own administrative system to fulfil the commitment delineated in the joint activity and contribution list.
- *Partnership Agreement*. Here, the program transfers funds to help partners buy certain items or conduct certain activities. The partner makes purchases through its own administrative system.

Both MoUs and Partnership Agreements contained features intended to avoid the businesses signing them

7 Development practitioners and public officials commonly perceive that traders and retailers exploit farmers, and advise companies looking for win-win relationships with farmers to bypass these two groups, and work with the farmers directly. There is little objective evidence regarding the success or failure of such initiatives; anecdotal evidence and the authors' experience suggest that many fail to increase farmers' incomes sustainably.

8 Suggested citation for an explanation of 'Constraints Trees' see Khan, K. et al (2018). "Monitoring and Result Measurement for Adaptive Programming – how to use data to manage a market systems development program: lessons from PRISMA." AIP-Rural Learning Series No. 2. AIP-Rural and the Springfield Centre.

Figure 1: One-tier and multi-tier business models, using intermediary service providers (ISPs)



One-tier model

- Program works with firms to reach individual farmers directly
- Outreach is limited by the number and extent of partner resources

Multi-tier model

- Program works with firms to build the capacity and network of intermediary service providers (ISPs)
- ISPs such as retailers, agents and collectors are more localised and closer to farmers
- ISPs can combine different products and services

feeling like AIP-Rural's contractors instead of partners. One feature was the tone of the agreement: businesses were referred to as 'partners' rather than 'subcontractors', 'grantees' or 'service providers'. A second feature was cost-sharing. Asking businesses to co-fund activities under the partnership aimed to ensure that firms valued the partnership's goals, not just the support that AIP-Rural made available.

AIP-Rural has created guidelines for staff on which contractual arrangement to use with partners, available online here[9].

People and culture: acquiring the attributes to influence businesses

Successful private sector partnerships rely on program staff who can identify the right opportunities for the program, with the right partners, pitch the right messages, develop appropriate business models, negotiate suitable partnership arrangements, and manage ongoing relationships, including measuring results and adjusting where necessary throughout the life of the intervention.[10] This section explains how AIP-Rural aimed to find, train and encourage such people.

Recruitment. To find staff with the skills it needed, AIP-Rural designed recruitment events to attract a large pool of candidates, particularly business school graduates and young professionals. This included inviting prominent business figures to recruitment events to speak about how good businesses can produce enduring social impact. This investment in recruitment events was necessary in AIP-Rural's early days, before the program was widely known. Later, word of mouth and personal connections with the existing staff pool became a more cost-efficient means of attracting new recruits.

9 http://bit.do/prismaria

10 The Springfield Centre. (2014). "The Operational Guide for the Making Markets Work for the Poor (M4P) Approach, 2nd Edition".

Box 2: Key features of the guidelines for implementation staff on building partnerships

1. **Identify and assess potential partners:** Analyse partners' willingness (immediate, medium and longer-term interest; motivation and de-motivation; responsiveness), capacity to change (technical, physical, financial, leadership, networks and linkages), reputation, and general risk profile
2. **Make the initial collaboration pitch**: What is the business opportunity? Why should the partner be interested? What can they expect from the partnership? What do we expect to get in return?
3. **Agree on the business model and broad strategy** (high-level activity plan): Who does and who pays during the intervention and in the future? Why so?
4. **Agree on the detailed activity plan and budget**: Is the activity one-off (for example, asset purchase or developmental activities) or a recurrent business operation? What are the allowable and non-allowable partner contributions?
5. **Take stock:** What is the agreed-upon 'culture' of this partnership? How will regular health checks be conducted and ongoing communications managed? How will relationship adjustments be made? How will he program manage a smooth exit when terminating or completing the partnership?
6. **Ensure greater impact and sustainability through systemic change**: How can the partner take full ownership of the new or improved business model? How can additional partners be brought in and competition or complementarity be managed? How can AIP-Rural reposition itself and adjust its contributions?

Applicants (several hundred for each recruitment round) went through two or three stages of paper-based short-listing by senior managers. 80 to 150 short-listed candidates were then invited to participate in a two-day assessment, where they were tested on their ability to give presentations, articulate ideas and arguments, facilitate discussion, work in a team, and resolve conflict. 15 to 25 candidates were invited for a final interview. By the end of this recruitment process, each person hired had been assessed by nine different managers.

