

Partnering for Innovation

FROM SMALLHOLDERS TO SHAREHOLDERS

A Guide to Optimizing Partnerships with the Private Sector for Smallholder Impact

OCTOBER 2014



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ABOUT FEED THE FUTURE PARTNERING FOR INNOVATION

Feed the Future Partnering for Innovation is a USAID program that helps the private sector to enter new markets and commercialize agricultural technologies for smallholder farmers through competitive grants and knowledge exchange. The program also facilitates partnerships between USAID Missions and the private sector, and designs effective business development and engagement tools. Fintrac produced this guide in cooperation with Monitor Deloitte.

DISCLAIMER

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TABLE OF CONTENTS

GLOSSARY OF TERMS	4
ABOUT THIS GUIDE	6
CHAPTER 1:	
Why Are Partnerships with the Private Sector Important?	8
Why Should USAID Partner with the Private Sector?	9
Why Should the Private Sector Partner with USAID?	10
What Is USAID Learning from Private Sector Partnerships?	11
What Does It Take to Develop Successful Partnerships with the Private Sector?	11
CHAPTER 2:	
Why Is Understanding Business Models and Risk Important?	16
Why Are Business Models Important?	16
Analyzing Business Models During Partnership Development	18
Understanding Risk	20
How to De-Risk and Accelerate Value	20



CHAPTER 3:	
What Can We Learn from Practice through Business Models?	23
<hr/>	
About the Business Models	25
Applying Context to Business Models	27
Why Business Models Fail	31
No Frills Model	33
Consumer Financing Model	37
Pay-Per-Use Model	41
Micro-franchising Model	45
Aggregator Model	50
Deep Procurement Model	55
Dedicated Direct Sales Force Model	59
Contract Farming Model	63
Bundling Model	68
Asset Financing Model	72
Shared Channel Distribution Model	76
APPENDIX I:	
A Preliminary Selection of Private Sector Engagement Tools	81
<hr/>	
APPENDIX II:	
USAID Implementing Mechanisms	90
<hr/>	
APPENDIX III:	
Bibliography	92
<hr/>	



GLOSSARY OF TERMS

Business Model: Describes how a business creates, delivers, and captures value, revealing an understanding of the product, logistics, financing, supply chain, pricing, payment, and sales.ⁱ

Compound Annual Growth Rate (CAGR):

The year-over-year growth rate of an investment over a specified period of time.

Contextual Awareness Tool: A tool developed as part of this guide to explain the context-driven inclusive business model design.

Corporate Social Responsibility (CSR): How companies achieve a balance of economic, environmental, and social imperatives or “Triple-Bottom-Line Approach,” while at the same time addressing shareholder expectations.ⁱⁱ

De-risking: A process through which donors can minimize risk factors that are deterrents to the private sector entering developing markets.

Development Credit Authority (DCA): A United States Agency for International Development (USAID) initiative that uses partial credit guarantees to mobilize local financing in developing countries. Guarantee agreements encourage private lenders to extend financing to underserved borrowers in new sectors and regions.ⁱⁱⁱ

Development Innovation Ventures (DIV):

USAID’s open competition program supporting solutions to development challenges.

Due Diligence: A process through which a donor evaluates the risks and benefits of working with a private sector partner.^{iv}

Feed the Future: The US government’s flagship global hunger and food security initiative.

Form 10-K: Required by the US Securities and Exchange Commission (SEC), the annual report on Form 10-K provides a comprehensive overview of a publically traded company’s business and financial condition and includes audited financial statements.^v

Form 20-F: A form issued by the SEC that “foreign private issuers” that have listed equity shares on exchanges in the United States must submit.^{vi}

Global Development Alliance (GDA): USAID’s premiere model for public private partnerships focused on improving the social and economic conditions in developing countries.^{vii}

High-touch: A customer-facing approach that relies on very close customer interaction in order for a business to successfully source and/or sell its goods and services.

ⁱ Frandano, Paul, Ashish Karamchandani, and Michael Kubzansky. Emerging Markets, Emerging Models: Market-Based Solutions to the Challenges of Global Poverty. Monitor Group, March 2009. Retrieved from http://www.beyondthepioneer.org/wp-content/uploads/2014/04/emergingmarkets_full.pdf.

ⁱⁱ United Nations Industrial Development Organization, retrieved from <http://www.unido.org/en/what-we-do/trade/csr/what-is-csr.html>.

ⁱⁱⁱ US Agency for International Development, retrieved from <http://www.usaid.gov/>.

^{iv} US Agency for International Development, retrieved from <http://www.usaid.gov/documents/1880/du-diligence-step-step-guide>.

^v US Securities and Exchange Commission, retrieved from <http://www.sec.gov/answers/form10k.htm>.

^{vi} US Securities and Exchange Commission, retrieved from <http://www.sec.gov/about/forms/form20-f.pdf>.

^{vii} US Agency for International Development, retrieved from <http://www.usaid.gov/gda>.

Inclusive Business: Sustainable business solutions that go beyond philanthropy and expand access to goods, services, and livelihood opportunities for low-income communities in commercially viable ways.^{viii}

Low-touch: A customer approach that does not rely on close customer interaction.

Market-based Solutions: Initiatives that use the market economy to engage low-income customers, offering them socially beneficial products at affordable prices, or as business associates, e.g., suppliers, agents, or distributors.^{ix}

Poverty Penalty: When the poor pay more for the same goods and services.^x

Scale: Investing in programs and initiatives that are able to create a lasting and significant impact using financial strength, program expansion, comprehensiveness, multi-site replication, and accepted doctrine.^{xi}

Shared Value: Policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress.^{xii}

Shared Value Canvas: A visual tool that boils down the most basic components of an inclusive business model and helps draw attention to the key uncertainties, critical success factors, and potential for de-risking and value acceleration of the business model.^{xiii}

Smallholders: Small-scale farmers, pastoralists, forest keepers, and fishers who manage areas varying from less than one hectare to 10 hectares. Smallholders are typically family-focused and pursue the farm household system's stability by using family labor for production and part of the produce for family consumption.^{xiv}

^{viii} World Business Council for Sustainable Development, retrieved from <http://www.inclusive-business.org/inclusive-business.html>.

^{ix} Barbary, Victoria, Anslie Cooper, and Michael Kubzansky. Promise and Progress: Market-Based Solutions to Poverty in Africa. Monitor Group, May 2011. Retrieved from <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>.

^x Prahalad, C. K. The Fortune at the Bottom of the Pyramid. Wharton School Publishing, August 5, 2004. Prahalad contends that "...cost disparities between BOP consumers and the rich in the same economy can be explained only by the fact that the poverty penalty at the BOP is a result of inefficiencies in access to distribution and the role of the local intermediaries. These problems can easily be cured if the organized private sector decides to serve the BOP."

^{xi} Frumkin, Peter (2010). The Five Meanings of Scale in Philanthropy. The Evaluation Exchange, Volume XV, Number I. Retrieved from <http://www.hfrp.org/evaluation/the-evaluation-exchange/current-issue-scaling-impact/the-five-meanings-of-scale-in-philanthropy>.

^{xii} Porter, Michael E., Mark R. Kramer. Creating Shared Value. Harvard Business Review, January-February 2011. Retrieved from <http://hbr.org/2011/01/the-big-idea-creating-shared-value>.

^{xiii} A modification of the Business Value Canvas developed by Osterwalder, A.; Pigneur, Yves; Smith, Alan; and 470 practitioners from 45 countries. Business Model Generation. Self-published, 2010.

^{xiv} Food and Agriculture Organization of the United Nations. Smallholders and Family Farmers. Sustainability Pathways, 2012. Retrieved from http://www.fao.org/fileadmin/templates/nr/sustainability_pathways/docs/Factsheet_SMALLHOLDERS.pdf.



ABOUT THIS GUIDE

“...[T]here is a final ingredient that we have seen in every country that has grown its way out of poverty: the emergence of a strong and dynamic private sector. The sectors we most associate with development work—health care, agriculture, water—are dominated by private sector activity... If we are going to encourage truly sustainable, broad-based economic growth in developing countries, we have to do a far better job of working with private firms—be they domestic or foreign, established or entrepreneurial.”

USAID ADMINISTRATOR RAJIV SHAH
OCTOBER 20, 2011

Over the past decade, there has been an important evolution in how the private sector perceives and engages with low-income rural communities in emerging markets. This evolution—based on the recognition that smallholder farmers should be drivers of their own prosperity—has catalyzed a new generation of business models focused on generating both shareholder and smallholder value.

No longer within the confines of corporate social responsibility programs, these models have helped move business from the margins to the mainstream. Yet many of these approaches continue to be the exception, rather than the rule. Why then are these models and private sector partnership development approaches important? How can these new models create shared value? What are the critical drivers of success or failure? What roles can donors play to reduce risk and improve sustainability? How can business models improve the performance of partnerships with the private sector?

This guide was developed for the United States Agency for International Development (USAID) to answer these questions and is organized as follows:

Chapter 1: Why are partnerships with the private sector important? Beyond providing a summary of the business case for developing private sector partnerships in low-income agricultural settings, this chapter also offers an approach to partnership development;

Chapter 2: Why is understanding business models and risk important? This chapter explains how de-risking and value acceleration can strengthen public private partnerships. It also includes the shared value canvas—a visual business model analytical framework designed to capture the most relevant elements of an inclusive business model; and

Chapter 3: What can we learn from practice through business models? This chapter classifies, analyzes, and presents the most relevant smallholder business models. It provides insights into 11 business models, including key contextual uncertainties, critical success factors, and potential.

CHAPTER 1

Why Are Partnerships with the Private Sector Important?

Development and the Private Sector:

Why is the private sector interested in low-income, smallholder markets?

Defining the USAID Opportunity:

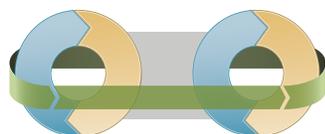
Why should USAID partner with the private sector?

Defining the Private Sector Opportunity:

Why should the private sector partner with the USAID?

Practical Suggestions for Partnering with the Private Sector:

What are some useful approaches to engaging with the private sector?



CHAPTER 2

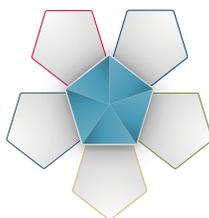
Why Is Understanding Business Models and Risk Important?

The Importance of Business Models:

Why is understanding business models important to partnering with the private sector?

How to Analyze Business Models:

Introducing the shared value canvas as a business model analytical framework.



Understanding Risk:

The role donors can play to incentivize private sector investment in underserved markets.

How to De-Risk and Accelerate Value:

How can donors de-risk or accelerate the value of business models?

CHAPTER 3

What Can We Learn from Practice through Business Models?

The business of development and managing contextual uncertainty in select business models.

Increased Product Affordability

- Consumer Financing
- No Frills

Improved Access to Inputs and Technology

- Pay-Per-Use
- Micro-franchising

Improving Market Access

- Aggregator
- Deep Procurement

Improved Distribution

- Dedicated Direct Sales Force
- Shared Channel Distribution

Enhancing Productivity

- Contract Farming
- Bundling

Improved Access to Finance

- Asset Financing

APPENDIX I: Useful Tools and Frameworks for Private Sector Partnership Development

APPENDIX II: USAID Private Implementing Mechanisms

APPENDIX III: Bibliography



CHAPTER I

Why Are Partnerships with the Private Sector Important?

“...True development involves not only delivering aid, but also promoting economic growth—broad-based, inclusive growth—that actually helps nations develop and lifts people out of poverty. The whole purpose of development is to create the conditions where assistance is no longer needed, where people have the dignity and the pride of being self-sufficient.”

PRESIDENT BARACK OBAMA
SYMPOSIUM ON GLOBAL AGRICULTURE
AND FOOD SECURITY, MAY 18, 2012

The private sector is fundamental to enhancing and sustaining growth across the developing world. There is a growing recognition that the most intractable international development challenges will not be solved by aid alone. It will take collective action across sectors to leverage the required skills, assets, technologies, and resources to deliver effective and sustainable development. Donor engagement with the private sector is not a luxury, but a necessity.

More than 91 percent of financial flows from the United States to the developing world come from private sources. Remittances, private capital flows, and private philanthropy represent \$9 for every dollar of US government aid.¹

The private sector recognizes that business growth is not sustainable without the engagement of the four billion people who comprise the base of the pyramid. Businesses understand that development should be part of their core business if they are to remain competitive in the medium and long-term. For example, a UN Global Compact Survey of over 1,000 CEOs from 27 industries in 100 countries found that 93 percent believe that sustainability (i.e., addressing social and environmental concerns) will be critical to their company's future success.^{2,3} Furthermore, 78 percent believe that business should engage in partnerships to address sustainability and development goals.^{4,5}

To meet the needs of a burgeoning global population, agricultural production must double by 2050. However, it is unlikely that production will meet demand without the private sector and the world's 525 million smallholder farmers. The urgency for food security has accelerated the call for USAID and agribusinesses to understand that the required level of participation centers on the crucial link between successful development and successful business in emerging markets—and to recognize that each can make a vital contribution toward forging that link.

¹ The Hudson Institute, *The Index of Global Philanthropy and Remittances*, 2012.

² UN Global Compact, *Architecture of a Better World: UN Global Compact-Accenture CEO Study*, 2013.

³ BSR and Globescan, *State of Sustainable Business Survey 2013*, October 2013.

⁴ Ibid.

⁵ *Working with Smallholders: A Handbook for Firms Building Sustainable Supply Chains*, International Finance Corporation, July 2013.

WHY SHOULD USAID PARTNER WITH THE PRIVATE SECTOR?

Over the course of the last decade, USAID has developed more than 1,500 strategic alliances involving more than 3,500 private sector partner organizations, which has leveraged more than \$20 billion in resources.⁶ USAID works with the business community in a number of ways, including:

- » Developing *public-private partnerships* with local and multinational companies as well as business associations.
- » Providing *guarantees* to crowd-in other investors to promote sustainable growth. For example, since 1999 USAID's Development Credit Authority (DCA) has designed and delivered investment alternatives that have unlocked \$3.1 billion in local private capital for entrepreneurs in emerging markets, with a 1.85 percent default rate across 71 countries. (See the IMARE example.)
- » Offering *in-county technical assistance, industry expertise*, and related capabilities critical to facilitating sustainable investment opportunities in emerging markets.
- » Engaging with businesses as a *strategic partner* in advancing Presidential Initiatives in the areas of food security, global health, energy, and climate change.
- » Investing in opportunities to *find and test innovative, cost effective, and scalable development solutions* through venture capital-style grant competitions.

Beyond the various roles it can play, USAID engages with and leverages the private sector to fuel economic growth, innovation, and job creation.⁷ Partnering with the private sector is important because it:

Accelerates the potential for impact. USAID seeks to leverage the private sector to achieve sustainable and scalable solutions via market-led approaches. (See the Ferrero example on page 10.)

⁶ US Global Development Lab, The Center for Transformational Partnerships.

⁷ Ibid.

IMARE: INTEGRATING EXTENSION

The Opportunity: Smallholder farmers in Guatemala are unable to improve their livelihoods without increased and consistent access to high-value markets and top-of-supply-chain buyers. In 2008, to help farmers switch to market-oriented production, the Inclusive Market Alliance for Rural Entrepreneurs (IMARE), an alliance between USAID, Walmart Inc., and local and international NGOs, was conceived.

The Result: Farmers were trained in good agricultural practices, better postharvest handling, and retail standards to meet Walmart's requirements. Moreover, access to finance for smallholders was provided via loan guarantees arranged by USAID's DCA—access that would have otherwise not been available through commercial finance. Thus, through the DCA, USAID provided an important de-risking mechanism.

Source: USAID Building Alliance Series: Agriculture, 2009

Aligns business and development goals. These are intersecting with greater frequency: developing economies now account for more than half the world's economic output and represent many of the fastest growing markets, customer bases, and workforces.

Builds on a proven track record. USAID has a long history of partnering with businesses, working collaboratively with the private sector to (a) improve the business environment in developing countries, (b) promote sustainable business practices, and (c) help companies find growth and investment opportunities in sectors critical to development.

Explores untapped market opportunities. There is an opportunity to build new markets that contribute to broader sustainable development through financially sensible investments that create shared value with smallholders.

Uses overseas aid as a development catalyst. Among most donors and developing countries there is an increasing sense that foreign aid should be used more strategically, as a catalyst to private sector-driven trade and economic development.

Leverages the potential for South-South cooperation.⁸

An accelerated shift has occurred in the overall development landscape. Emerging economies are playing a greater development role that focuses on South-South economic cooperation and emphasizes private sector engagement.

FERRERO: LEVERAGING CONTRACT FARMING

The Opportunity: When Italian confectionary manufacturer Ferrero approached USAID to diversify its sourcing for hazelnuts through smallholder engagement, the USAID Mission in Georgia first took a step back to understand the company's purposes. USAID/Georgia analyzed Ferrero's business and strategic objectives for engaging smallholders and realized Ferrero was facing supply pressure: it needed greater volumes of hazelnuts to match growing demand for its confectionary products.

The Result: With this fundamental understanding of Ferrero's business and strategic objectives, USAID was able to inform a new, innovative business model and partnership to engage, train, and buy produce from local smallholder hazelnut farmers.

