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Public–Private Cooperation for Secure and Inclusive Rural Economies

How do public–private collaborations enable secure and inclusive rural economies? Alongside private sector investment, government provision of infrastructure, research and extension services and support for farmer organisations remains crucial. In addition, public sector support for more effective, transparent, shared and clearly understood governance models between companies and farmers is key. Significantly, inclusive public–private approaches will need to take rural transformations into account, as well as shifting employment, value addition and business ownership closer to production areas. In regions emerging from conflict, these approaches need to quickly and effectively provide better opportunities for excluded communities and territories, reducing the attractiveness of illicit economies.

Secure and inclusive rural economies

Governments, donor agencies and development practitioners are seeking to leverage private investment in rural economies. This focus is driven by limited public budgets and a recognition of the limits of project-based development aid that does not involve actors that can ensure lasting beneficial changes. It also recognises the frequent failures of traditional rural development approaches, where these have focused on training and organising producers and supplying inputs, but failed to connect them to markets.

Secure and inclusive rural economies imply that people are empowered to participate in the economy in ways that lead to greater wellbeing, and are protected against threats from conflict as well as environmental, economic, political and social shocks. Currently, however, there are 800 million people living below the international poverty line of US$1.90 a day, most of whom live in rural areas. They face multiple dimensions of exclusion: they have less wealth and income than others; they face discrimination due, for example, to gender, race or disability status; and they are further marginalised due to their remoteness or being located in areas affected by conflict.

Agriculture is crucial to rural economies, household incomes and food production, yet it is failing to lift many households out of poverty. High transaction costs and institutional and market failures exclude farmers from better market opportunities, and lead to uncompetitive products and/or lower farmgate prices. Small or fragmented plots of land which limit production volumes and require a high frequency of transactions are further constraints. Even where producers are able to access higher value chains, they face highly unequal relationships with their trading partners, where most of the value is captured post-farmgate. Achieving secure and inclusive rural economies will require not only improved market access but a broader rural transformation.

Pre-conditions for secure and inclusive rural economies

There are several barriers to the beneficial market participation of rural producers. These institutional and infrastructural weaknesses undermine

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the prices that farmers receive and contribute to the frequently unstable nature of trading relationships.

Addressing these barriers is therefore vital to achieving secure and inclusive rural sectors. Key pre-conditions include:

- **Infrastructure** (which improves rural connectivity including roads and bridges, but also information and communication technologies): Infrastructure investment in marginal areas is important, including for its potential to offer comprehensive coverage which benefits all, including the poorest, though this will depend on barriers to access this infrastructure, such as fees.
- **Market coordination:** There are significant costs for producers in deciding what crop to grow, for both producers and buyers in identifying each other, and for monitoring and policing their partners' compliance with agreed obligations. These costs are particularly visible when there are conflicts of interest or when uncertainty is very high. Governance difficulties in regards to how pricing decisions are made, limited opportunities for recourse and imperfect information are further challenges.
- **Trust:** Formal institutional arrangements, such as contracts and standards, can address coordination challenges related to information, quality and prices. However, they can be difficult to understand, costly to implement and to enforce, and are absent in many trading relationships. Informal institutions such as personal trust, reputation and mutual dependence can offer alternatives. Long-term relationships with repeated transactions between buyers and sellers build mutual trust, support quality control, and create stability, allowing both farmers and buyers the confidence to invest in the endeavour.
- **Effective collective action:** Collective action by rural communities strengthens agency, allowing groups to take action for self-determination and to challenge decisions perceived as detrimental to their welfare. Effective collective action also implies building social capital within the group, empowering them and supporting other (non-economic) goals, such as capacity building and community wellbeing. Through producer organisations, farmers also overcome specific problems of scale, transaction costs, access to information, and reputation (e.g. through group monitoring).

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Business models to support peace and reconciliation

In September 2017, a workshop was held in Bogota, Colombia, with 30 representatives of business, development cooperation agencies, government, academia and others, to define what would be needed for the private sector to have an active and effective role in peace and reconciliation in the country.

Key challenges

- The need to identify better mechanisms to coordinate private sector collaboration with the public sector at national and sub-national scales. To date, private initiatives face significant transaction costs when trying to align with public actors. Clear definitions of which agencies are responsible for what aspects of policy remain elusive and limit the potential for stronger public–private engagement;
- The need to clearly articulate a consistent and measurable value proposition from public investments in support of private initiatives. Private sector actors clearly identify the need for public enabling investments in infrastructure, public safety, access to finance and producer organisation, among others. However, a common assessment about the expected returns from these investments in terms of employment, income and additional on- and off-farm opportunities for rural communities remains to be defined;
- Clear rules of the game in terms of legal and social licence to operate. Many questions remain regarding land ownership, titles and constitutionally required processes of consultation (e.g. for extractive industries). Rather than additional legislation or laws, participants argued in favour of greater clarity about how the existing legal structures will be implemented in areas of post-conflict and in regards to public–private initiatives.

Despite articulating challenges, the workshop highlighted the emergence of innovative initiatives that seek to construct more inclusive linkages with post-conflict regions through the purchase of raw materials, the development of regionally specific clusters and, in some cases, the construction of innovative agribusiness co-ownership models combining private capital with community assets. A more thorough assessment of these business models is needed to better identify their benefit distribution, governance functions and transformative potential.

Public–private collaborations

Alongside the growing interest in leveraging private investment in rural economies comes the question of what types of public–private collaboration can enable this investment and incentivise it to reach farmers that are normally excluded from better opportunities. While the collaboration strategies adopted will depend on the interplay between the market relationships being created and the institutional and political environment, one response has been to experiment with public–private partnerships (PPPs) that enable marginalised farmers to access improved markets through commercially viable value chain linkages.