Training. New hires completed a four-week induction program. To build capacity for private sector partnerships, the induction included content on deal-making, rapid institutional appraisal for partner selection, projections and business calculations, and partner contract management, and experience-sharing visits to other MSD programs.

Culture. New or improved business models can fail, and AIP-Rural needed staff to accept this risk, acknowledge failure and learn from it. AIP-Rural's case study on adaptive management outlines steps that managers took to create such a culture within the program.[11]

What has and hasn't worked

This section shares the lessons AIP-Rural learned by applying the approach that Section 2 describes – lessons that usefully can be applied by other programs seeking to build partnerships with the private sector.

The Intermediary Service Provider model works well

Lead firms liked the model. Intermediary service providers (ISPs) enabled large and influential 'lead' firms to reach more consumers, in more remote locations, without hiring more staff or opening more offices. By September 2018, AIP-Rural's 170 private and public partners had worked with 5,079 ISPs.[12]

Farmers gained more than ISPs. Most of the farmers benefiting from AIP-Rural interventions bought or sold products through ISPs. There were some concerns that ISPs would exploit farmers, but this rarely happened. Together over the course of the program, as a result of AIP-Rural's interventions the ISPs increased their turnover by AUD 18 million and farmers collectively increased their incomes by AUD 158 million.

Traders persuaded more farmers to adopt new products, services and practices than other ISPs did. Compared with other potential ISPs such as prominent farmers, community leaders or extension workers, traders tend to have stronger entrepreneurial traits, be more responsive to commercial opportunities, analyse costs, benefits and risks better, and be more adept at managing cash flow. As ISPs, traders were also

11 Suggested citation: Seely, K. (2018). "Managing and adapting a development program: lessons from PRISMA," AIP-Rural and the Springfield Centre.

12 PRISMA, ARISA, SAFIRA. (August 2018). "Progress Report and Implementation Plan Year 2018 Semester 1."

likely to generate a commercially sustainable profit and grow their business, for the same reasons.

MSD can benefit local small and medium enterprises. Almost anyone – community leaders, farmers or even public extension workers – could become an ISP under the program if they had adequate commercial interest and sufficient capacity. In several cases three-tier models emerged, where ISPs reached farmers through sub-agents.

When ready, private sector partners should identify ISPs by themselves. To ensure sustainability, companies receiving support from AIP-Rural to identify and engage with ISPs should over time bring this function in-house. Some have already started to do this. For example, several pig feed manufacturers received initial support from PRISMA to identify and work with ISPs in East Nusa Tenggara (NTT), and now, when expanding into new areas, find additional ISPs to work with, independently of program support.

Getting processes to work for private sector partnerships

Guidance should value partnership over deal-making. In 2017, AIP-Rural realised that staff were too often focusing on "doing the deal" rather than on building a true partnership. AIP-Rural wanted businesses to partner with the program with a view to gaining commercially from changes to their business models (changes which would also benefit farmers, and last beyond program support). Where deal-making had been the focus, many so-called partnerships were little more than sub-contracting arrangements, where the program's support (typically in the form of money) was what motivated the business to partner with AIP-Rural. Here, "partners" took less ownership over the changes they were making, undermining sustainability, and they were also less likely to feel equal with and speak openly to program staff.

As a result, AIP-Rural decided to change its guidance for staff on how to collaborate with businesses. Originally called *Deal Making Guideline,* this was retitled *Building Partnerships for Impact*, and content was revised to reflect the new emphasis. The program's quality of relationships is still variable, but staff increasingly focus on building genuine partnerships, even if it takes longer to secure a "deal."

Monitoring partners' behaviour change. Partnerships rarely evolved as planned and agreed on paper. To work with this, staff used a *kaizen* tool to monitor whether their support changed partners' incentives and capacities.[13]

This was especially useful where the program gave a partner intensive early support; the *kaizen* tool helped AIP-Rural to check the likelihood that benefits to farmers would last (because the partner had changed behaviour) or would be temporary (because they depended on program support continuing).

The most appropriate type of written agreement varies between partners. Partnership Agreements, as binding contracts involving the transfer of money from AIP-Rural to a partner business, presented partners with compliance requirements which were not part of MoUs. Among other things, a business entering a Partnership Agreement with AIP-Rural had to agree to a formal Code of Conduct, legal dispute settlement mechanisms, full information disclosure upon request, and record-keeping for audit purposes. As well as increasing businesses' administrative burden, these compliance requirements signalled that the program retained authority, undermining AIP-Rural's efforts to foster open, equal partnerships. "*Had we known that we would need to do all this administrative work, we wouldn't have taken money from the program,*" said one partner.