Two key insights drove development of this new model. First, this contract farming scheme would enable the stakeholders to test a new and potentially more profitable business model—a model that delegated all production processes to farmers. Second, Ferrero sought to diversify its supply base, which had been, until then, concentrated in Turkish production farms.

This inclusive business partnership proved impactful not only to Ferrero's bottom line, but also to the farmers the company contracted in the new scheme.

Source: <http://www.epigeorgia.com>

WHY SHOULD THE PRIVATE SECTOR PARTNER WITH USAID?

While USAID engages in private sector partnerships to achieve development objectives, private companies engage in development because it is in their business interest to do so. More specifically, the following drives the business case for developing smallholder agriculture:

- » **Generates new customers and creates new market opportunities.** Working with USAID can lend authority and legitimacy to a business's development efforts.
- » **Reduces risk by building stronger supply chains** through engagement of smallholder farmers.
- » **Reduces costs by localizing value creation,** in turn creating an income and employment opportunity for smallholders.
- » **Increases overall production and supply** by strengthening and aggregating the productivity of smallholders.
- » **Improves supply chain resilience** by developing income opportunities for smallholders through supplier, distributor, and labor relationships.
- » **Reduces the cost of capital** by leveraging company assets, balance sheet, and procurement strategies.
- » **Catalyzes innovation in new markets** by developing or adapting products and services to address local needs.
- » **Promotes revenue growth** through market diversification, business strategy innovation, and new efficiencies.
- » **Meets global and local food demands** by engaging diverse grower groups to meet consumer demand and variety preferences.
- » **Prevents food-borne diseases** through improved management, quality control, and traceability. For example, through Grand Challenges for Development (GCD), USAID has identified critical areas where it believes science and technology can play a transformative role in providing solutions.
- » **Increases brand equity** by directly engaging with smallholders and pursuing initiatives that create and share value.

⁸ South-South cooperation means the direct exchange of knowledge, experiences, resources, and expertise between nations in the developing world, which is also referred as the "global south."

WHAT IS USAID LEARNING FROM PRIVATE SECTOR PARTNERSHIPS?

Numerous risks and barriers to entry inhibit the development of inclusive business models. It is not easy to create value, let alone shared value, through any initiative that involves smallholders. Aside from aggregation and administration concerns, mainstream business models do not work for smallholders without significant adaptation. Businesses, mindful of the risks in entering and succeeding in this market, seek ways to justify or protect their initial investment.

Compared with more traditional aid programs, successful private sector development efforts require far greater clarity on the types of business models, strategies, and tactics required. For example, a 2011 assessment of how USAID “defines and captures the value of partnering with the private sector”⁹ provides insights based on the analysis of 70 Global Development Alliances (GDAs). Key lessons suggest that partnerships with the private sector can:

Increase reach. USAID’s engagement with the private sector has widened its development efforts. The ability to leverage additional financial and in-kind contributions is critical to helping projects connect with more beneficiaries and increase their impact.

Improve effectiveness and efficiency. By leveraging the private sector’s skills, technologies, expertise, and wider capabilities, private sector partnerships lead to improvements in program effectiveness and efficiency. In particular, the business expertise is invaluable in providing solutions that have defied a traditional development effort.

Increase sustainability. When private sector partnerships are part of a company’s core business, there is a significant opportunity to integrate the development efforts to provide the company with access to skilled labor pools as well as local supply chains and distribution channels. These market-based opportunities can contribute to a company’s bottom line and, thus, be sustainable.

⁹ *Understanding Private Sector Value: An Assessment of How USAID Measures the Value of Its Partnerships*, Mission Measurement and the United States Agency for International Development, August 2011.

WHAT DOES IT TAKE TO DEVELOP SUCCESSFUL PARTNERSHIPS WITH THE PRIVATE SECTOR?

A private sector partnership is a relationship between USAID and partners such as companies, foundations, and membership organizations. These partnerships pursue both business and development objectives and are rooted in three general principles: relevance, localization, and sustainability.

Relevance. A partnership should be relevant and aim to solve smallholder farmers’ and companies’ most critical problems.

Localization. A partnership should address specific regional challenges by delivering tailored local solutions. Effective local solutions take into account how local culture, political circumstances, climate, and environment contribute to local economic development and greatly increase the potential for success.

Sustainability. A partnership should be sustainable beyond USAID assistance and have the capacity to be expanded and replicated.

Elements of Partnership Design

USAID Mission objectives for the Feed the Future initiative include priorities that align with metrics that the private sector uses to measure performance. These include improved agricultural productivity; expanded markets and trade for smallholders; increased employment opportunities; increased resources for vulnerable communities and households; and improved access to quality foods.¹⁰

Similarly, the process of selecting and assessing partners should be transparent, simplified, and competitive. For example, submitting partnership proposals to USAID for evaluation, and conducting due diligence, is essentially the same process that is required for investment and bank loans.

Finally, the partnership design process addresses ways to strengthen partnerships. Measuring impact and learning from results helps improve both programming and business performance.

¹⁰ www.feedthefuture.gov/progress.

These elements represent the foundation of a successful private sector partnership in five key stages: **define (the problem), identify (the opportunity), design (the partnership), implement (the partnership),** and **monitor (and evaluate the partnership's performance)**. These stages are presented graphically on page 13. They also illustrate the ongoing role (convener; risk-reducer; thought leader; facilitator; funder, etc.) that USAID can play at every stage of a partnership.

Defining the Problem, Identifying the Opportunity

The centerpiece of any partnership is having a shared vision. For private sector actors, effective partnerships are rooted in their business objectives and organizational priorities. Aligning around the partnership's goals, objectives, and intended outcomes calls for a clear identification of the problem, a definition of a potential partnership opportunity, a rigorous examination of all stakeholders' interests and priorities, and development of a shared vision. The process includes:

Defining the problem. Assuring that the core problem is properly identified and explaining that the business opportunity is critical to the potential for a private sector partnership.

Scoping and assessing the partnership opportunity.

Identifying the potential partner; its business objectives, and the business case, including the shared objectives and relationship between the donor and the partner.

Understanding priorities. Understanding and aligning each stakeholder's needs and incentives builds trust and can help bridge any real or perceived differences. See Table 1 on page 14 for a list of potential partner categories and their general motivations.

Defining the partnership vision and preparing the engagement. Developing a vision of how the partnership would operate to deliver shared value to all parties involved is useful in providing focus early in the conversations.

Engaging the potential partner. Assuring the potential partner is engaged to discuss the vision, objectives, structure, and commitments included in the proposed agreement improves joint ownership.

Re-scoping and assessing the partnership opportunity.

At the end of the alignment process, returning to the original objectives and re-assessing the opportunity as it stands after negotiation helps mitigate risks.

For more detailed information, please consult Appendix I on page 81 which includes resources for further reading, links to useful tools, and sample checklists.

PURDUE UNIVERSITY: NO FRILLS

The Opportunity: Pest-related postharvest losses significantly affect smallholder farmers' income and their level of food security. In Kenya, pests such as large grain borers can cause up to 100 percent loss in maize.

The Result: Purdue University, through an investment by USAID's Feed the Future Partnering for Innovation program, was able to commercialize its Purdue Improved Crop Storage (PICS) bags to smallholder farmers in Kenya. These affordable, accessible "no-frills" small-scale hermetic grain storage bags were introduced through a local private sector partner, Bell Industry Ltd., which marketed the product to the smallholder market. As of this year, Purdue and its partners have sold more than 60,000 bags, reaching more than 15,000 smallholder farmers.

Source: Feed the Future Partnering for Innovation

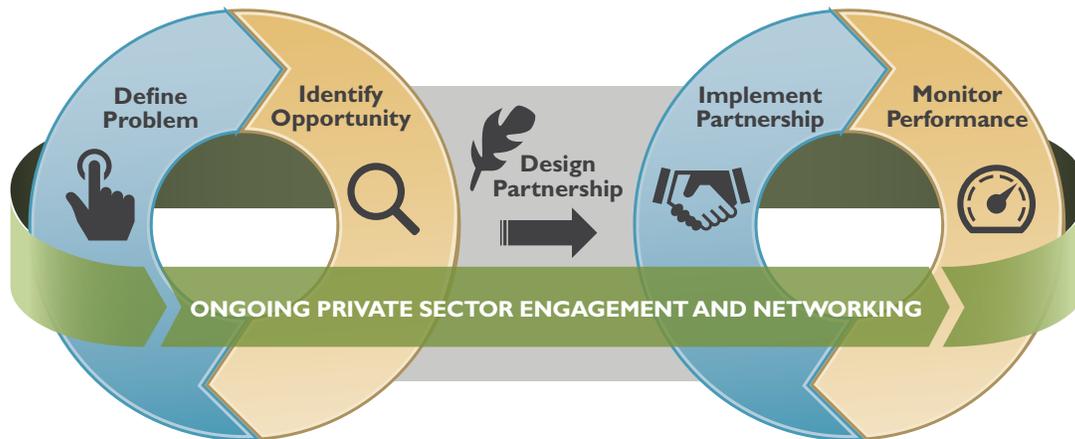
Designing the Partnership

Once the stakeholders have arrived at a shared vision, they can design a partnership that achieves their collective goals. This design process can include some or all of the following:

Identifying the best implementation mechanism.

Donors often have a range of implementation mechanisms available for structuring and financing partnerships with the private sector that can be used when addressing different market needs. For a more complete description of these mechanisms and when they may best be used, please refer to Appendix II, USAID Implementation Mechanisms, which include risk sharing agreements (such as DCAs), investment

THE PRIVATE SECTOR PARTNERSHIP DEVELOPMENT PROCESS



facilitation (such as the New Alliance for Food Security & Nutrition), prizes and open innovation (such as Development Innovation Ventures), and competitive programs like Feed the Future Partnering for Innovation. (See Purdue University PICS example on the previous page.)

Co-designing partner business model. A successful business model normally addresses three core issues: (1) how to create a valuable product or service, (2) how to deliver that product to a customer; and (3) how to ensure each participant obtains value. Detailing how the partner's business will address the market's challenges, deliver value to both the smallholder farmer and the partner, and have a positive development impact is critical.

Defining tactical model elements. Once the business model has been designed, consider if and how those elements outside the core design can affect the partnership, including stakeholders, measures of success, and external risks, such as market stability, infrastructure concerns, import or tax restrictions, land ownership issues, and cultural considerations. (See the AMARTA Sulawesi Kakao Alliance example on this page.)

Conducting due diligence. Due diligence is an evaluation of the risks and benefits of working with a private sector partner. This includes planning, information gathering, analysis, and recommendations, and should document any findings and analysis conducted for the benefit of those responsible for making the partnership decision.

Finalizing terms. Finally, the stakeholders would benefit from finalizing the partnership through a Memorandum of Understanding (MOU) or another established mechanism (as outlined in Appendix II for USAID-specific partnerships).

The final partnership agreement should reflect the specific requirements of the partnership model chosen by the donor and the terms and conditions agreed between the private sector partner and the donors. Links to useful tools and a suggested design checklist can be found in Appendix I on page 81.

AMARTA SULAWESI KAKAO ALLIANCE: MITIGATING RISKS

The Opportunity: In 2007, cocoa farmers on the Indonesian island of Sulawesi lost about \$127 million as a result of cocoa pod borer infestation and other diseases, reducing yields by 60 percent and threatening the livelihood of small farmers. Other challenges included low quality cocoa beans and ineffective logistics.

The Result: By providing training in pest and disease control technologies and cocoa best management practices, USAID, Olam International, and Blommer Chocolate helped to improve farm productivity and increase the incomes of more than 20,000 rural cocoa farmers.

Source: <http://www.usaid.gov/gda/alliances-action>

TABLE I: Potential Private Sector Stakeholders, Motivations, and Partnership Objectives

TYPE	PRIVATE SECTOR PARTNERS	POTENTIAL PRIVATE SECTOR PARTNER MOTIVATIONS	COMMON PARTNERSHIP OBJECTIVES
Multinational Agribusiness (Buyers)	Walmart, Starbucks, Mars, Olam, Kraft, Cargill, Green Mountain Roasters, McDonald's, H.J. Heinz Company	Profits/price differentials, accessing new suppliers, entering new markets, social responsibility, benefit of working with US government, publicity.	Market access; upgrading the value chain; strengthening grower networks and cooperatives; agricultural recovery; environmental sustainability; improving food security and nutrition; expanding or upgrading irrigation and sound watershed management; advocating for policy reform; positive public relations impact.
Industry Associations and Corporate Foundations	World Cocoa Foundation, Coffee Quality Institute, Coca-Cola Foundation	Members' profit, improving the quality and volume of supply, social responsibility.	Market access; upgrading the value chain; applying the power of science and technology; strengthening grower networks and cooperatives; access to capital; agricultural recovery; environmental sustainability; improving food security and nutrition; expanding or upgrading irrigation and sound watershed management; advocating for policy reform,
Extractive Industries	Chevron, Exxon Mobil	Corporate social responsibility, social license to operate, diversifying local economy, interest in collaborating with US government, access to new market for raw product sourcing or new distribution point.	Market access; upgrading the value chain; applying the power of science and technology; access to capital; agricultural recovery; improving food security and nutrition; positive public relations impact.
Input Suppliers and Processors	Monsanto, Syngenta, Agrimatco, Arcadia Biosciences, Tiger Brands, Seedco, Pannar	Profit, accessing new markets or expanding markets, social responsibility.	Upgrading the value chain; applying the power of science and technology; strengthening grower networks and cooperatives; agricultural recovery; improving food security and nutrition; advocating for policy reform.
Financial Institutions	Ecobank, Bank of Abyssinia, Banque de Kigali	Profit, test new borrowers, increase loan portfolio, increase market share.	Upgrading and strengthening the value chain; increase enterprise competitiveness; access to high-value markets; access to capital.

Source: Adapted from "Building Alliances Series: Agriculture." Prepared by Development Alternatives International (DAI). (The Office of Development Partners/Private sector Alliances, USAID, October 2009): 20-1

Implement

Once the parties have agreed on the design of the partnership model and finalized the partnership terms, they can prepare to implement and deploy the model. Successful implementation requires more tactical planning and stakeholder engagement than in previous phases, but generally includes the following three steps:

Map timeline, milestones, partnership goals.

Stakeholder mapping is a collaborative process for determining a list of key actors and organizations that could be engaged to increase the likelihood of success. It is helpful, then, to engage in stakeholder mapping even before the business model design is finalized, but this can be most useful if completed prior to the drafting of an implementation plan.

Build implementation plan. Successful deployment requires a detailed understanding of how the partnership will be launched and implemented to achieve its stated goals. An implementation plan consisting of an organizational model and timeline of activities provide all relevant stakeholders with a blueprint for deploying the partnership in the target market. Effective use of these tools can greatly facilitate the launch and local up-take the business partnership.

Launch partnership operations. Once the implementation plan is in place, the partnership can be deployed in the target market. These activities include the business launch, operational start up, and ongoing operations.

Monitor Performance

Monitoring and evaluation (M&E) is critical to not only ensuring each partner's accountability in achieving the mutually agreed-upon goals, but also offers critical lessons in identifying the most important success factors. Building this knowledge base of success factors, potential pitfalls, and previous lessons learned throughout the implementation process also improves future interventions and partnerships. Best M&E practices include the following three steps:

Measure and analyze outcomes and impacts.

By leveraging the data collected throughout the partner's business operations, partners can conduct M&E activities to assess the impact of the partnership and answer critical questions. It is important to understand the particular components of a good external evaluation.

Systematize best practice and lessons learned.

Information collected through M&E activities can be analyzed and used immediately to adjust project implementation. This dynamic approach quickly evaluates what works and uses that insight to improve the partnership's operations and performance.

Report findings to share learnings. Because of their broad applicability to business and development, the information learned from M&E activities could have a substantial impact beyond the partnership. Disseminating reports and information about the partnership's impact to audiences including governments, development partners, the private sector, and civil society can also raise the profile of the partnership and bring new stakeholders and resources into the venture.

Links to useful tools and a suggested monitoring and evaluation checklist can be found in Appendix I on page 81.



CHAPTER 2

Why Is Understanding Business Models and Risk Important?

“We have to leverage private sector leadership more dramatically than at any time in our history. We need a new collaboration that reaches beyond government to include business and civil society groups working together to promote economic growth.”

SECRETARY OF STATE JOHN F. KERRY
PARTNERS FOR A NEW BEGINNING MEETING,
MAY 3, 2013

Private sector-led solutions in the low-income segment (otherwise known as inclusive businesses)¹¹ have emerged as one of the critical means through which donors drive large-scale social impact. Donors invest in inclusive businesses because they can improve efficiencies and outcomes while being able to attract other investors.

¹¹ Inclusive businesses are profitable businesses that integrate the low-income segments into their mainstream business activity as consumers, distributors, suppliers, and/or employees. Beyond its ability to create shared value, an inclusive business is like any other business. The only differentiator is that it is a mass-market or supply chain-strengthening solution that expands access to goods, services, and income and employment opportunities for the poor while contributing meaningfully to a company's bottom line.

At the same time, although the low-income segment offers numerous opportunities for growth, serving low-income markets is at best a complex undertaking requiring an appetite for risk, reinvention, and an understanding of the business model(s) that underpin a commercial undertaking that can realize those opportunities.

WHY ARE BUSINESS MODELS IMPORTANT?

