

# Partnering with the Public Sector to Improve Market Systems: **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.



# Partnering with the Public Sector to Improve Market Systems

## Experiences and Lessons from AIP-Rural

**Daniel Nugraha**

### Background

#### Development context

Market system development (MSD) programs aim to make markets function more efficiently and beneficially for poor women and men<sup>1</sup>, and to achieve this, they work mostly with businesses. Alongside this work with the private sector, however, partnerships with government ministries, departments and agencies are also an important part of MSD.<sup>2</sup>

Globally, many MSD programs now have experience of working with government. Katalyst (Bangladesh, 2002-18) is one example; the program collaborated with public agencies on 17 interventions, improving the Government of Bangladesh's role as policymaker, regulator and service provider to the country's agriculture sector. ENABLE (Nigeria, 2008-17) is another example; it supported and persuaded government to increase its consultation with the private sector on policy, contributing to 147 new or improved public-private dialogues and 30 reforms. Other MSD programs which have worked with government include Alliances (Georgia), Propcom (Nigeria), Private Sector Development (two programs in Serbia) and the Samarth Nepal Market Development Programme<sup>3</sup>.

Despite this growing experience of working with government, MSD practitioners worldwide frequently cite working with the public sector as one of the most difficult aspects of their work. Three common challenges are:

- How to influence government?
- How to strengthen government service delivery?
- How to help government and businesses work together more effectively?

This case study shares lessons from one MSD program, AIP-Rural, on addressing these three challenges. The case will interest MSD funders and implementers working with the public sector or thinking of doing so.

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1 MSD offers guidance on how to diagnose market-wide problems affecting poor women and men, and how to intervene to address these problems.

2 As well as influencing economies at a 'macro' level, governments can influence how specific markets function in three key ways: setting and enforcing rules and regulations (such as import tariffs and food safety standards), providing public goods and services (such as large-scale irrigation, agricultural research and extension), and making, marketing and subsidising goods (such as low-cost fertiliser). Globally, there are heated debates on which of these roles governments should play. MSD programs have tended to take a pragmatic, context-specific view, assessing the effects of government activities on the welfare of poor women and men, and the capacity and incentives of public sector bodies to perform and sustain these activities. Where a role for government seems appropriate, MSD programs can support public sector agencies to improve their effectiveness; where government unintentionally undermines a market's benefits for poor women and men, MSD programs can support governments to reform.

3 See Katalyst (2018). Katalyst's Experience in Market Systems Development: A Framework for Engagement with Public Agencies; DFID (2017). Enhancing Nigerian Advocacy for a Better Business Environment: Project Closure Report; Davies, G. (2017). Is a Genuinely Sustainable, Locally-Led, Politically-Smart Approach to Economic Governance and Business Environment Reform Possible? Lessons from 10 Years Implementing ENABLE in Nigeria.

## AIP-Rural context

AIP-Rural is a suite of four MSD programs, funded by the Australian government's Department of Foreign Affairs and Trade (DFAT). Each of the four programs aims to increase the income of smallholder farming households in rural eastern Indonesia. PRISMA, the biggest of these programs, does this by working with businesses and government to reduce barriers to farmer productivity and market access.<sup>4</sup>

TIRTA increases access to water for poor farmers by encouraging investment in water management. ARISA tests ways to stimulate collaboration between researchers and industry on new technologies for farmers. SAFIRA improves access to finance for farmers through value chain financing.