MoUs on the other hand, which are not binding contracts and do not involve transfer of funds, were easier to explain to partners and presented them with less administrative burden. Where an MoU was the chosen agreement, most of the administrative and procurement tasks were conducted by AIP-Rural staff instead. However, although this made things easier for the partner, it increased the risk of lack of sustainability after the program withdrew.

From the perspective of the businesses AIP-Rural partnered with, Partnership Agreements did have some advantages over MoUs. Partners gained greater flexibility over purchases, and AIP-Rural's willingness to transfer co-funding tended to instil more trust in the relationship. However, Partnership Agreements are only appropriate for some businesses. A partner may need a cash flow arrangement which allows it to pay upfront for purchases (AIP-Rural then reimburses its share of the cost, after verifying that the items or activities have been delivered). Alternatively, if a partner requires cash upfront before making investments, the program would first need to judge whether the partner has a profile and systems in place which minimise the risk of funds being misused.

13 For more information on AIP-Rural's kaizen tool, see Shahi, P., Nasution, Z. and Tomecko, J. (2018). "Understanding, Promoting, and Measuring Behavior Change in Partners," AIP-Rural.

Different views and incentives within companies

Understanding partners' internal sensitivities. Sometimes, program staff could only access certain information about an organisation after a partnership had been formalised and enough trust developed. For example, an emerging corporate that was restructuring might alter its incentives and risk appetite. The earlier such sensitivities were detected, the better the intervention team was able to devise appropriate mitigation measures and exploit the new, emerging opportunities.

Staff at different levels may have different incentives. Deals with private companies are usually made with executives, but if the key performance indicators of the firm's operational staff did not align with the product, service or business model to be promoted through the partnership, their support was likely to diminish, undermining results (see Box 3 for an example).

Different departments may have different incentives. Similarly, different entities within a company can have different priorities: total sales value is not always the unifying agenda. For example, for a company's business development unit, pushing new products might top the agenda; the marketing department might focus on core products with the largest sales value; the finance section may prioritise products with the largest overall margin contribution. The program needs to identify proponents and blockers within the organisation, which helps make the right pitch, avoid friction, and acquire wider organisational support.

Build relationships at different levels and in different departments. Given AIP-Rural's experience mentioned above, and because of the business approach that MSD requires, the program seeks to establish multiple contacts within the partner business. By doing this, program staff can triangulate information, and understand and influence the different incentives and perspectives at play in relation to the partnership's goals. This has been particularly important in Indonesia where in many businesses, much decision-making is quite decentralised. Building multiple relationships within the partner business can also help AIP-Rural to maintain momentum in the partnership when a key contact leaves the business.

Different sizes of company present different challenges

Innovations were less likely to get to scale through smaller firms. Sixty per cent of AIP-Rural's private sector partners have been small and medium enterprises.[14] Most of them (including local nurseries, traders, input shops, cooperatives and social enterprises) are operated by individual entrepreneurs supported by a few employees or family members. They typically have multiple business units or revenue streams, of which only one is related to the intervention.

The way that these businesses are managed makes it difficult

14 PRISMA has classified its partners into small, medium and large enterprises using a definition broadly consistent with that used in Indonesia's Law number 20/2008 (that is, having assets under IDR 10 billion and a turnover under IDR 50 billion), as well as the definition used by Indonesia's Central Bureau of Statistics (100 employees or fewer).

Box 3: Signs of a partnership going wrong

After two years working with a particular multinational corporation, AIP-Rural recognised that the organisation had defective internal command lines and communication. The company's director strongly supported the partnership because it reflected his personal values; he wanted to make the business relevant and beneficial for smallholder farmers. One regional manager was cooperative but said little in meetings.

During a joint field visit, he opened up: "You're not helping me achieve my own sales targets, but you ask my boss to add more activities to my plate." Meanwhile, a second regional manager hesitated to support scale-up of the pilot; he was competing with the first manager and did not want to "acknowledge" his rival's success with the pilot. Even the company's field agronomists were caught up in internal issues – as part of the pilot, their supervisor instructed them not use their usual, effective model of engaging with farmers. Given the company's internal misunderstandings and misaligned incentives, the pilot was not scaled up.

for them to scale up a new business model. Although able to grow slowly and incrementally, they quickly reach *pareto optimum* where, due to limited management capacity and resources, further expansion of the new business model can only happen at the cost of other business streams. Most of the small business owners that AIP-Rural encountered were not prepared to hire the professional managers needed to grow further, preferring to keep the business under their personal control.