A business model describes and breaks down how a business creates, delivers, and captures value, revealing an understanding of the product, logistics, financing, supply chain, pricing, payment, and sales. Given the complexity of low-income markets, analyzing these issues can provide useful insights into flaws or opportunities. Thus, this guide includes a shared value canvas (see page 19), which integrates (a) the principles for boiling down a business model to its most basic and relevant component parts for analysis¹² with (b) the key aspects of the low-income segment that require special attention.

Using the shared value canvas to guide thinking on partnerships with the private sector can help test and understand the potential of these new business models. Established businesses tend to execute an existing business model, but those entering an emerging market need to find the right business model. In the latter instance, integrating “a lean start-up”¹³ with the value system of an inclusive business can be a useful framework for rapidly co-developing, testing, adapting, and catalyzing emerging market business models.

¹² Osterwalder, A; Pigneur, Yves; Smith, Alan; and 470 practitioners from 45 countries. *Business Model Generation*. Self-published, 2010.

¹³ Blank, Steve. “Why the Lean Start-Up Changes Everything.” *Harvard Business Review*, May 2013.

The models offered in this guide have been simplified for ease of use and to help expedite USAID-partnerships with the private sector.

The shared value canvas can help identify key determinants of commercial success and smallholder value, such as:

Providing insights into the inclusive business thesis.

Given that the business model is aimed at generating social impact, what is its hypothesis? What community-level outcomes are anticipated? Will the model improve access to markets? Will there be opportunities for adding value? When analyzing a business model, this thesis should be clear and should be compatible with the other elements of the business case. For example, DelCampo's inclusive business thesis (see the textbox below "DelCampo: Unlocking Capital") speaks to the need to increase smallholder productivity, income, and livelihood but hinges on a consumer financing business model that offers smallholder farmers a line of credit and training as an important consumer acquisition, engagement, and retention strategy.

DELCAMPO: UNLOCKING CAPITAL

The Opportunity: In Honduras, only 4 percent of the country's \$7 billion in loans is used to finance agriculture. Smallholder farmers are generally unable to access credit because of a lack of credit history and/or bankable assets. This in turn makes it difficult for smallholder farmers to invest in the productivity of their farms. This gap presented DelCampo Soluciones Agrícolas, an input company, with an opportunity.

The Result: Since 2009, by partnering with the Inter-American Development Bank and Millennium Challenge Corporation, DelCampo has financed more than 2,000 smallholder farmers covering 1,700 hectares of high-value crops, and has increased sales significantly. For more details, see page 40.

Understanding the potential for smallholder impact and company value.

It can provide a high-altitude assessment of the type of social impact that can result from any business initiative, including the scale, depth, and scope of that impact, and how the initiative aligns with the company's core business and creation of value (for example, via increased sales and revenue and/or increased supply chain efficiencies).

The business model outlines how rapid scale can be achieved—without significant additional investment—by incorporating smallholder farmers. The deep procurement model and the Nestlé case study shown on page 58 demonstrate this. The pace of scale will vary between initiatives and the business model should take this into account—pace is critical for setting expectations and making donor investments.

Deciding if a business model should be "high touch" or "low touch."

Typically, low-income smallholder markets are complex and inherently uncertain. This often means that a significant up-front investment of resources is required to introduce and generate uptake of a new product or service. This is a "high touch" model—the company should go to the consumers first and win them. "Low touch" models are the analog to "if you build it, they will come;" the customers will come to the company for the new product or service. "High touch" strategies involve higher up-front costs and consumer outreach, education, and training.

For example, the Coca-Cola aggregator model summarized on the next page is "high touch," and expensive by design. However, Coca-Cola creatively de-risked the model by leveraging joint financing from project partners and obtaining agricultural extension and business training for smallholder farmers from TechnoServe. Moreover, because of its systematic approach, Coca-Cola also created a model that could be replicated.

Improving and informing the review of technology-related/driven development efforts.

The search is on for proven technologies that can transform food security and smallholder livelihoods. The perspectives gained from a well-crafted business model can inform, complement, and better focus a technology review beyond the surface appeal of new advances, and in turn, the review can inform and sharpen the model, by keeping in mind how the product or service will get to market and be successfully deployed with the desired impact and profitability.

COCA-COLA: LOCALIZING AND AGGREGATING SUPPLY

The Opportunity: As part of its 2020 Vision, The Coca-Cola Company is aiming to triple its juice division's business. To meet this target, Coca-Cola needed a reliable supply of fruit.

The Result: By partnering with other stakeholders under Project Nurture (such as the Gates Foundation and TechnoServe), Coca-Cola has been able to aggregate 42,000 smallholder farmers and procure more than 36,000 metric tons of fresh fruit for its Minute Maid Mango beverage in East Africa. For more details, see page 53.

Capturing the potential and timing for scale. One of the biggest questions facing development practitioners is not only if but also when an initiative will reach scale. The business model framework offers preliminary insights.

Preparing for and mitigating risks. While the concept of de-risking will be introduced later in this chapter, understanding and questioning the underlying hypotheses for a business model can provide a strong sense of the attendant risks, thereby opening the door to generating risk mitigation and/or de-risking strategies that can improve performance and/or accelerate the creation of value.

Beyond these essential business model considerations, two additional dimensions are important: market readiness and model maturity. Both deal with externalities and expectations.

In terms of market readiness, all business models should take into consideration geopolitical, regulatory, and operational risks that fall outside the direct control and influence of the company. A robust understanding of these external market conditions—and where USAID can provide insights via its profound local market knowledge and expertise—is fundamental to contextualizing any business model to its local environment and calibrating expectations accordingly.

With respect to model maturity, it should be noted, however, that over the past few decades, relatively few inclusive business models—namely micro-finance, contract farming,

and to some degree the aggregator model—have truly scaled (i.e., proven across multiple contexts with similar results). Donors should recognize that low-income business models take time to mature and what works well in one context, may not work well in another.

ANALYZING BUSINESS MODELS DURING PARTNERSHIP DEVELOPMENT

Business model analysis can be fundamental to developing successful partnerships with the private sector. The shared value canvas introduced on the next page has been designed to enable stakeholders to gain a holistic and integrated perspective for analyzing business models and has been applied across 11 models in Chapter 3. It was designed to answer four basic questions:

What is it and why is it relevant? This includes (a) the generally accepted term used externally to describe the business model type (drawn largely from language used by the International Finance Corporation (IFC) and Monitor Deloitte); (b) the specific challenge the business model is trying to address; (c) the definition of the business model; and (d) the key components of this type of business model.

How does the business model work? Using a modified and simpler version of the business model canvas, each model is described through its component parts: (a) understanding company value; (b) how the company will go to market with its product or service; (c) the anticipated customer experience; (d) the smallholder value that will be created; (e) the opportunities for scale and sustainability; and (f) how the initiative might be de-risked and/or additional value generated or accelerated.

When and how can the business model be used:

What are the critical uncertainties? This includes questions that can be used for due diligence purposes and introduces uncertainties to allow stakeholders to assess how each model tends to respond to specific contextual drivers often associated with low-income smallholder business models.

How has the business model been used in the past and how has it worked? This includes (a) providing, for each model type, an actual business case drawn from external sources; (b) reviewing and analyzing the value delivered through that example; and (c) systematizing the critical success factors inherent to the business and the business model.

MODEL ANALYSIS – SHARED VALUE CANVAS



THIS FRAMEWORK allows for anyone to quickly assess a model's core elements, how they work together to generate value for customers and companies, and the tactical role a donor can play in accelerating value and reducing risk in the model's core elements.

UNDERSTANDING RISK

It is difficult and risky to enter and succeed in a low-income market and create shared value at the same time. Businesses therefore actively seek ways to protect their initial investment, sometimes adapting or reinventing their product or service. Moreover, because cash flow is volatile and variable, especially in smallholder locales where cash is often tied to crop performance, traditional sales and marketing strategies may not work without innovative credit approaches, such as partial credit guarantees, impact investing, and philanthropic capital schemes.

Donors play an integral role in partnerships with the private sector. Specifically, donors can focus on and offer strategic de-risking or value acceleration initiatives. Given the blended capital sources (everything from philanthropy to market-based debt and other financing), if donor investments are more targeted toward understanding and de-risking business models, this could be catalytic to crowding in other investors (public and private) and other private sector players (international and local).

HOW TO DE-RISK AND ACCELERATE VALUE

At the end of the day, risk is in the eye of the beholder. De-risking means taking proactive steps to mitigate the subjective and objective risks attending a business model, as perceived by a specific investor or group of investors before financing or developing an initiative.

Value acceleration also involves a pre-commitment intervention. The idea is to strengthen an existing strategy or tactic in order to leverage and accelerate significant impacts. For example, if (a) extension services were now being provided through a blended financing scheme and (b) expanding the services would significantly increase the number of beneficiaries and their productivity, then (c) an additional investment in the extension program would accelerate value.

De-risking and value acceleration can be pursued via several pathways, including:

Developing innovative and blended financial instruments such as partial credit guarantees (like DCAs), smart subsidies (including grants), asset-free lending schemes, and warehouse receipt systems.

Providing and/or underwriting crop insurance schemes (such as index-based insurance) that can protect smallholder farmers from weather-related events (such as drought or excess rainfall). For more details, see ACRE (formerly known as Kilimo Salama) example, on page 71.

Facilitating access to public goods such as last-mile infrastructure, capacity building and training, and related efforts geared to enhancing market access and improved and sustained smallholder performance.

Creating policy incentives that support an enabling environment for initiatives to achieve scale. This can be accomplished, for example, by redesigning ineffective policy instruments or by creating new fiscal and non-fiscal incentives that remove barriers to entry or catalyze smallholder business development in rural locales.

Developing robust business models that contemplate and manage risks effectively and integrate scale from the start. Chapter 3 provides numerous examples of the types of business models that work and their related risks and uncertainties.

Exploring aggregators that allow for smallholder integration and economies of scale. Aggregating farmers can create myriad efficiencies related to productivity, service, and logistics that could significantly de-risk an investment or accelerate the creation of value.

USAID is also well positioned to de-risk a partnership opportunity through the various roles it can play in the marketplace—as an investment catalyst crowding-in other investors or acting as a funder/investor itself, or brokering/facilitating other relationships and mitigating risks that are important to the success of a private sector partnership. Moreover, when it comes to managing risk associated with the enabling environment, USAID can also act as a credible advocate, thought partner, and convener.

From Donor to De-risker

If getting the business model right is critical for getting private sector partnerships to scale, in order to establish viable, sustainable, and relevant partnerships, it is no less critical—in fact, fundamental—that donors (a) understand how the business model works, (b) understand the uncertainties that affect the model's profitability and social impact, and (c) learn how to make pinpoint precise interventions that are geared toward unlocking business potential and maximizing smallholder benefits.

The business model frameworks offered in this guide provide a foundation for developing more robust donor intervention strategies. By using this guide and its tools, donors will be better able to:

Understand business model trade-offs and explore when, where, and how a donor intervention strategy through a private sector partnership might make sense.

Use the various financial tools and instruments, ranging from grants and partial credit guarantees to private equity. This will also improve calibrating those tools to the business model and, in the future, the timeframe of the need and/or opportunity.

Develop industry-vs. firm-based intervention logics that can be informed by a systemic view of what is needed to bring scale. This could include creating incentives for vertical supply chain integration and fostering policy engagement, given that one firm alone cannot shoulder the responsibility of bringing long-term development outcomes. As noted in Monitor Deloitte's publication *Beyond the Pioneer*, there is increasing recognition that true scale requires an industry-wide effort rather than ad hoc firm-by-firm engagements.

Develop donor platforms and other collaborative approaches to de-risk different aspects of an industry-wide approach. USAID could collaborate with other donors by applying a business model and de-risking approach to a portfolio of investments in the same or similar groups of value chains within the same industry. This would allow donors to intervene strategically while thinking systemically, allowing them to pull resources, address numerous value chain bottlenecks, and unlock the potential of these value chains through the private sector.

De-Risking in Practice

De-risking is a means through which USAID can define its value and promote its relevance to the private sector. As demonstrated in Chapter 3, each kind of business model has inherent risks associated with it, especially in the smallholder context. The table on the next page (adapted from *Shifting the Lens: A De-Risking Toolkit for Impact Investment* by Bridges Ventures and Bank of America/Merrill Lynch, 2014) outlines the most common risk factors in smallholder-related businesses and de-risking opportunities for each type of risk, showing potential for informed and effective donor involvement.

TABLE 2: Common Risks and Potential De-risking Solutions

RISK FACTOR	DEFINITION	TYPES OF DE-RISKING SOLUTIONS
Market Risk (Acceptability/ Quality/ Performance)	The market will not accept the product or good because of quality and performance.	<ul style="list-style-type: none"> • Product adaptation to local needs • Customer research and segmentation • Revamp marketing strategy • Field trials/demo plots • Targeted market research to improve and refine demand assessment
Product Risk (Accessibility)	The supplier is unable to deliver the product to market within their resource constraints and/or due to market conditions (for example, poor infrastructure).	<ul style="list-style-type: none"> • Provide relevant infrastructure • Develop shared logistics platforms with other vendors/suppliers • Develop supplementary sales and distribution channels (through local partners) • Explore product bundling (with other products already active in the segment)
Financing Risk (Capital/ Affordability)	The lack of appropriate types of capital required to assure efficient production or consumption or of the product or good being sold and/or lack of (sufficient) financing for effective business start-up and expansion.	<ul style="list-style-type: none"> • Assure smallholder access to credit (including consumer finance schemes and engagement with local financial institutions) • Provide risk capital (especially early stage financing) • Develop partial credit guarantees (and where possible first-risk loss mechanisms) and other debt instruments that mirror credit needs • Crowd-in other investors • Provide smart subsidies (grants) to de-risk and/or incentivize engagement
Production Risk (Productivity/ Availability)	The producer is unable to comply with volume and production standards required by the market.	<ul style="list-style-type: none"> • Provide smallholder farmer extension and training • Leverage the use of demo plots and outgrower/contract farming schemes • Provide crop and side-selling insurance • Develop tiered production incentives • Investing in upstream or downstream production facilities (processing/storage)
Adoption Risk (Utility/ Acceptability/ Usability)	The consumer is unable to use the products intended and the product fails to deliver anticipated value.	<ul style="list-style-type: none"> • Provide consumer education through extension/training • Conduct product viability analysis to assure product meets market needs • Leverage the use of demo plots and outgrower/contract farming schemes • Use consumer feedback to develop product alternatives
Unquantifiable Risk (Awareness)	Because of a lack of comparable information and/or track record, there is no predictable/measurable way to ascertain if the product or good will meet anticipated performance standards.	<ul style="list-style-type: none"> • Conduct market research/analysis to understand market viability (including policy context) • Conduct field trials/product testing with target customer segments • Analyze possible risks and develop risk mitigation measures • Partner with a local organization that has relevant experience (and trust with smallholder consumer/suppliers) • Advocate for policy reforms and fiscal incentives where necessary



CHAPTER 3

What Can We Learn from Practice Through Business Models?

“If the old model of development was hiring a contractor to build a road, we really believe that the new model is partnering with engines of American innovation, corporations, foundations, universities, to help nations build innovation economies and real democratic societies that are connected to our own.”

USAID ADMINISTRATOR RAJIV SHAH
THE KOJO NNAMDI SHOW, NPR, MAY 20, 2013

The previous parts of this guide focused on making the business case for why partnerships with the private sector are important and how to develop them, and offered a point of view as to how to think of them. This chapter provides insights into a number of business models that are working or have the potential to work in an agricultural context across emerging markets. The examples contained in this Chapter are all evidence-based. They have been drawn from numerous secondary sources (including but not limited to case studies), and in some cases, have been validated by interviews with company executives. They are presented in an abbreviated format for ease of use and answer the following questions:

What is the model and why is it relevant? Each model description includes a summary of the key challenge(s) the business model is designed to address, a brief description of the model, and an outline of the model's components.

How does the model work? By following the shared value canvas (introduced on page 19 in Chapter 2), each model includes an explanation of (a) how the business makes money; (b) how it goes to market; (c) the customer experience (since the intensity and quality of this experience can often determine if a business model will work effectively with the low-income segment); (d) how it creates value for the smallholder farmer; (e) how it can scale and become sustainable; and (f) given the critical uncertainties and risks associated with it, what innovative ways are available to de-risk the model or accelerate it to generate greater shared value.

Because there are variations of some of the models (for example, contract farming), a description of these is included for reference in order to demonstrate how the same model can be applied in different ways in different local contexts.

What are the critical uncertainties affecting the model? All models face critical uncertainties and key questions depending on the specific market contexts. Should the partnership be customer-facing and interact directly with the customer to improve control over quality and output or should that be outsourced to third parties? Should the partnership provide commercial finance to increase product affordability and uptake or rely on donor-led programs? These questions and others underpin the various strategies and tactics that can be used in each model. The purpose of including these uncertainties is to demonstrate that models are not static, but rather, dynamic. Therefore, donors (and business) have the opportunity, given a better understanding of these uncertainties, to consider intervention strategies that can align more closely with their common objectives.

Has the model worked before? Each model includes an applied case study of that model in action, describing the value it delivered to the company and to smallholders and the factors critical to its success.

INTRODUCTION TO INCLUSIVE BUSINESS MODELS



Business models included in the guide were selected based on their ability to address smallholder farmer challenges while generating company value. All models enhance smallholder competitiveness.