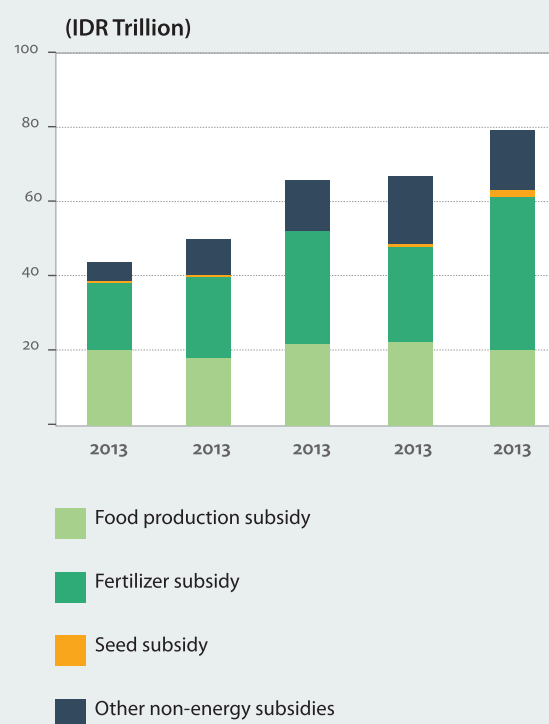
## Indonesia context

In Indonesia, the agriculture sector – food crops, horticulture, forestry, livestock, and fishery – is economically and politically important<sup>5</sup>. Although agriculture's share of GDP has diminished from above 50% in the mid-1960s to below 15% in 2016, it remains a major source of employment in the country, absorbing 38m people, or 30% of the workforce. The significant influence that the Government of Indonesia (Gol) wields over Indonesia's agricultural sector results partly from government spending. The Gol also influences agriculture in other ways, for example by (1) restricting imports of certain agricultural products, (2) restricting foreign direct investment in areas such as seed production, (3) directing state-owned companies to produce seeds and fertiliser, (4) controlling prices of certain food products, and (5) re-distributing land to farmers.<sup>6</sup>

The degree of government influence over agriculture has changed over time. Notably, agricultural subsidies have become more prominent. Between 2006 and 2008, the Gol quadrupled its spending on agricultural subsidies, while spending on irrigation remained constant. In 2008, subsidies accounted for around half of public expenditure on agriculture. Spending on subsidies has remained high, and in 2017 accounted for an estimated 60%-70% of the Ministry of Agriculture's budget.<sup>7</sup>

In 2017, the fertiliser subsidy cost the Gol approximately AUD 3bn, while other food production subsidies cost around AUD 1.8bn (see Figure 1).<sup>8</sup> The Gol's interventions in Indonesia's agriculture sector stem from a desire reflected in the country's National Medium-Term Development Plan for food self-sufficiency<sup>9</sup>. Interventions by Indonesia's national and local governments are also motivated by poverty reduction: government officials often perceive their support to smallholder farmers as being pro-poor. Steep global rises in the prices of staple foods and fertiliser in 2007/8 are also likely to have influenced Gol's support for agriculture. Governments around the world responded to these price rises with fertiliser subsidies and other measures intended to help

**Figure 1:**  
Non-energy subsidies related to agriculture (2013-17)



4 PRISMA began in November 2013 with an AUD77m budget. Its first phase ends in December 2018; Phase 2 began in 2019. The program is implemented by Palladium and Swisscontact. Some interventions are delivered together with 13 other implementers, referred to as "co-facilitators."

5 FAO (2017). Indonesia: Country Fact Sheet on Food and Agriculture Policy Trends; OECD (2015). "Indonesia Policy Brief: Agriculture – Achieving Greater Food Security."

6 Government of Indonesia (2016). Presidential Regulation Number 44, Year 2016; BAPPENAS (2014). "National Mid-Term Development Plan 2015-2019 – Book II."

7 In recent years, the Ministry of Agriculture's budget allocation for input subsidies has been disbursed under diverse 'production support activities.' These include free seed, seedlings, equipment and machinery, and other activities. An estimated 60-70% of the total budget is spent on such direct support. Source: Katadata (2018). "Declining Budget, the Ministry of Agriculture Prioritise Budget Allocation for Farmers."

8 Ministry of Finance (2018). Information on State Budget 2018.

9 BAPPENAS (2014). Op. cit.

small-scale farmers boost production<sup>10</sup>. Some of these interventions have had important unintended consequences. Critics point out that such policies have contributed to dysfunctional agricultural market systems (indicated by demand-supply imbalances, leading to price volatilities; by low levels of investment in production and trading facilities, and in research and development, leading to low productivity; and by slow expansion into less-commercially developed regions). A further consequence most relevant to this case study is that government subsidies for food crop seed and fertiliser have made it harder for independent fertiliser and seed companies to compete<sup>11</sup>. Confined to selling inputs which are not government-subsidised, these firms invest less in providing farmers with yield- and income-enhancing products, services and advice<sup>12</sup>.