To scale up business models centred on small and medium-sized enterprises (SMEs), AIP-Rural has turned to larger upstream businesses – specifically, firms which buy agricultural produce, produce agricultural inputs, or provide SME finance. Where the SMEs are the customers or suppliers of larger firms, the latter may have the incentive (as well as the capacity) to help AIP-Rural's partner SMEs grow, by providing additional management and financial support. Alternatively, these larger firms can help to replicate the new or improved business model, by encouraging other small businesses in their working areas to adopt it. This attempt has not yet worked, as small businesses have their own unique characteristics and constraints, such that almost every case requires tailor-made solutions[15].

Large firms bring their own challenges. AIP-Rural sometimes found that the potential benefits offered through partnering with the program were miniscule compared with the company's overall revenue. As a result, larger firms sometimes gave the partnership scant attention and allocated too few resources to it, or passed responsibility over to their corporate social responsibility department instead of incorporating changes into their core business. Elsewhere, mergers, acquisitions or corporate policy changes altered the partner's incentives midway through a partnership.

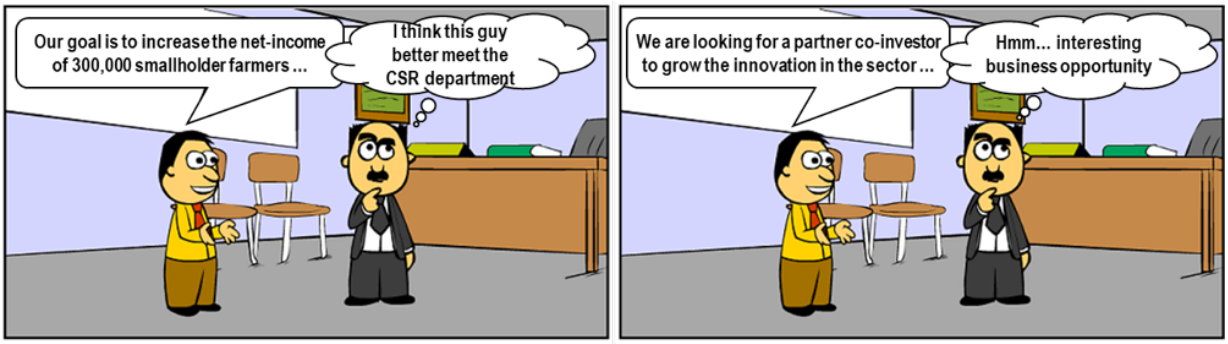
Large firms do not always know about market potential or more effective business models. Typically, they track and analyse their own sales figures and those of their competitors, focusing primarily on their immediate market of interest. They rarely use commercial market research services or statistical analyses of agricultural data on production output, productivity or cultivation area. In addition, firms are sometimes unaware of government programs they could draw on to enter new markets or introduce new products. [16]As Box 4 illustrates, this presents an opportunity for development programs to draw the attention of prospective partners to untapped markets and business models which could benefit large numbers of smallholder farmers.

First impressions and relationships mattered

First impressions count. To begin with, AIP-Rural often failed in its attempts to engage businesses in meaningful partnership discussions. Firms frequently perceived the program primarily as a charitable initiative

15 See Lomax, J. (2018). "Changing market actors' behaviour, sustainably and at scale: lessons from AIP-Rural," AIP-Rural and the Springfield Centre.

16 For more information on AIP-Rural's public sector partnerships, see Nugraha, D. (2018). "Partnering with the public sector to improve market systems: experiences and lessons from AIP-Rural," AIP-Rural and the Springfield Centre.



Box 4: Supporting private sector partners to engage with government

A leading seed company was close to abandoning supplying its product to farmers in a particular region: it was worried that sales were about to fall because of the local government's plan to give the farmers free seed.

PRISMA convened and facilitated meetings between the company and local government officials, who changed their plans so that the subsidy scheme complemented rather than competed with the company. As an independent, neutral actor, PRISMA's facilitation helped government officials to view the company positively and reach a mutually beneficial outcome.

which was either irrelevant or looking for corporate donations.