ABOUT THE BUSINESS MODELS

The private sector is currently using business models that engage smallholder farmers either as suppliers of raw product or buyers of commercial goods tailored for their use. The models presented in this chapter illustrate how different businesses successfully engage the smallholder market by addressing one of the following key challenges smallholder farmers face:

- 1. Product Affordability.** The no-frills and consumer financing business models address market barriers by increasing the affordability of a critical good or service for the smallholder farmer. Strategies may include redesigning more basic products to reach a lower price point or developing financing strategies through varying payment terms.
- 2. Access to Inputs and Technology.** The pay-per-use and micro-franchising models provide alternative approaches to ensuring accessibility of key inputs and technologies. Strategies may include renting or leasing equipment instead of buying outright or leveraging existing local networks and social capital instead of traditional collateral.
- 3. Market Access.** The smallholder aggregation and deep procurement models improve the terms and conditions under which smallholder farmers can access markets. Strategies include combining production across groups of farmers to generate needed volume for bulk purchasing or developing a specific supply chain from the ground up where it does not already exist.
- 4. Distribution.** The dedicated direct sales force and shared channel distribution models focus on reaching smallholder farmers with goods and services in a price-competitive, meaningful way. Strategies include balancing high short-term costs of a hands-on sales and training approach with managing relationships to ensure the long-term loyalty of profitable repeat customers.

5. Productivity. The contract farming and bundling models offer farmers access to needed inputs, technology, and training for increasing productivity. Strategies include contracting directly with a secure market willing to invest in production inputs in order to secure the product and combining products that can be packaged, marketed, and delivered together to cut costs.

6. Access to Finance. The asset financing model increases access to equipment and technology by providing access to credit for smallholders. Strategies include offering collateral-free, alternative collateral, or cash flow-based lending.

Each model presented provides a unique approach to private sector engagement, but their relevance to a particular partnership depends on a broad range of conditions, including (1) a business' distribution channels, market access, product development and (2) farmers' access to financing, product availability, and market readiness. Models have been deliberately segregated to facilitate analysis, but it is not unusual for businesses to employ one or more models to achieve their objectives (i.e., direct sales force with no frills, or consumer finance with bundling, etc.).

The models are summarized in the table on the next page. The nomenclature used to define each model was borrowed from existing research that was conducted by the Monitor Group in their publication *Promise and Progress: Market-Based Solutions to Poverty in Africa*. In the interest of maintaining consistency with externally referenced material, the authors of this guide opted to use the same rather than investing in developing differentiated terminology.

TABLE 3: Summary of Inclusive Business Models

BUSINESS MODEL	DESCRIPTION
Aggregator	Aggregator models introduce an intermediary actor in the value chain between the supplier and purchaser that aggregates supply (thereby reducing the transaction costs of individual smallholder engagement), and that often provides other ancillary services. These aggregators collect cash crops and staples from large numbers of small-scale farmers and sell these in one transaction to large buyers at the top of the supply chain.
Asset Financing	Asset financing is a system whereby lending institutions consider future expected income streams to determine payback periods and amounts, discarding traditional collateral requirements. Farmers can acquire previously unattainable long-term productive agricultural assets and use the income derived from using these assets to either repay the loans or acquire additional assets.
Bundling	Bundling is a product delivery and marketing technique that goods and service-providers use to package, deliver, and market several products together. Reducing the costs of bringing the bundle to market makes the bundle more affordable for low-income segment consumers.
Consumer Financing	Consumer financing represents a range of financial solutions tailored to crop cycles and smallholders' cash flows that expand credit access while limiting a lender's financial risk. This credit is often extended by a non-traditional lender like an agribusiness vendor (e.g., input suppliers, processors, or purchasers) and is typically offered at low interest and with technical assistance or training (e.g., on irrigation techniques) to reduce risks of farmer default.
Contract Farming	Contract farming arrangements involve a buyer contracting smallholder farmers or producers to directly source agricultural supply. The buyer organizes the supply chain from the top, including collection and processing services, and provides critical inputs, specifications, training, and credit to its suppliers. The farmer provides assured volumes of crops of specified quality, on specified dates, at agreed-upon prices.
Dedicated Direct Sales Force	Dedicated direct sales force models recruit and train local community members to be company agents who are able to reach deep into communities to sell and distribute goods. This model bypasses shops and other channels to improve access to goods for a particular (often rural) base of the pyramid customers, generally at more affordable costs than would be possible with traditional methods.
Deep Procurement	Deep procurement involves an agricultural buyer building a sourcing channel, such as a network of collection centers, which bypasses traditional middlemen, reaches into large networks of low-income producers and farmers, and enables direct purchases from smallholder farmers.
Micro-franchising	Micro-franchising enables providers of goods and services to reach low-income segments by incentivizing or contracting local micro-entrepreneurs to cost-effectively take over a "missing" function in the value chain, such as retailing, marketing, or after-sales support. These franchisees can more easily generate a profit, which they then share with the franchisor.
No Frills	No Frills tailors products and services to customers at the base of the pyramid, paring them down to meet basic needs and therefore accommodate price sensitivity, while remaining profitable. Profitability is maintained through high volume, high utilization, and service specializations. Creative design and delivery methods based on understanding of target segment assure against diminishing degree of asset utilization.
Pay-Per-Use	Pay-per-use allows farmers or producers to access products and services with limited up-front investment. The supplier provides access to the product or service, distributes and maintains the product, and receives payment from farmers per use each use of their product or service. The supplier may also provide training or capacity building around product use, especially to encourage product adoption and maximize farmer productivity.
Shared Channel Distribution	Shared channel distribution uses networks that reach into remote markets via shared channels, piggybacking on existing distribution platforms for products and services. This enables people at the base of the pyramid to gain access to affordable agricultural inputs and other goods.

When choosing the most appropriate model for a specific private sector partnership, the cases below serve as a guide to the decision-making process. Included in each case is an illustrated rating of the risk or uncertainty associated with each model's key factors such as market readiness, financing requirements, complexity of distribution, and product affordability. These ratings inform the decision as to which model is the most appropriate for the local context.

APPLYING CONTEXT TO BUSINESS MODELS

Earlier the guide addressed the importance of using business models as one of several ways for (a) capturing the potential shared value to be created by a business and (b) understanding the risks, opportunities, and potential for scale and sustainability. The Contextual Awareness Tool (CAT) found on pages 29 and 30 was developed as part of this guide to help practitioners understand the context in which each business model has the best potential to succeed. Moreover, the process of assessing the business environment and its uncertainties, and deciding whether and to what extent they should be addressed, can also affect critical aspects of the value proposition of the business model.

The core elements from the "buying from" and "selling to" models were selected based on the degree to which they can impact critical aspects of the business model's value proposition such as:

Sourcing from Smallholders

Degree of Intermediation. In procurement systems, the degree to which a product and/or service is intermediated has a direct bearing on a) price; b) quality; and c) time to market. While in theory, the less intermediation would suggest better pricing and efficiencies throughout the value chain, supplemental value-addition-based intermediation can contribute to greater margins, improved quality, and greater efficiencies in time to market. While it is evident that for each of these criteria, "it depends;" the process of reviewing and discussing options and opportunities could be valuable in ascertaining the best and most effective supply chain strategy. Moreover, while a subjective assessment of the contextual parameters best suited for each business is included, the contextual awareness tool is intended to be dynamic. In other words, different market and company contexts will impact where each parameter indicator is placed. As such,

as context changes or is made to change through donor interventions, the parameter indicators will move toward the desired state.

Market Readiness. One of the most critical gaps in smallholder-driven business models is the lack of capacity among smallholder farmers to deliver in a market system. Therefore, the degree to which a smallholder farmer is ready or not to participate and engage effectively is a determining factor as to how much extension support, and associated costs, will be needed to get the farmer up to speed and what would be the best system or mechanism for that to occur: Would the business need to rely on external stakeholders from government or civil society? How many crop cycles would it take for the farmer to meet minimum standards consistently? What additional assets would the farmer need to acquire to assure consistent productivity?

Access to the Means of Production. While market readiness is about capability, access to the means is about having the assets and technology to deliver (in addition to the capability). If the means of production are not available, how can they be made available in a cost effective manner to assure farmer compliance with quality, volume, and other standards? How will the development of strategies to provide access to these means affect the company's bottom line on the one hand, and the smallholder's cash position on the other?

Need for Financing. At what stage will financing be required and more importantly, what type of financing will be required? Will this model reach maturity through dependence on subsidies and donor financing schemes or will there be other commercial financing strategies that can be leveraged through the company's assets that can be used instead? How will this affect the performance of the business model?

Selling to Smallholders

As with the “sourcing from” examples, “selling to” offers four lenses through which to consider a similar set of contextual uncertainties. These are:

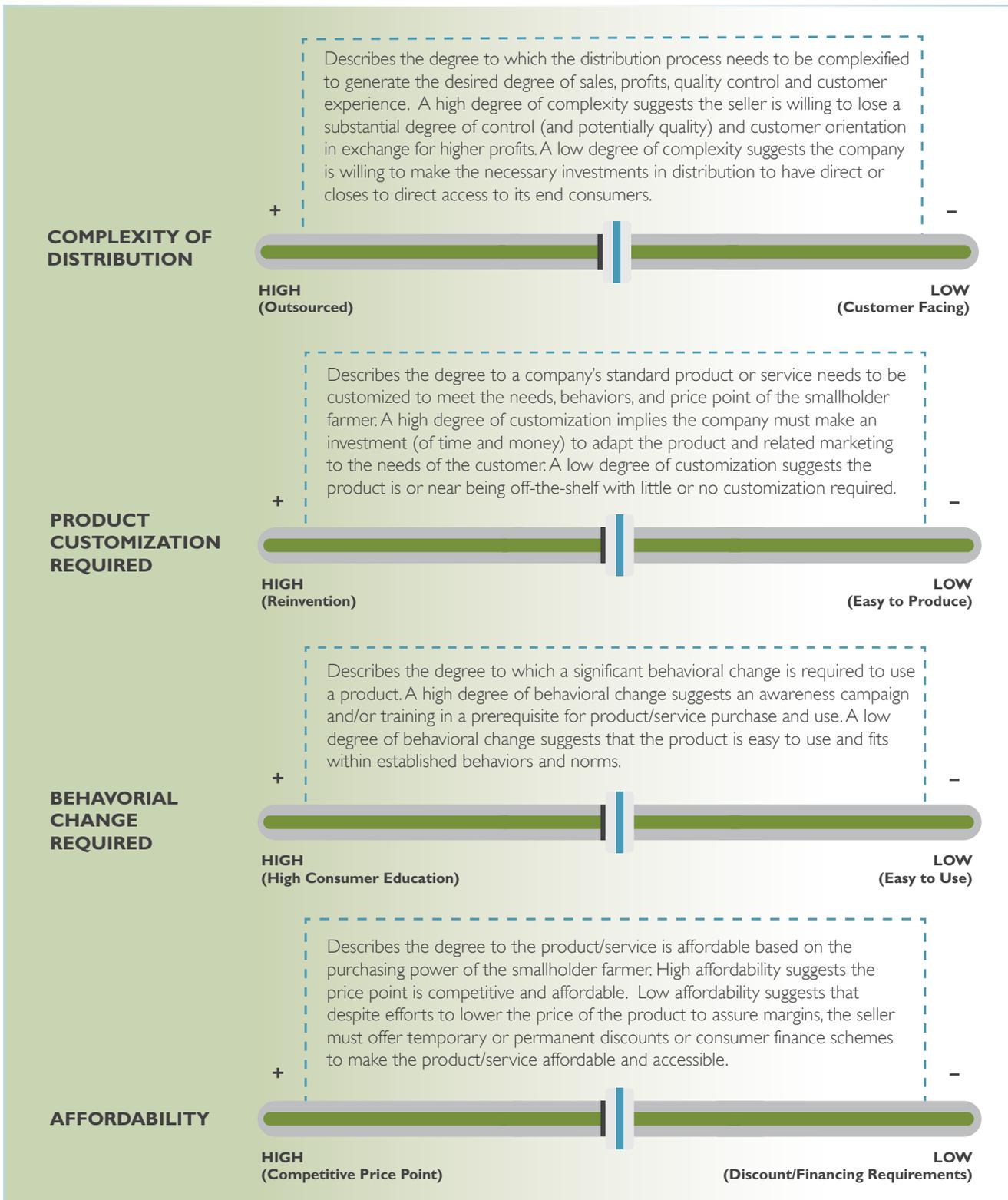
Complexity of Distribution. In much the same way as intermediation can drive the price up or reduce margins, the complexity of distribution has the same effect in terms of how a product reaches its end consumer and what degree of control the seller wants to have over the end customer experience. In all cases, there are important associated costs, which could be borne by the seller, the buyer, or a combination. Similarly, if the manufacturer believes in a direct retail model because after-care sales services are essential to assuring repeat clients, this becomes another consideration the CAT can help uncover.

Product Customization. Product customization pertains to the degree to which a product has to be modified or customized to meet the expectations and needs of the end consumer. In new market entry models where a proven product has succeeded elsewhere is being introduced into a new market for the first time, success depends heavily on if the customer is willing to purchase the product “as is” or if certain levels of customization and/or marketing/packaging will be required to assure success. Customization is often not a one-time affair—and may require multiple trials and associated costs before the product is market ready.

Behavioral Change. On the other end of customization of the product is the willingness of the consumer to want to buy it. Where a significant behavioral change is required before the potential customer is able to appreciate, understand, or value the benefit of the product or service, investments could be made in consumer education and related efforts before the product is launched to market.

Affordability. Lastly, is the product in question designed to be affordable for the low-income segment and what would it take to make it affordable? Is affordability only managed through lowering the cost of a product and/or maximizing efficiencies in product design or are there additional means to make products affordable, such as through consumer financing schemes, bundling, cross-subsidized pricing models etc.?

CONTEXTUAL ASSESSMENT TOOL (CAT): Selling to Smallholder Farmers



All models attempt to address these uncertainties in a number of ways. How they are addressed can define if and how a venture will succeed and scale. How they are understood can help guide de-risking and value acceleration interventions.

WHY BUSINESS MODELS FAIL

While understanding the contextual uncertainties can help identify and potentially mitigate inherent risks, these smallholder-centered business models can fail for a number of reasons. For a USAID practitioner, it may be important to ascertain the potential feasibility of a partnership. Some key warning signs to take into consideration include:

Lack of business model maturity. The business model is not fully commercial and requires subsidy or concessionary finance to remain viable, long-term or specific model aspects have not yet been optimized to succeed in the marketplace.

Lack of trust between the parties. Due to real precedents and/or historical perceptions, the company has not established credible and trusted links in the local market environment (with local stakeholders such as NGOs, producer associations, cooperatives, local distributors, etc.), and in particular with the target smallholder communities to sustain a viable partnership engagement process. Significant investments need to be made to change perceptions and create trust.

Uncertain land tenure. The target smallholder farmers that are core to the business model have unsecured land title which poses a risk to the right to productive use of the land and/or the ability to use the land as collateral were a financing mechanism to be designed as part of the business model. Without clear land tenure, the productive capacity of the transaction would be at significant risk. Furthermore an unstable regulatory environment or the inadvertent direct or indirect promotion of land grabs can often complicate and undermine a potential private sector partnership effort.

Lack of access to finance. Beyond the potential financing USAID or another donor might be able to provide, the absence of financing schemes for smallholders and/or commercial financing, particularly growth capital for the company, may limit or eliminate the potential for commercial success.

Insufficient market demand. When selling to or sourcing from smallholder farmers, sufficient market demand should be in place to assure a sustainable and viable market. In the risk-averse smallholder segment, an overestimation of market demand can doom an initiative to failure. This problem is particularly acute when a product has been successfully launched and tested in middle income markets, but does not translate well to the low-income segment.

Lack of management capabilities. The management team either lacks the ambition or capabilities to successfully execute the business strategy that will assure commercial viability and sustainability. This can include but is not limited to a lack of market and target customer knowledge, inadequate understanding of logistics, lack of familiarity with business models that work in this context, etc.

Lack of clear business drivers. The business case is not compelling, is not well aligned to core business objectives, and appears to be more aligned with corporate philanthropy and corporate responsibility objectives that may not contribute to long-term sustainability or commercial viability.

Inadequate understanding of consumer market. The business is unwilling or is reluctant to adapt the product or service to local needs and to the local environment. This often includes a disregard for providing consumer education and after-sales support.

Complexity of logistics (supply chain and distribution channels). Efficient aggregation and distribution are difficult to achieve due to distance, local infrastructure, and related constraints. The investment required to overcome these challenges is incompatible with the price point at which the product can be sold.

Relative value to smallholder farmers. The willingness of the smallholder farmer to participate in the supply chain or to use a new product to improve productivity is limited. The smallholder farmer may perceive the opportunity cost of doing something new and different as too great.

Inability to scale. The business model was not designed with scale in mind and at best provides incremental growth that will be insufficient to attract additional capital, keep pace with rising demand, or outperform the competition. The business may continue to operate with subsidy but may not reach the stage of commercial viability.

Changes in consumer behavior required. The business model is predicated on a change of consumer behavior that is too difficult to achieve, given local customs and traditions. Generally, the time it would take to change consumer behavior will exceed the time the business model has to demonstrate commercial viability.

Regulatory constraints. The business model depends on a change in the regulatory environment (for example, a new law that would require standards for milk quality) or fails to adequately consider the risks of changes to the regulatory environment (for example, removal of import tariffs in target market segment).