### AIP-Rural's objectives in partnering with the public sector

Informed by the Gol's influence on agriculture described above, AIP-Rural's had three main objectives in partnering with the public sector:

- **Strengthening government delivery of services and public goods to farmers**, with a focus on agricultural information and irrigation. AIP-Rural sought to help government improve the quality and outreach of these services, especially by facilitating more effective collaboration with Indonesia's private sector.
- **Reducing market distortions**. When supporting businesses to test new products or services, competition from similar, government-subsidised products or services seemed inevitable. AIP-Rural and its partner businesses usually chose to start pilots in locations where their product or service had no subsidised competition – until, as sometimes happened, subsidy schemes expanded into these areas. In these cases, the program supported partner businesses and local governments to agree ways to reduce competition between subsidies and commercial efforts, for example by targeting subsidies better.
- **Understanding and influencing government policy, rules and regulations**, and how these affect target sectors and interventions.

#### Box 1: Initial political economy analysis: results and implications

In 2012 and 2013, AIP-Rural analysed the Government of Indonesia's policies and regulations relating to cattle, cashew, cassava, maize, marine fisheries, pigs and shallot in twelve districts of the program's three target provinces. It found that overall, sub-national policies and regulations were not among the most important constraints to farmers' productivity and income. The constraints identified (such as informal levies charged for transporting produce across districts and provinces) were considered by most firms to be a modest cost of doing business.

The studies also revealed that changes to subnational policies or regulations required at least two years to enact, and face significant risk of reversal when a new administration takes power.

Given that subnational policy and regulatory changes would not significantly improve farmers' incomes and that the feasibility of achieving them was low, the program decided to focus elsewhere.

10 FAO (2013). "Food and Agriculture Policy Decisions: Trends, Emerging Issues, and Policy Alignments since the 2007/8 Food Security Crisis."

11 Hitchens, T. and Tomecko, J. (2017). "Private Investment in Indonesian Agriculture." Unpublished; McKinsey Global Institute (2012). "The Archipelago Economy: Unleashing Indonesia's Potential."

12 Crop protection, horticulture seed and high-quality fertiliser, for example, are rarely subsidised

## Box 2: Examples of incentives and power in action

PRISMA – the lead program component under AIP-Rural – has received solid support from the Gol's National Planning Agency (BAPPENAS), for three reasons. Firstly, BAPPENAS regards PRISMA as being closely aligned with its poverty alleviation policy agenda. This is because the program aims to increase smallholder farmers' incomes, and is committed to robust, poverty-focused data collection and analysis.

Secondly, PRISMA is seen as a program which helps the Gol to achieve its goal of increasing agricultural productivity. Thirdly, PRISMA's unconventional (for Indonesia) approach of building market systems to ensure sustainability (instead of delivering direct support to farmers) is regarded by government as being consistent with BAPPENAS's mandate to pilot new development models which potentially can be scaled-up nationwide if proven effective.



## AIP-Rural's approach to working with the public sector

This section summarises key features of AIP-Rural's approach to partnering with public sector bodies. The first subsection describes how AIP-Rural decided when and how to partner with government. The second subsection describes AIP-Rural's most common tactics for government engagement.

### Deciding when and how to partner with government

**Decide what needs changing.** AIP-Rural analysed the political economy of the markets for the agricultural commodities it planned to intervene in. The aim was to better understand policy and regulatory issues affecting these markets, and identify the public bodies at provincial and district levels which could influence them. Box 1 describes the studies and their main findings.

To inform its decisions on which interventions to pursue, AIP-Rural first carried out textual and contextual analysis. It examined government documents, including budget allocations, the authority and responsibilities of related agencies, and regulations pertaining to specific commodities. The contextual analysis examined the unwritten aspects of the policy and regulatory framework, namely what public body or person was behind a specific policy or regulation and what their intention or incentive was, how a policy or regulation was being implemented on the ground, what its impact on market players were, and how market players were responding to it.