The problem lay in first impressions. When introducing AIP-Rural, staff presented the program's partnership objectives using development terms which private sector managers were unable to relate to (see Fig. 2). To address this, the team needed to formulate and train themselves to give 'elevator pitches' using business terms.

Informal interaction was useful. Conversations outside the meeting room helped staff to build trust and access information which could not be shared in an official setting. For example, road trips with partners to visit potential locations for pilots provided excellent opportunities for 'car diplomacy', with staff having the full, uninterrupted attention of a captive audience for presenting ideas, testing hypotheses, and persuasion.

Private sector partners appreciated AIP-Rural's support to engage with government. AIP-Rural invested in building relationships with local government representatives in its target areas. The program's neutrality (in terms of an absence of commercial interests) meant that it could sometimes gain the trust of local officials more easily than its private sector partners could. Where necessary, AIP-Rural used this trust and these relationships to help partnerships gain support from local government. Box 4 provides an illustration.

Box 5: Managing competing partners

Two AIP-Rural partners engaged in "marketing warfare" against each other in pursuit of sales targets and brand dominance. AIP-Rural accepted this, and continued to work with both businesses.

Elsewhere, an input company demanded AIP-Rural drop partnerships with its competitors before agreeing to collaborate. PRISMA decided to forego the partnership opportunity.

Managing competing partners remains a challenge

For a firm, partnering with a program like AIP-Rural which also works with the firm's competitors is never an ideal situation. However, as a central tenet of the MSD approach, AIP-Rural actively promotes competition, making it necessary to partner with two or more competing businesses. Many potential partners accepted this if PRISMA could offer "compensation" in the form of high quality support; however, some demanded an exclusive partnership with AIP-Rural, which the program refused. Box 5 provides examples.

Successful partnerships can start with core business or CSR units

As mentioned in Section 1, many MSD experts have criticised development programs for drawing down private sector funding through a firm's foundation or corporate social responsibility (CSR) unit, without any apparent benefit to the enterprise's core business. Such criticism is on the basis that this approach rarely creates lasting change in terms of how the business interacts with poor women and men, and it is unlikely to achieve large-

scale change in the way that major commercial investments by companies can.

Contrary to this belief, AIP-Rural found that interventions which started with a firm's CSR unit or a private company's foundation *can* be the start of large-scale, lasting change. Companies who engaged with the program sometimes used CSR funds to cover market exploration activities in underdeveloped areas. Others used their foundation as the point of engagement, because the core company could neither receive money from external organisations due to tax issues, nor engage in non-typical formal partnerships due to legal requirements. There were also businesses who started the partnership with the motivation to build their corporate image, but later recognised the real commercial opportunity that it brought.

In each case, the partnership succeeded when AIP-Rural was able to persuade the partner business, over time, to institutionalise the changes in its way of doing business into its mainstream commercial operations.

Partnerships can survive failed interventions

Interventions sometimes fail for reasons beyond the partnership itself. Where AIP-Rural staff and its partners had confidence in the innovation and in the value of continued collaboration, they adapted the innovation or applied it to other products, sectors or locations (see Box 6).

When projecting the combined results of its interventions, AIP-Rural assumed that 30% of these would fail[17]. This predicted failure rate helped staff to accept setbacks and take a longer-term view, valuing partnerships over the performance of particular intervention activities.

Box 6: A partnership journey from underdog to top dog

In the shallot sector PRISMA partnered with a horticulture seed company to re-introduce true seed shallot (TSS) technology. Although this technology offers substantial productivity increases and cost reduction, farmers had rejected it because of its requiring drastic changes to agronomic practices and a high degree of technical sophistication. Responding to this constraint, AIP-Rural staff devised a specialised shallot nursery model as an entry point to showcase and disseminate the benefits of adopting TSS technology.

Throughout its lifetime, the intervention faced constant challenges and was modified four times: producing mini planting bulbs, introducing a buy-back program, partnering with traders, and finally trying seedling production for transplanting. The outreach of the intervention was not insignificant (projected to be 5,000 farm households by 2018), yet it remained far from the initial target.

Nonetheless, through these ups-and-downs the partner has gained strong trust and confidence in the way PRISMA works and has supported them. The partnership grew from producing one commodity to producing five, and operating in one to operating in five provinces, with 30,000 households projected to benefit by 2018.