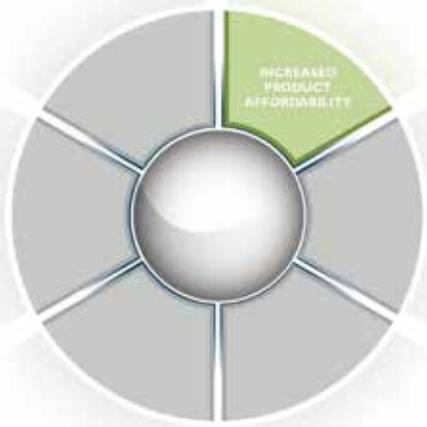
Inadequate value chain engagement. The business is unable to structure sustainable commercial relationships with other key actors in the value chain. This often necessitates costly alternatives that can affect profitability and business viability in the near and medium term.

Lack of a local presence. Businesses that do not have a local presence or a local partner may be hard pressed to have sufficient market understanding, access, and the diverse set of distribution channels that are often necessary to get a product to market, particularly in the low-income segment. At minimum, companies should have established relationships with local distributors, suppliers and other service providers critical for quality assurance and marketing in the local context.

Competition. The competition from local suppliers or more informal alternatives are underestimated or create barriers to entry that are too high for the business to overcome. The company is unable to provide the product/service at a competitive price point and should rely on donor funding or commercial financing to incentivize product uptake.

Inadequate infrastructure. The local infrastructure (roads, energy, water, etc.) is inadequate to support business viability and/or viability of smallholder customer segments without significant investment or government intervention.

During the alignment and design process outlined in Chapter 1, it would be useful to consider these potential pitfalls during partnership design. USAID may be able to develop specific strategies critical to addressing one or more of these issues or other identified as critical risks to the success of a private sector partnership.



NO FRILLS MODEL

NO FRILLS: What is it and why use it?



CHALLENGE: Low-income customers are extremely price sensitive, often switching preferences with even a slight change in unit cost. Businesses that would like to access this customer segment often find that their products and services are too expensive. In turn, customers cannot afford or even access products and services to meet some of their most critical needs.



MODEL: No frills models tailor products and services to customers at the base of the pyramid, paring them down to meet basic needs while accommodating price sensitivity. Products and services, delivered through low-cost platforms, are creatively designed to meet the low-income customer segment's needs, but service delivery is broadly standardized.



MODEL ELEMENTS: The model's emphasis on low-cost, standardized service delivery and design around essential product needs **drives down costs while affordable price points generate high volumes.**

CORE ELEMENTS¹⁴

- **Setup and service**, in which the provider minimizes non-core capital and expenses to provide “bare bones” services and lower the unit cost of delivery. Quality is kept sufficiently high to provide customer benefits.
- **High throughput, or high utilization of company assets in delivering the product or service**, mainly driven by high customer demand and product/service volume, serves to push down unit costs and provide economies of scale.
- **Service specialization** enables the provider to focus on a limited array of services, standardize processes to produce and deliver them, and reduce the need for additional procedures or multi-skilled personnel and training.
- **Services/protocols** that are highly standardized, documented, and easy for lower-skilled staff to deliver.

¹⁴ Emerging Markets, Emerging Models, Monitor Group, March 2009, http://www.mim.monitor.com/downloads/emergingmarkets_full.pdf.

NO FRILLS: How does it work?

PRIVATE SECTOR PARTNER VALUE	SMALLHOLDER VALUE	GROWTH POTENTIAL
 <p>COMPANY VALUE</p> <p>Drives significant volumes of low-unit cost products and services to generate high volume in sales.</p> <p>Demands little investment beyond product/service tailoring and any initial establishment of distribution and retailing operations.</p> <p>Innovation, affordability, and accessibility build brand recognition and license to operate.</p>	 <p>CUSTOMER EXPERIENCE</p> <p>Simplicity and user-friendliness both facilitates customers to identifying the product/service and its value, and enables a low-touch relationship with vendors.</p> <p>Generates customer value and quality through understanding the low-income segment's behavior, needs, and constraints to appropriately tailor products/services.</p>	 <p>SCALE AND SUSTAINABILITY</p> <p>Reaches scale by driving sufficient sales and revenue to outpace costs of manufacturing, distribution, and retailing/marketing.</p> <p>Scales cost-effectively by controlling key cost metrics like unit cost, total manufacturing and distribution costs, cost per point of sale, and maximizing per unit margins and sales per point of sale.</p> <p>Key scaling strategies can include expanding geographically to tap new markets, bundling complementary no-frills products and services (with potentially higher-margins) to drive greater revenues and reduce distribution costs, and incentivizing greater agent sales through contests or prizes.</p> <p>Achieves financial sustainability by driving sufficient volume and generating enough margin to share returns down through the supply chain—most importantly to the point of sale agent.</p>
 <p>GO-TO-MARKET</p> <p>Simple delivery methods, assembly, and product/service user-friendliness maintains cost-effective logistics.</p> <p>Agent networks provide cost-effective distribution channels compared to established company branches.</p> <p>Standardized training and retailing further reduces go-to-market costs for vendors.</p>	 <p>SMALLHOLDER VALUE</p> <p>Expands low-income customers' market access by enabling them to purchase valuable products and services that were previously inaccessible.</p> <p>Increases low-income customers' productivity and builds their asset bases through their use of the product or service.</p>	



DE-RISKING AND VALUE ACCELERATION

May accelerate value creation by **providing understanding of customer base, ability to pay,** and insights into necessary versus "nice-to-have" aspects of products and services.

May de-risk the venture by **providing financial support through philanthropic capital** or more innovative financing mechanisms such as a product volume guarantee.

NO FRILLS: When and how can it best be used?



CRITICAL QUESTIONS FOR MODEL DESIGN

Market

- Does the market for the product already exist or is it a new offering for this segment? What kind of competitive dynamics must the vendor consider?
- Does the market require the product/service?
- How much demand generation is required and how much is possible while achieving profitability?

Segmentation

- Who is your target customer? What are the needs and the ability and willingness to pay of this segment?
- How can the standard customer segment and brand be retained while offering low-cost products/services to the base of the pyramid?
- Is the base of the pyramid market for this product/service similar or will further differentiation be needed for various segments?

Services vs. Products

- If services are being offered, how will training be delivered to sales staff to ensure positive brand association?
- Given low margins, what market share must be achieved to be profitable? Is this realistic?
- Will a no frills product be perceived as a low quality product by the target customer segment?

ENABLING CONDITIONS FOR THE MODEL TO WORK¹⁵

- Significant consumer awareness and marketing is required to assure no frills and associated lower price point does not mean lower quality.
- Products/services have to be highly standardized, specialized—relying on high volume and low unit costs.
- Market analysis that assesses opportunity costs and defines a value based pricing model required for long term commercial viability.
- A high volume, high volume pricing structure for the product/service leveraged through economies of scale.

¹⁵ Ibid.

NO FRILLS: How has it been used?

DRIPTECH: AFFORDABLE IRRIGATION SOLUTIONS FOR SMALLHOLDER FARMERS¹⁶

BUSINESS CASE



Problem: Scarce water is one of the largest constraints facing smallholder farmers in increasing output. Less than 5% of Africa's cultivated land is under irrigation or about 20% of the continent's productivity value.

Smallholder farmers rely mainly on rain for irrigation, which can be unpredictable or even absent, decreasing the efficiency of inputs and overall productivity.

Surface irrigation and other traditional systems do not provide optimal water levels and can lead to resource waste.

Solution: Driptech markets small irrigation kits that combine ease of assembly and maintenance with affordability.

Driptech economizes at every manufacturing and delivery stage to make its products affordable by lowering the unit cost but maintaining high quality.

Driptech's InstaKit new irrigation system reduces smallholder farmer installation time by 75 percent using some pre-assembly.

VALUE DELIVERED



Private sector partner: Driptech irrigation systems are being used on 10,000 acres of smallholder farmer land.

Smallholder farmers: Through the support of USAID's Feed the Future Partnering for Innovation program, the company was able to commercialize affordable and field-ready products that require simple to minimal assembly, making it easier on farmers to utilize the technology.

The irrigation system is priced 50% lower than traditional commercially available drip irrigation systems.

Customer farmer yields improved by an average of 50%, and smallholders using Driptech kits reduce labor costs by up to 80%.

SUCCESS FACTORS



Deeply understood the Driptech target market.

Farmers holding 5 acres or less, operating only slightly above subsistence, and recognized need and willingness to pay for output increasing technologies.

Utilized a high volume and low unit- and after-care cost model

to make drip irrigation affordable to smallholder farmers, while driving volumes through effective partnerships with local organizations providing distribution, marketing, and retailing (see Shared Channel model on page 76).

Partnered with USAID to acquire impact investment for entering new markets and increasing scale.

¹⁶ Feed the Future Partnering for Innovation Commercialization Profile, October 2013. <http://www.partneringforinnovation.org/program-driptech.aspx>.



CONSUMER FINANCING MODEL

CONSUMER FINANCING: What is it and why use it?



CHALLENGE: Smallholder farmers often lack access to finance, limiting their ability to purchase productivity-enhancing inputs or technologies. Lending terms do not consider seasonal and often irregular cash flow patterns. Irregular payment schedules make a lender's liquidity management more challenging and requires investments in customized financial products in an unfamiliar sector. Moreover, these borrowers' assets are typically less suitable as collateral than traditional borrowers.¹⁷



MODEL: Consumer financing represents a range of financial solutions tailored to crop cycles and smallholders' cash flows that expand credit access while limiting a lender's financial risk. This credit is often extended by a non-traditional lender like an agribusiness vendor (e.g., input suppliers, processors, or purchasers) and is typically offered at low interest and with technical assistance or training (e.g., on irrigation techniques) to reduce risks of farmer default.



MODEL ELEMENTS: This model enables vendors to **expand sales to smallholder farmers** while **increasing farmer productivity and loan repayment rates**. This dual approach both grows vendor revenue and makes the lender relationship **less risky and more beneficial for both actors**.

CORE ELEMENTS¹⁷

- **Strong understanding of the agricultural sector being financed.** There is little sophistication in terms of credit risk assessment techniques, but all successful models invest in learning about the target markets and specifically the buyers, processors, and traders in the target value chains.
- **Financing terms specifically tailored to smallholder farmer cash flows**, often with consideration for the productivity enhancements and expected returns of the goods and services. Terms may include:
 - Seasonal repayment schedules.
 - Low-interest rates.
 - Collateral innovations—requiring non-asset collateral (e.g., "promises" of crop delivery and repayment, inventories tracked by warehouse receipts), requiring less collateral, using cash collateral in terms of farmer savings.
- **Post-loan extension services**, often consisting of technical assistance and training and which may include financial literacy training, which may be delivered by another actor.

¹⁷ Innovative Agricultural SME Finance Models. International Finance Corporation and Global Partnership for Financial Inclusion. November 2012. <http://www.ifc.org/wps/wcm/connect/55301b804ebc5f379f86bf45b400a808/Innovative+Agricultural+SME+Finance+Models.pdf?MOD=AJPERES>.

CONSUMER FINANCING: How does it work?

PRIVATE SECTOR PARTNER VALUE	SMALLHOLDER VALUE	GROWTH POTENTIAL
 <p>COMPANY VALUE</p> <p>Expands revenue potential and develops new markets for financial institutions and vendors who might not be able to extend products or services affordably to low-income consumers.</p> <p>Diversifies income streams for vendors.</p> <p>Improves customer retention and the potential for repeat sales.</p>	 <p>CUSTOMER EXPERIENCE</p> <p>Builds farmer loyalty and retention through a long-term and structured borrower-lender relationship.</p> <p>Establishes a high-touch, high-frequency relationship between customer and lender, who not only continuously collects productivity and loan use data but also provides valuable training and technical assistance.</p>	 <p>SCALE AND SUSTAINABILITY</p> <p>Attains scale by reaching a sufficient number of farmers such that margins on products and services sold and any interest payments outweigh costs of hiring and training loan officers and of market studies.</p> <p>By leveraging the documented smallholder credit history, smallholders can access additional financing options that will enable them to increase demand for products and services.</p>
 <p>GO-TO-MARKET</p> <p>Requires developing understanding of value chain and market dynamics to enable a vendor or financial institution make informed credit assessments as well as select the best-fit markets.</p> <p>Aggregation and data collection systems close to loan recipients enables the lender to better monitor loan use and deliver productivity-enhancing training.</p>	 <p>SMALLHOLDER VALUE</p> <p>Expands smallholder access to finance by using innovative credit assessment methods and evaluating potential cash flows.</p> <p>Increases farmer income and livelihood by not only giving access to credit for new and valuable technologies, but also building an incentive for lenders to increase customers' incomes and thus their ability to repay loans.</p> <p>Creates smallholder credit history that can be used to secure other loans.</p>	<p>Scales cost-effectively by controlling cost metrics like costs per loan officer; and maximizing loan repayment rates and customer income and productivity, and increasing loan sizes.</p> <p>Key scaling strategies can include expanding geographically to grow the customer base, and introducing more flexible payment terms that make the product more affordable for customers (though the transaction is riskier for the lender).</p> <p>Achieves financial sustainability by driving a large loan portfolio that also drives a large number of sales.</p>



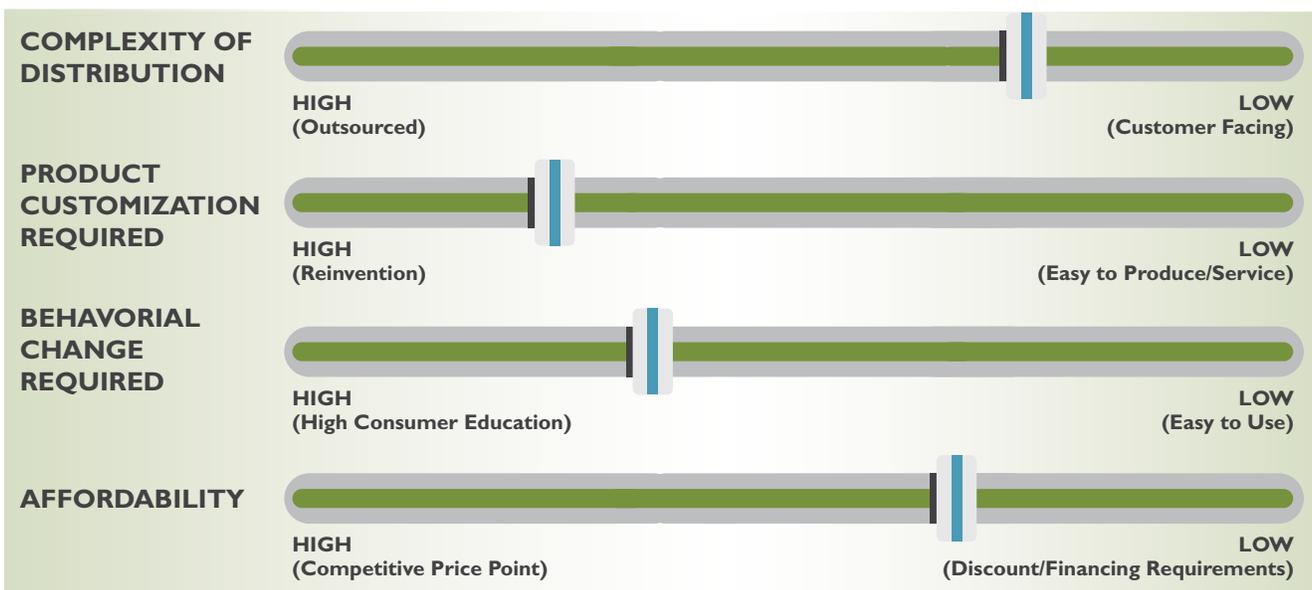
DE-RISKING AND VALUE ACCELERATION

May accelerate value creation by **identifying and facilitating partnership** between the right vendor and financial institution.

May de-risk the venture by **offering credit guarantees** to the financial institution or lender.

May advance model sustainability by **building customer segments' business capabilities and financial literacy** to help increase loan repayment rates.

CONSUMER FINANCING: When and how can it best be used?



CRITICAL QUESTIONS FOR MODEL DESIGN

Market Understanding

- How can a vendor understand a market, its value chains, and farmer cash flow strengths and weaknesses to better assess credit and more properly underwrite a loan?
- What customer segments exist, what are their needs and risk profiles, and what are their capacities?
- How organized are farmers? Is it beneficial to build an aggregation system for distributing goods and services and monitor farmer loan use and repayment?
- How can a vendor account for tail risk (e.g., floods)?
- How can a vendor work around lack of land titles (for collateral) and credit bureaus (for credit assessment)?

Operational Preparedness

- What specific agricultural expertise is needed to first design appropriate financial products (e.g., loans, repayment terms linked to crop cycles) and then to assess loan applications?
- What loan processes must the company develop or acquire to meet the needs of smallholders?
- What technical assistance services can the lender provide in order to improve farmers' repayment?
- How can mobile technology be used by loan officers and lender agents to collect field information and reduce transactional costs?

ENABLING CONDITIONS FOR THE MODEL TO WORK¹⁸

- Adequate segmentation of the smallholder market to ascertain levels of default risk and repayment rates.
- If a non-financial institution, sufficient assets/liquidity to meet smallholder market demand for consumer finance and to secure required external financing.
- Robust smallholder credit assessment tools and management capabilities to minimize default risks.