**Map out 'who's who'**, that is, the organisations and individuals with an interest in and enough power to influence AIP-Rural's desired change to public policy, rules, regulations or service delivery. Understanding this is important because within the public sector, different agencies and departments often have different views, incentives, resources, expertise and degrees of political influence. Identifying key individuals within these public sector organisations is also important, as changes are often initiated by an individual champion. These are people with the incentives (including a willingness to bear risk), political capital, authority and influence to make change happen. Organisational change builds from this.



**Analyse incentives and power.** The next step was to identify, if a particular policy or regulation was to be changed, which public bodies and powerful individuals would favour the change and which would oppose it, by analysing their incentives. At the same time, AIP-Rural assessed how much influence each stakeholder could exert in advancing or blocking the change, i.e. analysing their power. Boxes 2 and 3 give examples of how these incentives can work on the ground.

**Use this analysis to decide what type of program support would achieve the most leverage.** Examples of the support AIP-Rural provided include:

- Access to practical knowledge about markets, business operations and their relevance to the government: offering capacity building and access to insights from AIP-Rural's research into markets.<sup>13</sup> AIP-Rural used its information to help government partners identify complementarities and tensions between their interests and those of the private sector.
- Support for building partnerships with the private sector: assistance in identifying, approaching, engaging, and forming partnerships with relevant businesses. This assistance took several forms depending on the public sector partner's needs, and included market analysis or other preparatory research, advice, introductions to businesses, facilitating meetings and partnership brokering, co-funding or sharing partnership activities, and helping to monitor the results of a partnership.

**Assess what is realistic and achievable.** Given the complex political economy of the government, AIP-Rural assessed the feasibility of change before agreeing to support public sector partners. In doing so, the program considered the level at which change is expected to occur (district, province or national), the type of change required (such as policy adjustment, policy reform or policy creation, policy implementation), the quality of champion involved (for example, whether they have strong or weak incentives, influence and authority), the amount of time needed (ad-hoc change or longer-term policy process), and the resources available.

### Tactics for engaging with government

**Cultivate trusting relationships.** AIP-Rural sought to establish and maintain trust and good relationships with both national and subnational governments. The following actions were key to this:

- Demonstrating potential value addition: showing clear understanding of provincial and district government objectives in the agriculture sector, and explaining how program activities support these objectives.
- Being inclusive: showing respect for government authorities by consulting and seeking endorsement from key decision-makers for public events at the local level and, where appropriate, inviting them to provide opening speeches; coordinating field activities with related government bodies and offering participation where feasible.
- Being open: providing regular updates on program activities and results through monthly circulars, joint field visits, and periodic face-to-face meetings.

**Avoid having a big profile until the program has a sufficient evidence base to prove to the Gol that the approach works.** The first Section described how many Indonesian policymakers see government (rather than private sector) intervention as the means to drive the development of smallholder agriculture in the country. Not surprisingly, AIP-Rural anticipated that its approach – raising smallholder farmers' incomes by partnering with businesses to overcome constraints to growth in agricultural markets – would attract scepticism from many within the public sector.

#### Box 3: Understanding government incentives to support AIP-Rural

In one AIP-Rural target district, the head of the District Agriculture Office (DAO) was given a challenging target. The bupati (the district leader) tasked his office with expanding the district's area under cultivation by 30%. This led the DAO head to intensify his coordination with other agencies, seed and fertiliser companies, banks and off-takers, knowing that his office could not achieve the target on its own.

The power of local leaders to spur action was similarly observed in another district. Here, the DAO head was making slow progress in partnering with private firms to increase farmers' productivity. This situation changed drastically when the vice bupati became convinced that these partnerships would make important contributions to achieving the district's targets and his KPIs.

<sup>13</sup> For example, program staff helped government partners to understand how businesses decide why, how and when to invest in a new commodity or product, or expand into a new area.