17 AIP-Rural chose a 30% estimate because this roughly reflects intervention failure rates in other MSD programs.

Conclusions

AIP-Rural faced a dual challenge in its work with the private sector: it had to build credibility with potential private sector partners, while at the same time avoiding the mistakes made by other programs working with business. These mistakes include partnering with the private sector without a clear strategy for development impact, treating firms as sub-contractors rather than partners, chasing and celebrating firms for tokenistic development funding, leading corporations to depend on development programs when doing business with smallholders, and supporting single firms without stimulating sector-wide change.

To pre-empt these problems, AIP-Rural has applied, tested and improved its approach in 145 private sector partnerships. It now offers these key lessons for other programs and the businesses they partner with:

- Selling agricultural inputs or buying crops through intermediaries allows large firms to reach more consumers, without adding staff or offices. Traders can persuade more farmers to adopt new products, services and practices more readily than most other ISPs. Rural retailers, community leaders, farmers and agricultural extension workers also serve as appropriate intermediaries.

- Implementation staff should focus on forging equal and open partnerships, instead of adopting a "deal-making" approach which makes firms less likely to take ownership of the changes which the intervention aims to trigger. Genuine partnerships take longer to establish, and staff need to be supported by signalling and guidance from managers.

- Partnerships rarely evolve as planned and agreed upon on paper. Among other things, staff need to monitor whether their support changes partners' incentives and capacities. This can especially be the case when the program gives a partner intensive support early on, raising the risk that benefits to farmers result from this support rather than lasting behaviour change.

- Choose the appropriate type of written agreement with partners. Partnership Agreements are mainly suitable for businesses with strong cash flow and low risk of misusing funds; MoUs give partners fewer administrative and procurement tasks, but also less control over spending.

- Within the same company, different staff have different incentives. Building relationships at different levels and in different departments help program staff to triangulate information, understand and influence potential blockers, and to maintain momentum when a key contact leaves.

- Innovations are less likely to reach scale through work with smaller firms – but interventions with large firms also brings challenges. Where the potential benefits offered by a partnership are small compared with the company's overall revenue, larger firms sometimes lack motivation to give the intervention the attention it needs.

- Development agencies are in a position to encourage firms to use data efficiency in order to identify new or improved business opportunities.

- To successfully engage businesses in meaningful partnership discussions, program staff should practice framing their objectives in terms that business people can easily relate to.

- Informal interaction such as 'car diplomacy' can help program staff to achieve trust and influence.

- If a potential partner finds it hard to accept that the program works with competitors, forego the partnership opportunity. Remember: the objective is sector-wide change through market-led competition.

- Successful partnerships can be forged with both core business units and CSR units. Starting by implementing changes via a firm's CSR unit, over time a program can persuade its core business unit to adopt these

changes. For example, a firm can use its CSR funds to explore the market and then make investments from the core business, or use its foundation to, for example, sign partnerships and overcome legal or tax compliance issues.

A final, important lesson is that AIP-Rural's way of working with the private sector to achieve development goals has been effective, and after four and a half years of iterative learning its ability to influence the private sector has grown. New private sector partners are easier to engage: 4-6 of every ten companies that AIP-Rural approaches are willing to engage, compared with 1-2 at the start. Alongside this, the time required to seal a partnership deal has fallen from 9-12 months to less than 6 months.

By June 2018, the program had helped to stimulate AUD 9.5 million of new private sector investment in agriculture in eastern Indonesia. This investment (and the business model changes which have accompanied it) have led 342,721 farmer households to adopt new inputs or practices which improve their productivity. As a result, 230,865 of which have already increased their income by a combined total of AUD 158 million – and in most cases, there are encouraging signs that investors are benefiting too. Equal and open business partnerships mean that the changes driving this increase in farmers' incomes are more likely to last.[18]

18 PRISMA, ARISA, SAFIRA. (August 2018). "Progress Report and Implementation Plan Year 2018 Semester 1". For more information on the sustainability AIP-Rural's work to date, see Lomax, J. *op. cit.*

AIP-Rural
Australia-Indonesia Partnership
for Rural Economic Development

Jl. Margorejo Indah I Blok A-535
Surabaya 60238, Indonesia

P. +62 31 842 0473
F. +62 31 842 0461

www.aip-prisma.or.id

AIP-Rural
Australia-Indonesia Partnership for Rural Economic Development

Kementerian PPN/ Bappenas

Australian Government

Working with the Private Sector for Development: **Experiences and Lessons from AIP-Rural**

AIP-RURAL **LEARNING SERIES**