These agricultural value chain PPPs involve public and private actors sharing risks, resources and competences to improve farm productivity through addressing constraints in access to technology, finance and inputs, as well as improving farmer organisation. The role of the government typically focuses on facilitating the formation of producer organisations, providing initial funds, subsidising or de-risking credit, supporting access to technical services, and sponsoring audits and certifications. In this sense, these PPPs are not unlike traditional rural development approaches, although in some cases governments have also provided specific incentives for private investment such as new transport infrastructure, access to land or tax incentives. The role of the company partner has typically been to coordinate input and output markets, and provide logistics and technical expertise, adding new market dimensions to traditional public sector development activities. In some cases, companies have also invested in new processing facilities which support local value addition.

Studies of the effectiveness of such PPPs in agriculture are limited, but those that exist provide some evidence that these collaborations do support improved productivity and enable farmers to access new market opportunities in higher value commodity chains. On the other hand, no clear evidence has been found to show whether and how these arrangements contribute to producer empowerment or broader rural transformation.

More understanding is needed of the spectrum of public–private collaborations in different institutional environments, and the public goals these are intended to achieve. In particular, key questions to be answered include how these collaborations contribute to enabling conditions such as: trust, interdependence and stability in trading relationships, rural connectivity, and effective collective action at community level; and their ability to achieve not only smallholder inclusion, but to serve wider goals in support of secure and inclusive rural economies.

Public–private collaborations for secure and inclusive rural economies

In July 2017, a workshop was held in London, UK, with 25 representatives from academia, practitioners, government and business, to explore public–private partnerships for inclusive value chains, with a focus on reaching marginalised producers, including those affected by conflict.

Key messages

- Poor governance and weak institutions undermine secure and inclusive economies. Where government has been weak or absent (e.g. in conflict-affected regions), it may be able to step in to support better governance. However, where poor governance follows from ineffective or politically captured policymaking, then it is difficult to expect the same government to provide the solution. Private governance may lead to more effective arrangements, but not necessarily fairer or more inclusive ones. These political realities cannot be ignored, and more understanding is needed of how to create institutional spaces for inclusion, which agencies can most effectively play these roles, and under what circumstances.
- Rather than starting from the instrument (PPPs), a systemic approach would understand the (changing) role of agriculture in the lives of the rural poor and where these lives are touched by markets or commercial actors. For example, the poor may already be in the labour force of companies, or linked through value chains involving informal traders. Then the question becomes what changes would improve their lives and which instruments best offer these solutions, of which PPPs may be one option amongst many.
- In post-conflict settings, rebuilding trust is vital. One crucial component is to provide meaningful change in the short term. If the government is unable to deliver this change, then trust and credibility will be quickly eroded.
- However, PPP implementation in post-conflict contexts needs to be done carefully or risks creating further conflict. Some private sector actors will have been operating during the conflict, yet there is generally poor understanding of how the private sector works in specific conflict settings. Investments in support of peace and reconciliation will need to shift economic activities in ways that avoid validating the war economy or creating further conflict.

Policy recommendations

More evidence is needed of the spectrum of public–private collaborations in different institutional or governance environments, and the benefit distribution, governance functions and transformative potential that emerges. However, a number of immediate policy implications emerge.

1. **Clarity on the 'public case' for collaboration.** Starting from an understanding of rural economies, which sectors are relevant for the target community, what changes would bring new opportunities, why is this not happening anyway, and how can public action overcome these constraints? Clarity on the expected returns from private sector collaboration, in terms of employment, income and value addition is also essential.
2. **Private initiative can be powerful but it cannot replace key public actions.** Despite the private nature of most business relationships, it is unrealistic to expect that market failures will be overcome through the private activities of farmer associations and firms. The provision of physical infrastructure, up-front costs to establish or develop business-ready farmer organisations, basic and applied research, extension services and a broader policy-enabling environment continue to require public investments.
3. **Value chain governance constitutes a critical aspect that is insufficiently addressed in PPP approaches.** Effective, transparent, shared and clearly understood governance models create the conditions for trust necessary for effective long-term business relationships between companies and farmers. This includes common understanding on pricing, quality standards and how they are assessed, access to recourse mechanisms in the case of disputes, as well as shared decision-making based on the clear and consistent measurement of results for producers and buyers.
4. **Public–private collaborations need to understand and adapt to rapidly changing rural communities and economies so that the social impacts are positive for the poor.** Inclusive business arrangements with farmers and the provision of off-farm rural employment through agribusiness constitute critical avenues to develop more productive, profitable and sustained rural activities. The use of public funds can incentivise private investments that shift employment and value addition closer to production areas, thus helping diversify rural employment options for the poor.

In post-conflict contexts

The above recommendations remain true but with additional caveats.

- Post-conflict contexts require quick results to generate credibility for the state and private sector and thus avoid backsliding into conflict. This presents significant challenges.
- Significant resources tied to post-conflict need to be translated into quick wins while, at the same time, providing the basis for more sustainable and inclusive growth in the mid to long term. This requires strategic thinking and flexibility on the part of both the state and the private sector.
- Post-conflict requires the consolidation of approaches that effectively provide better opportunities for excluded communities and territories. Coordinated actions and investments from both public and private actors need to align for this to work in practice.

Further reading

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Credits

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Institute of Development Studies, Brighton BN1 9RE UK
T +44 (0) 1273 606261 **F** + 44 (0) 1273 621202 **E** ids@ids.ac.uk **W** **www.ids.ac.uk**
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