AIP-Rural decided, therefore, not to try to explain and advocate for more market-oriented solutions from a conceptual or intellectual standpoint. Instead, the program maintained an initial low profile. It avoided 'big splash' public events, refrained from in-depth policy debate, and delayed entering into substantive, high-level collaborations. Most importantly, it did not promise too much too early. Only after generating tangible intervention results (such as significant numbers of farmers benefiting from productivity and income increases, or demonstrated investment by private sector partners) was it feasible to explain why, what and how MSD works, and then to engage local governments in deeper discussions about potential collaborations. AIP-Rural's mantra was *"We are selling evidence, not promises."*

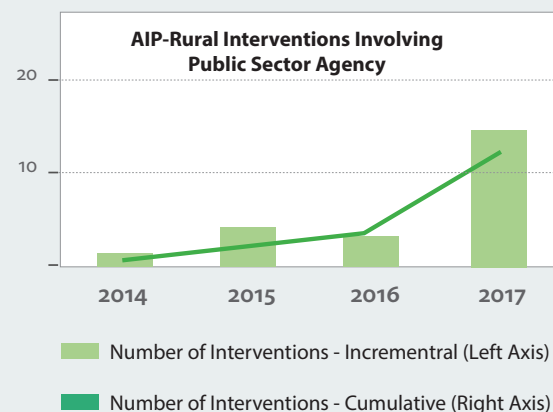
Figure 2 illustrates this trend of the program to engage more actively with the public sector in later years. Towards the end of 2017, it significantly increased its number of interventions involving public sector agencies.

**Raise awareness of market-based solutions.** AIP-Rural did not seek to transfer the MSD approach in its entirety to government, because it recognised that it was not wholly relevant. Instead, it developed a tailor-made training program for local officials (see Box 4). This program had two objectives: firstly, to instil a basic understanding of market-oriented programming and its relevance for local economic development and poverty reduction, so that local governments would become more receptive towards market-based solutions and supportive of the activities of private firms in their area, and secondly, to generate intervention ideas which could be followed up by the program.

AIP-Rural also helped to raise awareness within national government of how a greater understanding of markets can improve programming. The program supported BAPPENAS to make market assessments part of its Sustainable Livelihood Development (P2B) program. Market assessments helped P2B to understand which products had unmet demand and therefore which small-scale producers would benefit from its support to boost their production.

**Avoid public-private partnerships becoming permanently dependent on the program,** that is, AIP-Rural playing a permanent role in partnerships, creating dependency on their funding and support. In keeping with the MSD approach, AIP-Rural role had to be temporary, fostering and brokering partnerships between government institutions and business, where both parties had the capacity and incentives to continue partnering after AIP-Rural's support ended.

Figure 2: AIP Rural Engagement with Government Over Time



#### Box 4: Market systems training for government staff

The training program was conducted in four stages, extended over one year to fit into participants' work schedules. It covered (1) commodity selection and analysis, (2) intervention design, (3) partnership formation, and (4) intervention implementation. Each stage comprised two days of classroom workshops, field assignments, report writing and coaching sessions, all in Bahasa Indonesia. Key features of the training included:

- Testing commitment.** Participants were required to contribute to the costs of the training and to complete each assignment in order to qualify for coaching and progress to the next stage. Consequently, the number of participants declined from 100 at launch to 64 at the first stage, to 36 at the second stage, to 20 at the third stage and to 16 at the final stage, of which 8 local government participants developed interventions which were integrated into AIP-Rural's portfolio. This approach ensured that program support was channelled only towards those who were committed and had the capability to put it into practice.
- The simpler the better.** Because the objective was sensitisation towards partnership building as opposed to fully-fledged aid program implementation, learning materials were limited to essential principles, conveyed through examples, and punctuated by rapid assessments using ready-to-use forms, structures and tables.
- Local examples.** Case studies were drawn from real-world interventions which were easier for participants to relate to than international 'best practice' cases.





### What AIP-Rural has learned

This section outlines the key lessons AIP-Rural learned by applying and adapting its approach to public sector partnerships.