Note: For a deeper analytical assessment of the range of smallholder financing models please refer to IFC's "Innovative Agricultural SME Finance Models" (November 2012).
¹⁸ Ibid.

CONSUMER FINANCING: How has it been used?

DELCAMPO: INNOVATING FINANCING TO EXPAND AGRICULTURAL PRODUCT ACCESS IN HONDURAS^{19, 20}

BUSINESS CASE



Problem: 35% of the Honduran labor force works in agriculture but only 4% of the country's \$7 billion in loans finance agriculture, and only support large, sophisticated agricultural export and production companies.

DelCampo Soluciones Agrícolas, an agricultural inputs and technical assistance company, realized a lack of smallholder access to credit limited its ability to sell basic irrigation and fertilization equipment and smallholders' ability to scale up production and improve quality.

The nation's 15,000 small farmers represented a large and unmet demand.

Solution: DelCampo engaged with the Inter-American Development Bank (IDB) to build an in-kind financing model; IDB provided DelCampo with \$700,000 to expand its loan portfolio and credit products.

DelCampo refined its business model, including streamlining its lending processes and instituting a technical assistance program for smallholders receiving loans.

VALUE DELIVERED



Private sector partner: Grew business from one loan officer in 2009 servicing 90 loans with a portfolio of \$500,000 to seven loan officers servicing 2,405 loans of nearly \$8 million.

Grew annual sales of irrigation products from \$300,000 in 2009 to nearly \$1.8 million in 2013 (CAGR of 500%)—which DelCampo estimates only meets 18% of total product demand in Honduras.

New financing model has given DelCampo a competitive advantage over other input suppliers without smallholder financing facilities.

Smallholder farmer: About half of all loans serve small farmers with loan sizes under \$1,000.

Has financed the productivity of more than 1,700 hectares of high-value crops since 2009, representing about 7% of total national production.

SUCCESS FACTORS



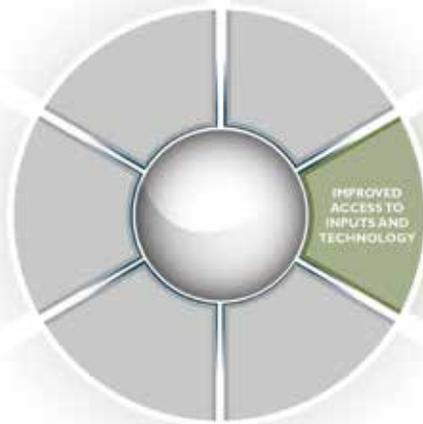
Clear business case for building the new model rooted the smallholder outreach in a strategic decision to maintain DelCampo's long-term competitive market position.

Special operational focus on streamlining lending processes limited the costs of the model pivot and built the new business without expensive overhead.

Focus on improving smallholder productivity greatly helped reduce the new model's credit risks.

¹⁹ IDB investment report.

²⁰ DelCampo internal documents.



PAY-PER-USE MODEL

PAY-PER-USE: What is it and why use it?



CHALLENGE: Smallholder farmers lack capital for major investments in value-producing products and services and miss opportunities to benefit from new technologies. These farmers tend to “lag” in adopting productivity- and quality-enhancing innovations because of the associated risks and costs involved in testing and implementing them. Producers and retailers, in turn, miss a substantial market opportunity.



MODEL: Pay-per-use allows farmers or producers to access products and services with limited up-front investment. The supplier provides access to the product or service, distributes and maintains the product, and receives payment from farmers per each use of their product or service. The supplier may also provide training or capacity-building around product use, especially to encourage product adoption and maximize farmer productivity.



MODEL ELEMENTS: This model enables companies to **expand the range of products** they may profitably distribute to farmers while **improving farmer production and quality**, leading to a mutually beneficial engagement with long-term benefits for suppliers and farmers.

CORE ELEMENTS²¹

- **Accommodating terms**, in which customers pay as they have cash available (or may subscribe for a determined quantity of product or service) and may collect the product or service at a centralized distribution point or pay a surcharge for delivery. For example, products can be metered, pre-paid, rented, sold in individual portions.
- **Group infrastructure**, which is provided not for individuals or families but for a larger aggregation, yielding higher efficiency and lower unit costs than individual assets. Village-level management provides day-to-day operations of facilities, distribution, accounts and equipment maintenance and a collective local entity often serves as a means of enforcement (e.g. timely payments).
- **Third-party administration**, under which an external entrepreneur—e.g., an individual, firm, NGO or village consortium—undertakes to organize and provide services or products to a low-income market (typically a village or group of villages), bringing requisite administrative, operational, financial and marketing experience.

²¹ Emerging Markets, Emerging Models, Monitor Group, March 2009. http://www.beyondthepioneer.org/wp-content/uploads/2014/04/emergingmarkets_full.pdf.

PAY-PER-USE: How does it work?

PRIVATE SECTOR PARTNER VALUE	SMALLHOLDER VALUE	GROWTH POTENTIAL
 <p>COMPANY VALUE</p> <p>Generates value by creating a steady revenue stream from assets that potentially do not require large capital investment to create, deploy, and maintain.</p> <p>Profits from rent pricing that can be higher than lump-sum purchase price over time.</p> <p>Can have measureable impacts on brand value and customer uptake since company has control over quality of product, maintenance service, and its delivery.</p>	 <p>CUSTOMER EXPERIENCE</p> <p>Builds farmer loyalty and retention through a “try and see” approach that introduces customers to innovative products and technologies while avoiding expenses like on-farm storage and maintenance.</p> <p>Customer experience and satisfaction could create the need for exclusive use and full ownership in the future.</p>	 <p>SCALE AND SUSTAINABILITY</p> <p>Reaches scale by building a largenetwork of assets that are used enough so that rent profits outweigh the cost of creating, delivering, and maintaining each asset.</p> <p>Scales cost-effectively by controlling key metrics like production/delivery/maintenance costs per asset, and maximizing penetration (users per asset) and utilization (asset uses per user).</p>
 <p>GO-TO-MARKET</p> <p>Through word of mouth, customers discuss benefits of innovations and increase demand among farmers with similar circumstances.</p> <p>Products and services may require demand stimulation and concerted marketing, while delivery of products is often managed by a third-party with more access to end consumers, reducing go-to-market costs for product/service.</p>	 <p>SMALLHOLDER VALUE</p> <p>Increases farmer income and livelihood by avoiding major up-front investments and minimizing financial risk in using productivity-enhancing technologies and services.</p> <p>Expands market access by providing farmers an opportunity to test the value of new products that they are not able to afford in full given their sporadic cash-flow.</p>	<p>Key scaling strategies can include expanding geographically to new markets with high customer density (e.g., centers and towns), partnering with cooperatives and communities to increase utilization, partnering with mobile providers for information-based services that may drive down end-user and transaction costs, and stimulating demand with marketing campaigns that are focused on smallholder farmers.</p>



DE-RISKING AND VALUE ACCELERATION

May accelerate value creation by **identifying high-potential markets** to enter and farmer organizations to engage.

May de-risk the venture **by generating demand** with training and facilitating behavioral changes necessary for adopting new technology.

May advance sustainability of the model **by promoting improvements in grid electricity, roads, or other infrastructure** that some assets might require for use.

PAY-PER-USE: When and how can it best be used?



CRITICAL QUESTIONS FOR MODEL DESIGN

Product and Service Literacy

- To what extent is the product/service familiar to farmers? What will be necessary to create demand?
- What is the competition for the new asset? Is the innovation disruptive to current practices or an incremental improvement?
- Will capacity-building activities be necessary to demonstrate functionality and benefit?

Product/Service Type

- Is the product/service used by multiple users simultaneously?
- Is there a clear understanding of use cycles to avoid lost value when the product/service is unused or when demand is greater than availability?
- Are there risks of interoperability? Will the product/service interface with other rented or purchased products/services? Is the local infrastructure in place to support it?
- What is the optimal rental timeline or package size to minimize farmer outlays while sustaining the model?

Brand Perception

- How do farmers understand and communicate the value of the product/service? What are the mechanisms for communication in the farming communities/network?

ENABLING CONDITIONS FOR THE MODEL TO WORK

- Sufficient demand to warrant and eventually exceed start-up costs associated with pay-per-use model.
- Effective marketing and consumer education to explain the benefits and functionality of pay-per-use model for selected product/service.
- Provides access to a useful/relevant product/service that would otherwise be inaccessible and creates smallholder value.
- Capability (and technology) should be in place to handle a large number of transactions and billing efficiently.

PAY-PER-USE: How has it been used?

REUTERS MARKET LIGHT: BRIDGING THE MARKET INFORMATION GAP WITH PAY-PER-USE^{22,23}

BUSINESS CASE



Problem: Absence or asymmetry of information is a main contributor to smallholder farmers' low productivity.

Lack of weather information impacts the ideal planting period, and not understanding good agricultural practices and the absence of market information prevents farmers from growing better crops, increasing yields and earning higher prices for outputs.

Uninformed farmers have poor bargaining power and may be taken advantage of by middlemen.

Solution: Reuters Market Light (RML) launched a mobile platform in India for local price information, weather forecasts, and farming tips.

To subscribe to the service, customers purchase vouchers at shops/kiosks.

Through universities and agricultural institutes, RML built partnerships for its content with retailers, distributors and mobile phone manufacturers by creating revenue-sharing agreements to bring the service to its customers.

VALUE DELIVERED



Private sector partner: So far, 1.3 million unique farmers have subscribed, representing 50,000 villages across 13 Indian states. Taking into consideration those who have used and shared it, the service has reached an estimated 4 million farmers.

Net profits grew nearly 100% between 2007 and 2010, generating approximately \$18,500.

Smallholder farmer: Covers 300 crops and varieties. Farmers realized an additional \$4,000 of profit and savings of up to \$8,000.

90% of farmers believed they benefited from using RML, and more than 80% were willing to pay to do it again.

5.2% reduction in price dispersion across markets that have begun using RML to negotiate sale prices.

SUCCESS FACTORS



Solutions are designed to be easily understood by the farmer and the monthly subscription plans (3, 6 and 12 months) **ensure the product's value is not lost** during its use cycle.

RML's penetration rate is dependent on the **availability of supporting infrastructure**, in this case access to mobile phones, which RML was able to achieve via its partnership.

²² Arora, Bimal and Metz Cummings, Ashley. "Reuters Market Light, Creating Efficient Markets." GIM Case Study No. B088. New York: United Nations Development Program, 2010.

²³ www.Reutersmarketlight.com



MICRO-FRANCHISING MODEL

MICRO-FRANCHISING: What is it and why use it?



CHALLENGE: Many markets lack a mechanism that links providers of goods and services to the low-income customer segments they seek. Because of high costs to market, these companies may lack a particular ingredient or function—often customer-facing—that prevents them from profitably serving these segments. Micro-entrepreneurs, meanwhile, have a lower cost base and understand the local markets and communities that these companies are targeting, but lack appropriate inventory.²⁴



MODEL: Micro-franchising enables providers of goods and services to reach low-income segments by incentivizing or contracting local microentrepreneurs to cost-effectively take over a “missing” function in the value chain, such as retailing, marketing, and/or after-sales support. These franchisees can more easily generate a profit, which they then share with the franchisor.²⁵



MODEL ELEMENTS: Most critically, these arrangements enable **product and service suppliers to reduce operational costs for reaching low-income segments** and enable **entrepreneurs to expand their revenue potential**.

CORE ELEMENTS²⁶

- **Entrepreneur training and education** allows new franchisees, many of whom have not previously operated a business, to manage their new businesses efficiently and effectively.
- **Providing standardized equipment and processes** ensures that all micro-franchisees cost-effectively deliver the same goods, services, and customer experience.
- **Giving financing** to micro-franchisees is often necessary for the entrepreneurs to make the small capital expenditures for franchise start-up.
- **Franchisor management of the brand, product, and distribution systems** keeps the model running smoothly, since the microentrepreneur may lack the capacity to manage operations beyond his or her shop or kiosk. For physical goods, the franchisor can provide an efficient distribution network that regularly delivers product to the entrepreneur, while service providers can provide a simple and efficient standardized interface for transactions and service delivery.
- **Efficient inventory management** allows the franchisor to aggregate demand across franchisees to improve product pricing and negotiate better terms.

²⁴ Tobias Hurlimann, Micro-Franchising: Application and Success Factors, Kellogg School of Management, 2011.

^{25, 26} Ibid.

MICRO-FRANCHISING: How does it work?

PRIVATE SECTOR PARTNER VALUE	SMALLHOLDER VALUE	GROWTH POTENTIAL
 <p>COMPANY VALUE</p> <p>Increases sales revenue by introducing existing brands, products, and services to a new market segment, and does so by deploying knowledgeable and trusted community members as sales agents.</p> <p>Decreases costs associated with traditional sales operations by “outsourcing” the retailing, marketing, and inventory functions to a lower-cost/higher-margin actor.</p>	 <p>CUSTOMER EXPERIENCE</p> <p>Expands customer access to high-quality, affordable, and valuable products and services, with the potential to receive after-sales services for specific products.</p> <p>Establishes customer loyalty and retention by introducing and consistently providing products and services to low-income customers.</p>	 <p>SCALE AND SUSTAINABILITY</p> <p>Reaches scale by generating more sales revenue (and margin) through a microfranchise network than it would cost to build the network, train the microentrepreneurs, and continuously deliver a product or service.</p> <p>Scales cost-effectively by controlling micro-franchise costs, including training and product delivery costs, and maximizing micro-franchise sales and revenue.</p>
 <p>GO-TO-MARKET</p> <p>Extends supply chain to hard-to-reach markets by integrating new retailing and marketing actors who are closer—by way of geography and affinity—to target customers.</p> <p>Enables quality maintenance and customer feedback by building close working relationships with microfranchisees.</p> <p>Ensures consistent product and service delivery by giving franchisors control over branding, products, and distribution systems.</p>	 <p>SMALLHOLDER VALUE</p> <p>Provides access to products and services that would not reach low-income customer segments otherwise.</p> <p>Expands potential for entrepreneurial activity among low-income customer segments, giving entrepreneurs a lower-cost, lower-risk, and financed opportunity to build their own franchise.</p>	<p>Key scaling strategies can include increasing the number of micro-franchises or sales agents; introducing a “traveling” sales agent to increase market penetration; expanding products and services through existing micro-franchises to increase sales revenues while keeping franchising costs fixed.</p> <p>Achieves financial sustainability by selling sufficient goods and services for each microfranchise to operate at cost or better, and by minimizing micro-franchise training and product delivery costs.</p>



DE-RISKING AND VALUE ACCELERATION

May accelerate value creation by **providing entrepreneur training services** and identifying high-potential geographic markets.

May accelerate value creation by **providing consumer financing opportunities**.

May de-risk the venture by **offering entrepreneurs microfinance** or guaranteeing private sector partners' credit.

May de-risk the venture **by providing partial credit guarantees or trade financing** mechanisms to support inventory management.

MICRO-FRANCHISING: When and how can it best be used?



CRITICAL QUESTIONS FOR MODEL DESIGN

Value Chain

- How does the micro-franchise fit into the value chain (i.e., sourcing, production, sales, after sales support)?

Market Understanding

- How may the franchisor better understand local consumer patterns, the broader market context, and which stakeholders to engage?
- Where can the micro-franchisee be best located to maximize sales and minimize delivery costs?
- How must franchisors adapt their goods and services, financing, or delivery processes to meet local needs?

Product and Service Bundling

- If the micro-franchise is expected to be a full-time effort, do the franchisor's products and services provide adequate income? If not, what else may the franchisee sell to supplement this income stream?

Brand and Marketing

- How can the franchisor monitor the brand? What training is necessary for the franchisee to understand the importance of this?
- What marketing guidance or training may the franchisor provide to keep consistent branding and effectively drive the franchisor's projected sales?

ENABLING CONDITIONS FOR THE MODEL TO WORK²⁷

- Sufficient and capable local expertise to manage franchise.
- Franchisor provides adequate training, standardized equipment, financing, managing supply chain processes.
- Appropriate franchise management agreement in place with clear terms, conditions and remedies for non-compliance.
- Clear criteria for micro-franchisee selection and access to finance for start-up available at reasonable terms.

²⁷ Ibid.

MICRO-FRANCHISING: How has it been used?

FAN MILK: MICRO-FRANCHISING FOR GROWTH IN GHANA²⁸

BUSINESS CASE



Problem: Fan Milk Limited Company, incorporated in Ghana in 1962 and a subsidiary of Fan Milk International Denmark, sells and distributes ice cream, yogurt, ice lollies, and juices through retailers like shops, supermarkets, and hotels.

To achieve a sustainable level of sales and market penetration, Fan Milk had to expand availability of its products, particularly among low-income segments.

Solution: Fan Milk built a distribution network of 8,000 bicycle vendors who operate as individual micro-franchisees.

Micro-franchisees collect product supply at company depots every morning, sell these products from a bicycle outfitted with a branded cooler, and return unsold merchandise to the depot the next day.

Fan Milk sells bicycles and the branded coolers for about \$14, and in return Fan Milk provides free bicycle repair, training on product handling and hygiene, and incentives to top sellers.

VALUE DELIVERED



Private sector partner: Fan Milk Limited in Ghana has 350 employees and more than 8,000 franchisee distributors that reach a significant portion of the Ghanaian market.

Fan Milk earns approximately \$10 million in profits annually.

The franchised distribution network has been expanded into Togo, Benin, and Burkina Faso and has become sustainable in each case.

Low-income segment:

Franchisees buy daily inventories of about \$33 a day and make a daily profit of \$5.50.

Vendors make a fixed profit and receive a monthly commission from Fan Milk.

Above-average daily profit rates mean the average Fan Milk vendor can pay off their investment on the branded bike and cooler in about two weeks.

Vendors frequently either become Fan Milk depot “agents” (if they can invest in a minimum of two freezers) or save their money and start their own businesses or continue their education.

SUCCESS FACTORS

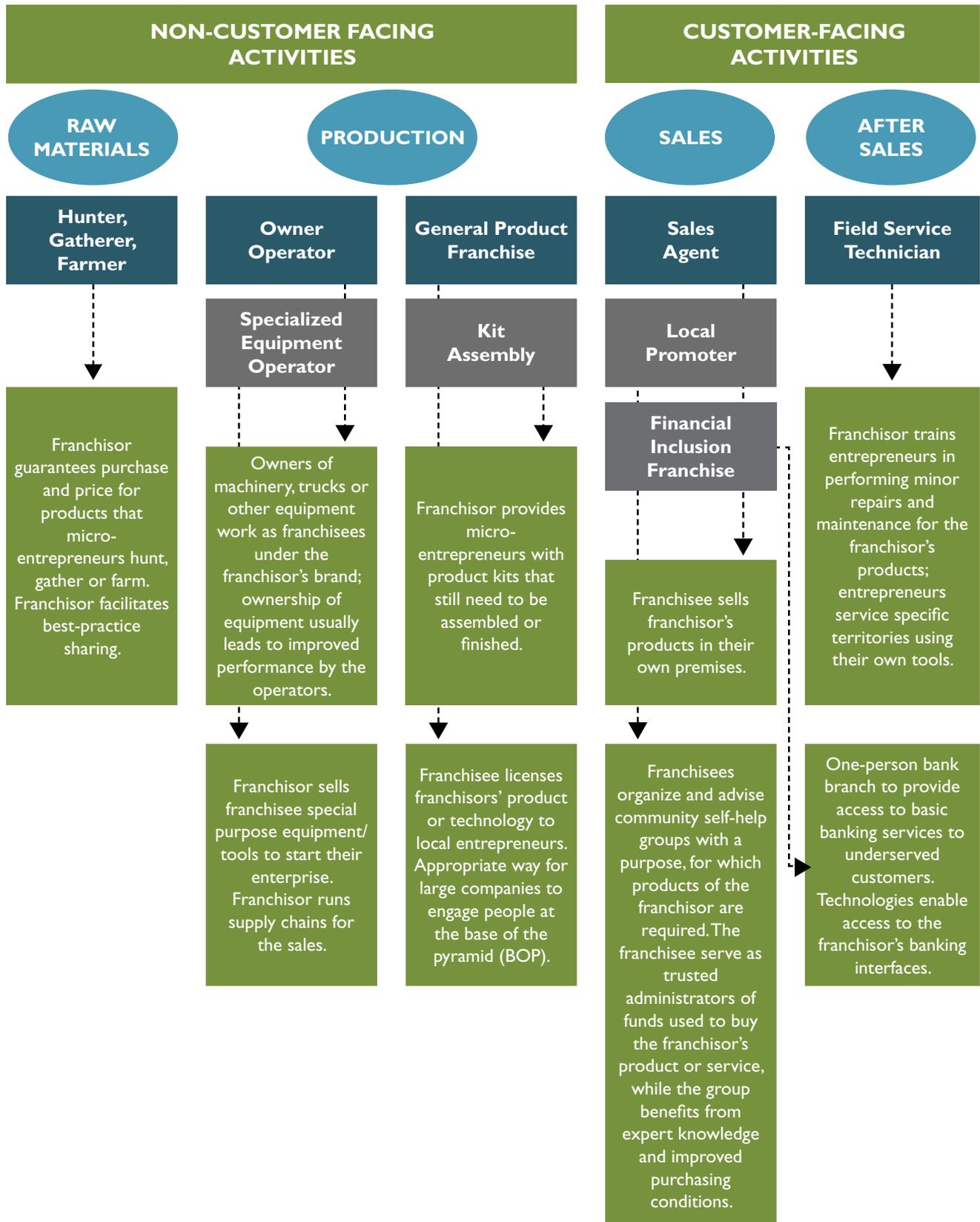


Small entry fees and quick payback periods limit the potential risk that a franchisee would take on by becoming a Fan Milk vendor.

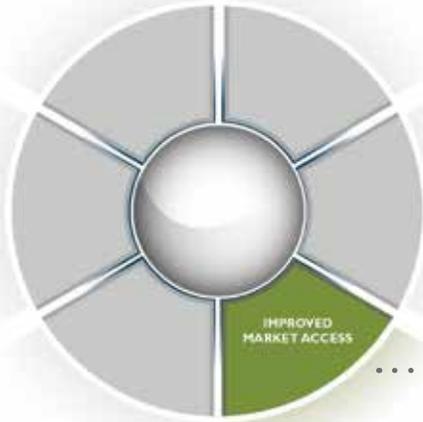
Attaching a mobile franchisee network to existing retail channels limited Fan Milk’s risk, controlled the company’s brand, and expanded existing sales.

²⁸ State of the Field in Youth Economic Opportunities, Making Cents International, 2009. <http://www.mastercardfdn.org/pdfs/MakingCentsInternationalStateoftheFieldPublication2009Bookmarked.pdf>.

MICRO-FRANCHISING: What are common variations of the business model in the marketplace?



Source: Tobias Hurlimann, *Micro-Franchising: Application and Success Factors*, Kellogg School of Management, 2011.



AGGREGATOR MODEL

AGGREGATOR: What is it and why use it?



CHALLENGE: Often, a market lacks linkages between agricultural suppliers and purchasers. From a buyer perspective, engaging numerous individual and dispersed smallholder farmers introduces too many transaction costs to make sourcing viable. Farmers, on the other hand, lack ancillary services like processing or storage and lack access to these large-scale purchasers, limiting demand for their supply.



MODEL: Aggregator models introduce an intermediary actor in the value chain between the supplier and purchaser that aggregates supply—thereby reducing the transaction costs of individual smallholder engagement—and often provides other ancillary services. These aggregators collect cash crops and staples from large numbers of small-scale farmers and sell these in one transaction to large buyers at the top of the supply chain.²⁹



MODEL ELEMENTS: Most critically, aggregator arrangements enable purchasers to **reduce transaction costs involved in smallholder sourcing** while **building a strong purchasing relationship with one organization**. Three elements define a typical aggregator model:

CORE ELEMENTS³⁰

- **Anchoring contracts with large buyers at the top of the supply chain.** Consistent, high demand is essential to model success. In turn, forward commitments, premium pricing offers, and volume purchase agreements provided to suppliers enable aggregators to acquire the output of numerous smallholder farmers at reduced risk and on acceptable terms.
- **Availability of value-added services and inputs to smallholder farmers.** These services may include provision of agricultural inputs, sorting, drying and storage services, transport, and sometimes credit. Providing these services helps aggregators ensure the reliability of supply.
- **Leveraging or creating associations or clusters of farmers.** Creating these groups lowers costs when collecting from a large area and reduces the number of interactions an aggregator must facilitate. From a farmer perspective, this approach can sometimes bring together enough farmers and acreage to support shared purchases or rental of mechanized equipment (see Asset Financing model on page 72).

²⁹ Promise and Progress, Monitor Group, May 2011. <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>.

³⁰ Ibid.

AGGREGATOR: How does it work?

PRIVATE SECTOR PARTNER VALUE	SMALLHOLDER VALUE	GROWTH POTENTIAL
 <p>COMPANY VALUE</p> <p>Reduces transaction costs when working with small-scale farmers.</p> <p>Reduces supply chain risks through reliable sourcing relationships.</p> <p>Provides higher-quality products via value addition and intermediary services.</p> <p>Opens market potential for local marketing of agricultural supply.</p>	 <p>CUSTOMER EXPERIENCE</p> <p>Builds farmer loyalty and retention through a long-term and structured farmer-aggregator relationship with fair prices.</p> <p>Establishes a high-touch, high-frequency relationships between the farmer and aggregator, who provides inputs and other services as necessary and collects offtake as appropriate.</p>	 <p>SCALE AND SUSTAINABILITY</p> <p>Reaches scale by organizing and collecting from an appropriate number of farmers such that the value of the output sold to the buyer outweighs the costs of collection and any ancillary services provided.</p> <p>Scales cost-effectively by controlling cost metrics like total aggregation costs, total ancillary services costs (including input costs), and costs per farmer.</p>
 <p>GO-TO-MARKET</p> <p>Reduces sourcing costs through efficient collection points and transportation services in markets with typically high delivery costs.</p> <p>Makes high-quality agricultural supply readily available for buyers via reliable and value-adding intermediary actors.</p> <p>Increases smallholder loyalty by bundling and providing other relevant services (like extension services, finance, product access).</p>	 <p>SMALLHOLDER VALUE</p> <p>Expands smallholder market access by building linkages between farmer and buyer.</p> <p>Increases farmer income and livelihood by increasing access to purchasers paying fair prices, growing productivity with services like training, and increasing crop value with processing and other services; in Sub-Saharan Africa, for instance, farmer earnings can increase by up to 40%.</p>	<p>Key scaling strategies can include sharing services costs or resources across multiple farmers (e.g., building local hubs, local teams), adding services to increase output value (e.g., processing, storage) more than the service costs, and increasing purchase orders and farm productivity.</p> <p>Achieves financial sustainability by generating sufficient demand for the resulting offtake (through large buyer contracts) and by collecting supply from farmers at cost or better (by managing scaling costs).</p>



DE-RISKING AND VALUE ACCELERATION

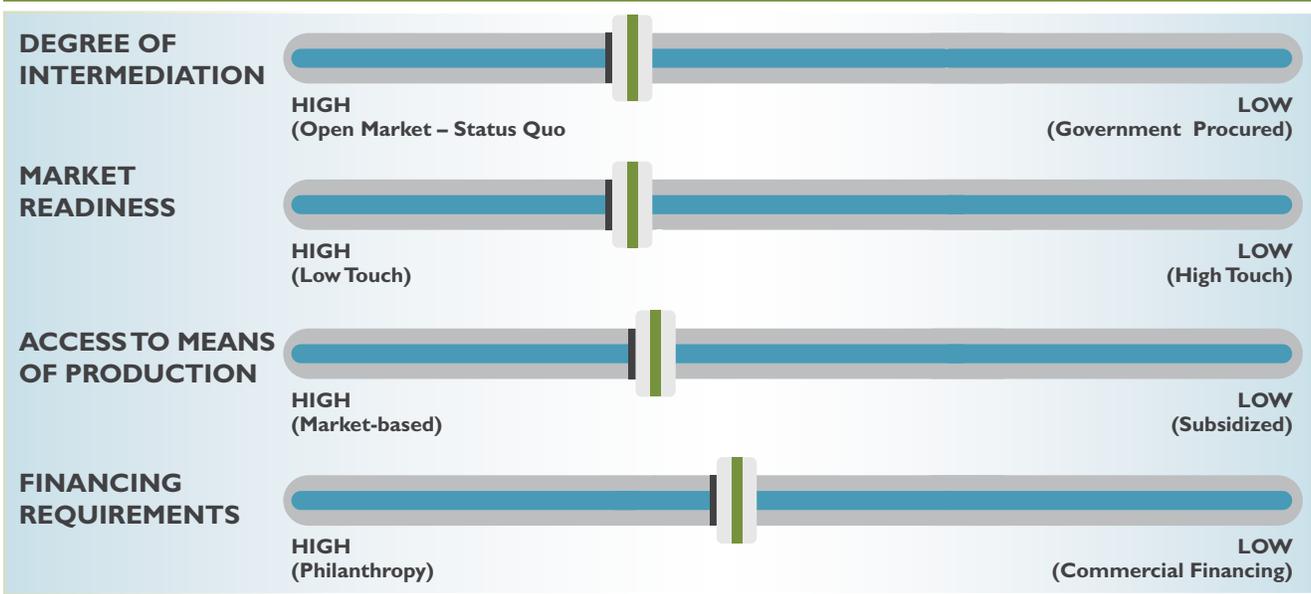
May accelerate value creation by **supporting organizational and capability development** of new and existing aggregators.

May de-risk the venture by **offering credit guarantees** to support aggregator financial stability and/or smallholder finance opportunities.

May advance model sustainability by **promoting a long-term commercial linkages** between the aggregator and the large-scale commercial purchaser.

May increase product volumes and quality via **providing integrated extension services**.

AGGREGATOR: When and how can it best be used?



CRITICAL QUESTIONS FOR MODEL DESIGN

Aggregator Characteristics

- What service needs does the buyer have regarding output (e.g., grading, sorting, transportation, processing)?
- What service needs do the smallholder farmers have (e.g., financing, inputs)?
- What are the capabilities of the aggregator and can they meet the buyer's and farmers' needs? If not, how can those capabilities be developed?
- How can the aggregator help smallholder farmers not only grow better quality crops, but also add higher-value varieties?

Trust

- How can the buyer, aggregator, and farmer establish trust across all relevant stakeholders?
- How can an aggregator identify lead farmers who are known and trusted in communities?

Aggregator-Buyer Relationship

- Does the buyer have interest in developing the aggregator's capabilities (e.g., through technical assistance), or providing loans (e.g., credit to support aggregator cash flow)?
- How may this aggregator-buyer relationship be best defined?

ENABLING CONDITIONS FOR THE MODEL TO WORK³¹

- Established and trusting relationships with target smallholder farmers.
- Aggregator capacity is well calibrated to the needs of the buyer.
- Relative proximity to the target smallholder farms and able to provide extension services when needed.
- When aggregators are structured to generate bulk purchase of inputs and can provide crop marketing services.

³¹ Ibid.

AGGREGATOR: How has it been used?

THE COCA-COLA COMPANY: BUILDING AGGREGATOR NETWORKS TOWARDS PROFITABILITY

BUSINESS CASE



Problem: The Coca-Cola Company's 2020 Vision includes the ambition to triple sales of its juice business. To meet this goal, the company needed to secure sustainable supplies of fruit pulp to meet the projected production targets.

Coca-Cola's Central, East & West Africa Business Unit (CEWABU) sought to identify and develop local sources of supply to reduce juice import costs and manage local market product affordability, but needed to improve small-scale farm productivity and identify a low-cost way of collecting this supply.

Solution: Coca-Cola launched Project Nurture with the Bill & Melinda Gates Foundation and TechnoServe to build a network of local aggregators in Kenya and Uganda.

Coca-Cola's CEWABU identified and contracted promising processors, while TechnoServe strengthened farmer agricultural and business skills and helped organize them into business groups.

VALUE DELIVERED



Private sector partner: Launched a new locally marketed and profitable product: Minute Maid Mango.

Model being replicated in India, Zimbabwe, Nigeria, and Ghana.

Coca-Cola expects to recoup its investment in Project Nurture several times over in the next 3-5 years through cost optimization and model replication.

Smallholder farmers: Farmers were aggregated into Producer Business Groups (PBGs) of 30-50 farmers each that can attract investment, provide access to agricultural goods and services, and provide farmer market access for products beyond just fruit.

Over 42,000 farmers in 1,300 PBGs engaged in Project Nurture and have sold more than 36,000 metric tons of fresh fruit.

Participant farmers' annual fruit incomes have, on average, more than doubled through increased volume sales, improved quality, and increased farm gate prices.

SUCCESS FACTORS



Clear imperative to develop a profitable product rooted the model's objective in Coca Cola's bottom line and strategy, making the effort immediately valuable, tangible, and aligning it to operational needs.

Financially sustainable design ensured each value chain actor had the assets and capabilities necessary to be profitable, giving each actor an interest in sustaining the model.