Help public sector partners to see how working with the private sector benefits them

AIP-Rural learned that to make public sector partners aware of the benefits of working with the private sector, the following tactics were effective:

- **Build a case for complementarity.** It is common for public officials in Indonesia to perceive private sector operations as not contributing to government agendas, because “they’re only here to make profit.” These officials were more likely to partner with businesses when AIP-Rural helped them to understand that, while private companies do need to make money, there are ways in which they can do so which align business objectives with those of government and farmers.

*“With the same amount of available resources, we can now design a more sustainable program with larger area coverage, as we work together with private partners.”*

**Food Security Office, Sumbawa District, West Nusa Tenggara**

*“Farmers tend to depend on government’s assistance. After this training we want to change their mindset with examples which show that successful farmers can be self-dependent by applying good agriculture practices”*

**Agency for Development Planning and Research, Sampang District, East Java**



Box 5: Testimony from government officials

For example, if a seed producer wants loyal customers (that is, farmers) to continue buying its seed (the commercial incentive), it will want to ensure that those customers achieve higher productivity and a resultant higher income (the incentive for government and farmers to cooperate). This means that it may be willing to invest in training farmers.

- AIP-Rural found its MSD training for government officials effective in helping them to understand the benefits of working with businesses. Box 6 provides examples of feedback from government participants.
- Government and businesses were also likely to partner when both parties understood their own limitations and what the other party could offer to overcome those limitations, meaning that they worked together for mutual benefit – in other words, where there was a clear win-win situation.

#### Box 6: Homestead gardening – collaboration between district government and private seed producers

AIP-Rural wanted to support the GoI to increase the scale and sustainability of its national program promoting homestead gardening. Firstly, it brought together government district agriculture and food security offices with vegetable seed producers. The aim was to train farmers – most of whom were women – to grow a diversity of vegetables to improve household nutrition. District governments agreed to purchase products from the private sector, adjusted the location of their activities in consultation with seed producers, and arranged gatherings with farmer groups. In return, the seed producers provided agronomists to train local extension workers and farmers, conducted demonstration plots, and monitored activities.

For the government, seed producers brought specific, up-to-date agronomic knowledge and technical supervision to the government schemes to ensure they were successful. Furthermore, by engaging commercial seed producers, government anticipated that successful farmers would be able to continue accessing seed after its scheme had ended in an area and had moved on. This would increase sustainability and coverage.

For seed firms, collaboration with government helped ‘open a door’. The scheme gave them access to government-supported farmer groups, credibility with potential new customers, and a platform to promote complementary products (such as more effective pesticides and fertilisers) using nutrition-related messaging. Although the value of government purchases is relatively small, the scheme presents seed firms with a much bigger opportunity: repeat purchases by benefiting farmers.

#### Box 7: Responding to a hog cholera outbreak – helping government and businesses to understand their complementarity

Flores used to be free from hog cholera, a highly contagious, fatal disease affecting pigs. This changed in 2017: between January and September more than ten thousand pigs died, causing losses of AUD 2.5m for smallholder farmers and turnover losses for pig feed firms of AUD 3.5m.

Initially, district governments refused to talk openly about the outbreak or respond to it, fearing the loss of the island’s hog cholera-free status, which would have had wider economic ramifications. AIP-Rural supported the pig farmers, and feed and animal health firms to create public awareness of the issue through the media. Building on this, the program then approached national government, which investigated and quickly declared an outbreak. The national government spent AUD 80,000 vaccinating 62,000 pigs – 10% of the Flores pig population – in the affected districts.

This, however, was far below the 80% coverage rate needed for herd immunity. A more comprehensive, long-term solution was needed. PRISMA continued talking with feed and animal health firms, pointing out both the risks and opportunities that hog cholera presented to their business, and helping them to formulate their advocacy approach to government. The program then facilitated a multi-stakeholder workshop, where a resolution was drafted and presented to national government decision-makers.

The GoI decided to involve the feed and animal health firms in devising a solution. More than 10 firms worked with the government to develop and agree a five-year roadmap for hog cholera eradication. This collaboration on policy spurred further collaboration on the ground. Although the GoI significantly increased its spending on vaccines, a large team of vaccinators was still needed to service widely-dispersed pig farmers. Animal health firms agreed to conduct regular training for government and private vaccinators, and to provide basic equipment as part of their promotion activities. One firm even invested in the development of new vaccines using local strains to improve efficacy. The intervention also resulted in a longer-lasting, systemic change – some feed companies agree to include animal health practices and products in their sales activities.

**Understand both institutional objectives and individuals' incentives.** While commercial incentives – which are quantifiable and predictable – are the main (although not the only) drivers of behaviour change for private sector players, the incentives for public sector players are often more subtle and diverse. Key performance targets for public bodies are usually transparent and explicit, and senior civil servants are often motivated to achieve them (see Box 3). However, in many public institutions, some individuals are also assessed on criteria which diverge from organisational objectives. Here, understanding an individual's incentives becomes important to any intervention success. For example, for senior and seasoned public officials, leaving a legacy at retirement was sometimes something they considered valuable and desirable. For less senior public officials, acquiring certain knowledge and experience which could aid promotion was a motivating factor.

### Operational adjustments are usually faster and more feasible than policy and regulatory reforms

AIP-Rural's partnerships with the private sector have generally aimed to develop something markedly different from the status quo, be that an innovative business model or an additional business function or structure, or a new product. With the public sector, however, the program has taken a different approach and focused more on encouraging government to perform the same functions but in a better way. This is because bigger reforms are often harder to implement in the public sector, due to the length of time needed for approval: creating a new unit, adding or reassigning functions or responsibilities, and reallocating budgets can take years. Operational adjustments which do not require regulatory or policy changes therefore tend to encounter far less resistance and be embraced with greater eagerness for action. Box 8 provides an example.

### Other influencing tactics

**Government-to-government learning.** AIP-Rural showed potential government partners results achieved by similar initiatives elsewhere, clarifying who would do what and who would pay for what. This was an effective way of building appetite for partnerships between government and business. On one occasion, AIP-Rural arranged a benchmarking trip for senior government officials to Dompu district, West Nusa Tenggara province. Here, maize production had grown more than tenfold in five years (independently of AIP-Rural), reducing the district's poverty rate from 20% to 15%. Visiting government officials saw concrete examples of what a similar government agency had achieved and learned first-hand, and how it had been achieved – by working in partnership with the private sector. This peer-to-peer exchange was a less threatening and more accessible way for officials to understand the need for change and what was feasible within government, than being challenged by an external actor such as an aid program.

#### Box 8: Strengthening system-wide incentives for better public-private collaboration

Indonesia's has more than 20 public sector agricultural research centres. When AIP-Rural began, these institutions faced criticism for conducting research for research's sake. Few had seized opportunities to work with business to spur the widespread adoption by farmers of research innovations and recommendations.

To address this, AIP-Rural brought together research institutions (the suppliers of innovation) and businesses (the users of innovation) to develop and test collaborative business models. Participating researchers came to understand better how businesses can help them by promoting, distributing and commercially supplying their innovations among farmers – functions that are missing in their research institutions.

Several research institutions have improved their ability to collaborate with business. As a result, one has secured a research service contract with a leading national palm oil company. Another is selling services such as laboratory and field testing of new products. Two institutions which invested in developing improved seeds have licensed these different varieties to seed companies; they now earn an income from selling the foundation seed, as well as royalties when the seed companies multiply it and start selling it to farmers.

However, these successes are fragile. Until better collaboration with business becomes the norm within Indonesia's agricultural system, any progress could be undone. Risks include key personnel leaving participating research institutions, or changes in market conditions leading businesses to lose interest.

It is therefore encouraging that these pilots are influencing the wider research environment in Indonesia – and that systemic change already seems to have occurred. Evidence from the pilots has informed policy dialogue with Indonesia's Ministry of Research, Technology, and Higher Education. The ministry has adjusted its research funding regulations, and how it regulates the relationship between research centres and businesses. Changes include simplification of procedures, multi-year research programs, and the endorsement of more commercialisation. So far, AIP-Rural's work has resulted in research centres now having stronger incentives to collaborate with the private sector.

**Invest in supporting activities to close the deal.** While some partnerships were agreed through a straightforward series of meetings, others needed more time and expense, and sometimes resources such as field visits, support for media campaigns, economic modelling, and cost-benefit analysis (see Box 8.)

**Use events and changes of power to build momentum for change.** Opportunities for change were typically greater during the pre-election and immediate post-election periods, when there is often more of a government 'buzz' about reform, new visions and initiatives. Unanticipated crises such as a disease outbreak (see Box 8) can also provide an impetus for change.

At the same time, where momentum had already been achieved, public-private partnerships were at times adversely affected by changes in district leadership. It was district leaders who had the authority to enter into these partnerships, and so each time the leadership changed, the program had to restart the process of analysing and leveraging the new leader's incentive to commit to the partnership. This provided AIP-Rural with an important lesson learned – programs that promote public-private partnerships must build time to deal with setbacks into their intervention plans.

**Deploy multi-faceted teams.** When engaging with government, the seniority and technical experience of program personnel are often regarded as critical ingredients. Many of AIP-Rural's team members have extensive development experience and are highly familiar with government culture, systems and nomenclature. However, the program found that other skills and experience were also useful when engaging with public agencies. Successful teams often included 'business people,' who understand and are credible to the private sector and who are well networked, and 'local people,' with inter-cultural sensitivity and an understanding of local languages and ethnic norms.

### Change is only sustainable when it's institutionalised

While many AIP-Rural interventions have changed the perception and behaviour of individuals within the public sector towards the private sector, few of these changes have so far been institutionalised.

AIP-Rural's work with research institutions offers a good example of where institutionalisation is starting to happen – see Box 9.

## Conclusion: ten things to get right

Section 1 outlined three major challenges and opportunities that MSD programs face when trying to partner with the public sector: influencing government policy, rules and regulations; strengthening public service delivery; and helping government and business to work together more effectively. AIP-Rural offers ten key lessons here.

- 1. Decide what needs changing, then understand the politics.** Identify which changes in a target market would significantly benefit the target group. Understand who is affected by the change. Analyse their interests (do they support or oppose the change?) and their power to influence the change. Use this information to decide how the program can influence change and how realistic the possibility of change is.
- 2. Build trusting relationships.** Gaining the trust and confidence of potential partners and other market actors in the program greatly increases its influence. Prioritise relationship building from the start, to buy the program time to prepare its own team, to conduct diagnostics (including identifying potential champions and momentum), and to generate pilot cases of successful market-based solutions.
- 3. Gather enough evidence before raising your profile.** Showing real-life examples of how your approach benefits poor women and men is usually more persuasive than intellectual, conceptual arguments.
- 4. Build a case for complementarity.** Show potential public sector partners what private firms can offer and their complementarity to government functions. Help government understand and talk with the private sector. Be flexible in supporting partnership formation.
- 5. Understand individual and institutional incentives.** The real incentives of public sector bodies and key individuals are rarely explicitly stated or transparent. Capitalise on the relationships of trust that the program has cultivated to gain access to more sensitive information.
- 6. Look out for impactful operational adjustments.** Supporting government to perform the same functions but in a better way is often faster and more feasible than suggesting changes to government functions or policy.
- 7. Encourage government-to-government learning.** Build awareness and understanding through structured capacity building and visits to locations where the government has a positive track record in supporting private sector investment and operation (i.e. government-to-government learning).
- 8. Use events and changes of power to build momentum for change.** Opportunities for reform are often greater immediately after elections and during unanticipated crises.
- 9. Deploy multi-faceted teams.** Knowledge of business and of local languages and culture add value, as do specialist expertise and familiarity with the systems and internal culture of government.
- 10. Institutionalise change to make it sustainable.** Changes in how government operates are more vulnerable when they depend on a few champions, because these champions can leave. Changes are more likely to last when support for them within government spreads, and when incentives to continue the change are reinforced by alterations in rules, regulations or organisational culture.



# 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](http://www.aip-prisma.or.id)**

# Partnering with the Public Sector to Improve Market Systems: **Experiences and Lessons from AIP-Rural**

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