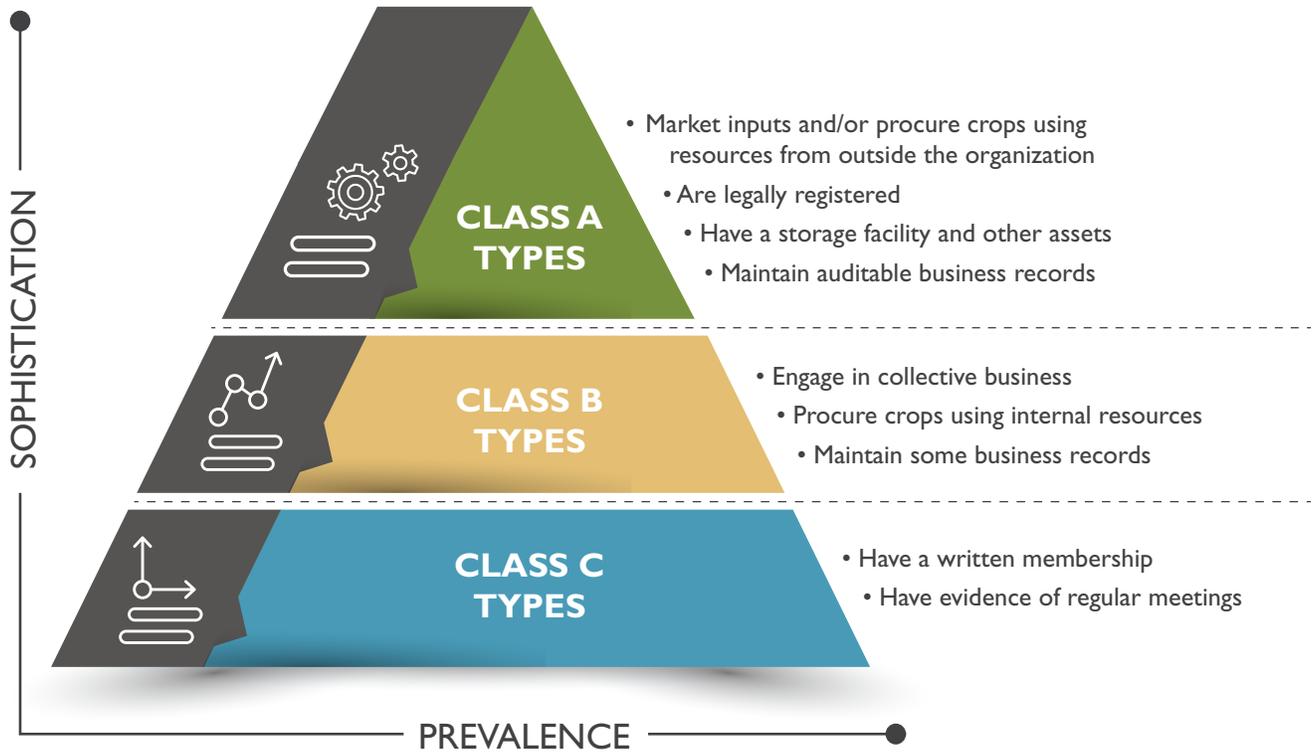
Well-defined partner responsibilities clarified how each partner in the arrangement would add value.

NOTE: Case adapted from Beth Jenkins, Lorin Fries (2013). "Project Nurture: Partnering for Business Opportunity and Development Impact." Cambridge, MA: CSR Initiative at Harvard Kennedy School. <http://www.technoserve.org/files/downloads/project-nurture-partnering-for-business-opportunity-and-development-impact.pdf>.

AGGREGATOR

WHAT ARE COMMON VARIATIONS OF THE BUSINESS MODEL IN THE MARKETPLACE?

Sample classification of aggregators based on the need of the off-taker

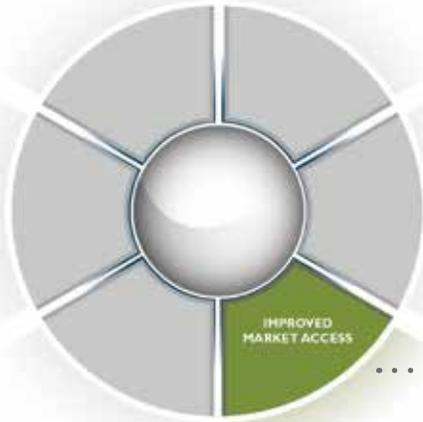


CLASS A: In addition to providing services of Class B and C, Class A can assist firms to aggregate crops from a significant geographic area; manage loans to purchase inputs that might then be resold to other farmers; take advances from off-takers or loans to purchase from members and non-members; coordinate post-harvest processing, dry, storage, and transport; improve traceability to smallholder farms; reduce side-selling through group cohesion; facilitate fair trade certification, which requires crop purchases through formal producer organizations.

CLASS B: In addition to providing services of Class C, Class B can assist firms to pool resources to purchase inputs in bulk; share labor to grow crops on individual or communal land; combine harvested crops to facilitate transport and marketing; save money as a group; allocate and schedule drinking or irrigation water use.

CLASS C: Class C can assist firms to provide a central location for information transmission; build and strengthen loyalty among suppliers; identify farmer leaders to support future interventions.

Source: IFC, Working with Smallholders, July 2013 http://www.farms2firms.org/wp-content/uploads/2013/08/IFC_SmallholdersGreenLow.pdf.



DEEP PROCUREMENT MODEL

DEEP PROCUREMENT: What is it and why use it?



CHALLENGE: A market may have inefficient linkages between agricultural buyers and suppliers. Companies often pay high prices for agricultural offtake that quickly loses its value due to inefficient distribution networks, spoilage, and the involvement of multiple intermediaries. Likewise, these market factors dilute the value smallholder farmers receive from their offtake.



MODEL: Deep procurement involves an agricultural buyer building a sourcing channel, such as a network of collection centers, that bypasses traditional middlemen, reaches into large networks of low-income producers and farmers, and enables direct purchases from smallholder farmers.³²



MODEL ELEMENTS: The model allows for procurement **closer to the source**, improving company **traceability** and farmers' **price transparency**.

CORE ELEMENTS³³

- **Market information** on pricing, required quality, volumes, and so on, is passed directly from major buyers to producers.
- **Direct purchasing relationships with the farmer**, usually through spot-market prices, with assured payment; pricing is not, however, guaranteed in this business model as it would be in contract farming schemes.
- **Quality assurance** closer to the source, resulting in lower overall costs.
- **Direct collection** can include spot collection platforms for purchase, arrangements for farmers to deliver directly, or aggregation points where smaller producers can assemble their produce before grading and shipping.
- **Technical assistance** provided through training and instruction on market requirements, with some schemes using extension services or their own training force.

³² Emerging Markets, Emerging Models, Monitor Group, March 2009. http://www.beyondthepioneer.org/wp-content/uploads/2014/04/emergingmarkets_full.pdf.

³³ Ibid.

DEEP PROCUREMENT: How does it work?

PRIVATE SECTOR PARTNER VALUE	SMALLHOLDER VALUE	GROWTH POTENTIAL
 <p>COMPANY VALUE</p> <p>Reduces buyer costs by excluding intermediaries, saving buyers as much as 24% through reduced crop prices.</p> <p>Procuring closer to a source allows for better quality assurance and improvement interventions along the supply chain.</p> <p>Creates community engagement and increases brand through high-touch interactions with the local market.</p>	 <p>CUSTOMER EXPERIENCE</p> <p>Encourages farmer loyalty and retention through a high-touch relationship providing extension services.</p> <p>Collection centers facilitate farmer value chain engagement by providing immediate payment and reducing travel time to market.</p> <p>Allows for smallholder flexibility in the market by using spot purchases instead of contractual arrangements.</p>	 <p>SCALE AND SUSTAINABILITY</p> <p>Reaches scale through generating sufficient revenue from product sales and sufficient savings over traditional intermediary schemes to outweigh network start-up costs (i.e., building collection centers).</p> <p>Scales cost-effectively by controlling per-collection center costs, maximizing volumes collected, reducing extension service provision costs, and pivoting to higher-value crops when the market opportunity arises.</p> <p>Key scaling strategies can include cost-effectively increasing the number of farmers engaged and collection centers, expanding farmers' crop portfolios to include higher-value crops, and partnering with farmer-focused organizations to reduce the burden of reaching dispersed farmers.</p>
 <p>GO-TO-MARKET</p> <p>Having collection centers closer to farmers or farm gate purchases assures efficient sourcing.</p> <p>Direct sourcing eliminates costs of intermediation and reduces company operational expenditures.</p> <p>Community members' buy-in ensures products are delivered, quality is measured, and extension services are provided.</p>	 <p>SMALLHOLDER VALUE</p> <p>Unlocks significant value for farmers by introducing a higher farmgate price and reducing transaction costs, generating as much as 90% savings on per-sale transaction costs over traditional intermediary schemes and grow incomes by 10-15% annually.</p>	<p>Achieves financial sustainability by generating positive returns (at the network and collection center level) and unlocking higher prices and lower transaction costs for farmers.</p>



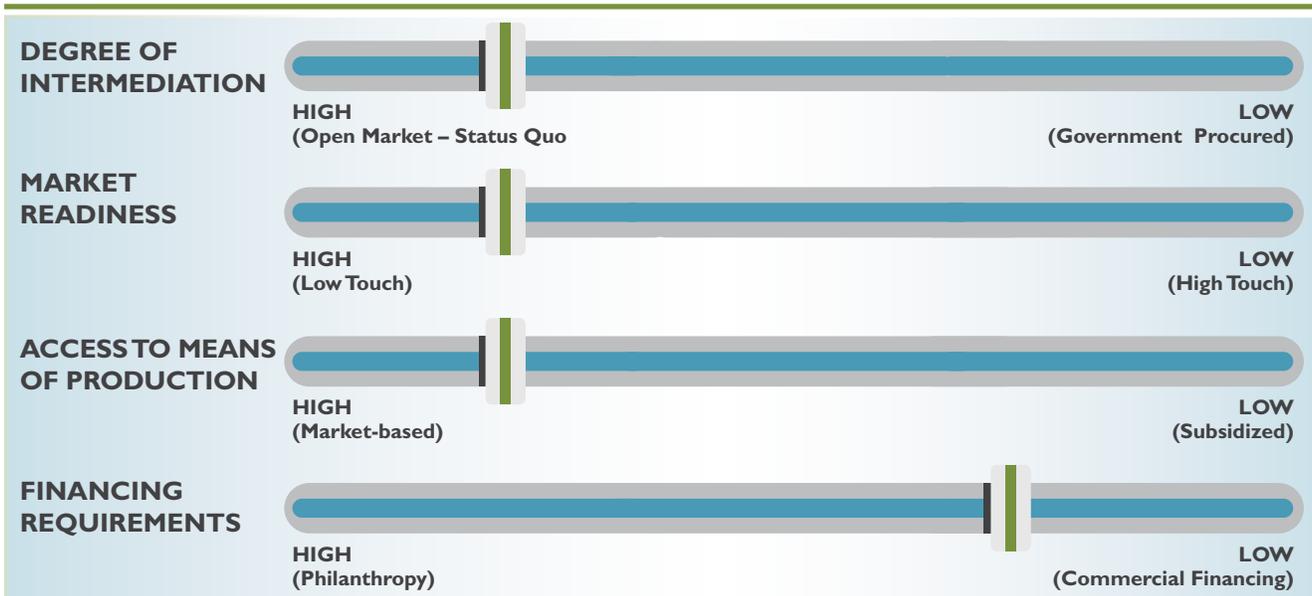
DE-RISKING AND VALUE ACCELERATION

May accelerate value creation **by establishing collection centers or other associations** to minimize necessary private sector investment.

May de-risk the venture by **offering impact investment** in building collection centers or network infrastructure.

May advance model sustainability by government **promotion of fiscal advantages such as tax breaks** for working with farmers directly or for sourcing locally rather than importing.

DEEP PROCUREMENT: When and how can it best be used?



CRITICAL QUESTIONS FOR MODEL DESIGN

Economic Requirement

- Does the company have the significant capital and intensive leadership attention required to build the model infrastructure?
- Does the network's target crop generate enough revenue in the company's sales to justify the investments required to sustain an expensive deep procurement model?

Network Start-up

- Where can collection centers or aggregation points be best located to minimize costs and farmer travel time while maximizing the amount of crop collected?
- How can the network engage lead farmers and agents to build trust and communicate the farmer value of the deep procurement network?

Market and Incentives

- What is the threat of side-selling in the market, given the crop and market prices?
- What incentives can the procurement network offer to motivate farmers to sell to a collection center rather than a trader?

ENABLING CONDITIONS FOR THE MODEL TO WORK³⁴

- Supply chain costs have to be high enough to justify sourcing directly from smallholder farmers.
- Collection centers have to be established closer to smallholders' locations.
- The supply chain has to be competitive with those sourcing from larger producer groups.
- Buyers have to absorb significant fixed costs in setting up procurement networks.
- Goods and services have to flow in both directions to add volume to the network (use it to source from and sell to).

³⁴ Ibid.

DEEP PROCUREMENT: How has it been used?

NESTLÉ: DIRECT SOURCING TO DRIVE SMALLHOLDER PRODUCTIVITY^{35, 36}

BUSINESS CASE



Problem: Nestlé, the world's largest milk purchaser, sources about 12 million tons of fresh milk annually from 30 countries.

Growing disposable income levels in developing countries have begun driving significant global dairy demand.

The majority of the world's milk is produced by developing countries' small farmers, but many regions could not increase output to meet demand, and nearly all lacked efficient milk collection systems.

Solution: Nestlé applied its "milk districts" model in strategic emerging markets like Brazil, Mexico, India, and China beginning in the late 1980s.

Establishing a milk district involved negotiating farmer agreements for twice-daily milk collection; building chilling centers and collection points near farmers; arranging transportation from the collection center to a regional factory; and implementing locally driven program to improve milk quality.

VALUE DELIVERED



Private sector partner: By 2004, Nestlé had nearly 260,000 small-scale dairy farmers supplying Nestlé factories directly, delivering an estimated 33% of Nestlé's fresh milk supply in that year.

Milk district output volumes experienced average growth of 2-5% annually, with some districts seeing growth rates as high as 10%.

Smallholder farmer: Between 2001-2004 milk sales per farmer increased by 30% and the milk supply experienced an overall improvement in quantities, composition, and bacteriological quality.

In Brazil, for example, milk producers almost doubled their daily output, from 405 to 978 liters per day, between 1989 and 2004.

Increased milk quality and sales drove income gains; in China milk sales per farmer increased by 30% from 2002-2005, and farmers received an average \$300 per month—twelve times the national average farm income.

SUCCESS FACTORS



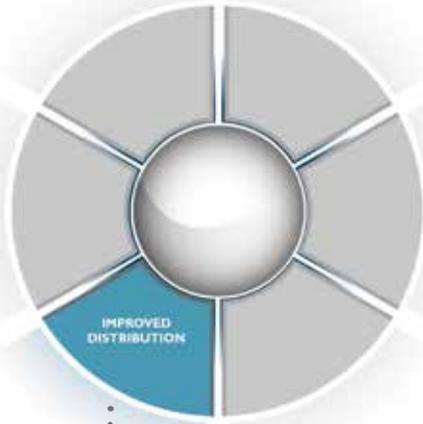
Large, established, and well-capitalized companies have an advantage in building deep procurement networks, which can be expensive depending on the product being sourced, its scale, and producer locations.

Producer incentives, like providing extension and linking prices to milk quality, effectively built farmers' loyalty to Nestlé and limited side-selling.

Rigorous market and geographic analysis ensured that the network's potential production quantities and potential farmer returns could be balanced to create a sustainable milk district.

³⁵ "Growing Business with Smallholders: A Guide to Inclusive Agribusiness." GIZ, November 2012. http://www.agribusiness-with-smallholders.net/fileadmin/user_upload/publications/Guide-Growing_Business_with_Smallholders_large.pdf.

³⁶ Goldberg, Herman. "Nestlé's Milk District Model." Harvard Business School Case 906-406. 8 March 2006. <http://hbr.org/product/Nestle-s-Milk-District-Mo/an/906406-PDF-ENG>.



DEDICATED DIRECT SALES FORCE MODEL

DEDICATED DIRECT SALES FORCE: What is it and why use it?



CHALLENGE: Companies face difficulty reaching smallholder farmers given the farmers' remote and low-density locations and lack of well-developed distribution networks for these conditions. Conventional distribution systems are often not effective or cost-efficient for bringing goods or services to markets, requiring innovative last-mile distribution models.



MODEL: Dedicated direct sales force models recruit and train local community members to be company agents who are able to reach deep into communities to sell and distribute goods. This model bypasses shops and other channels to improve access to goods for often rural, base of the pyramid (BOP) customers, generally at more affordable costs than would be possible with traditional methods.³⁷



MODEL ELEMENTS: The model relies on **training and dispatching agents** who travel to difficult-to-reach customers and educate them on the product or service. The model presents an opportunity for farmers and low-income consumers to access goods and services affordably.

CORE ELEMENTS³⁸

- **Dedicated, “all in one” direct sales agents**, usually drawn from the local BOP population, to market, sell and distribute goods and services.
- **Manufacturers’ wholesale purchase of goods** attains preferable pricing.
- **A mixed basket of products** that may subsidize one another, open new markets and drive more sales volume.
- **Extensive coaching, supervision and training** of sales force to ensure sales and social impact.
- **Doorstep delivery** to promote trust and enable privacy.
- **Some models combine credit offerings** to buyers, extending their purchasing ability.

³⁷ Promise and Progress, Monitor Group, May 2011, <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>.

³⁸ Ibid., verbatim adaptation.

DEDICATED DIRECT SALES FORCE: How does it work?

PRIVATE SECTOR PARTNER VALUE	SMALLHOLDER VALUE	GROWTH POTENTIAL
 <p>COMPANY VALUE</p> <p>Access to new markets for products generates additional sales revenue.</p> <p>Direct interactions with customers enable companies to make quick adjustments to products/services based on different needs.</p> <p>Community-based sales agents are at the forefront of building brand recognition and strengthening companies' license to operate in customer communities.</p>	 <p>CUSTOMER EXPERIENCE</p> <p>High-touch and localized sales model establishes personal relationships between sales agents and farmers.</p> <p>Community-based agents generate customer loyalty and retention.</p> <p>Extensive agent training, though costly to companies, helps farmers understand the products/services, leading to informed customer decision making.</p>	 <p>SCALE AND SUSTAINABILITY</p> <p>Reaches scale by linking demand stimulation to the types of goods or basket of goods being sold, the level of training and the number of sales agents deployed, product margin, and price.</p> <p>Scales cost-effectively by driving per-agent sales and controlling their costs (of training and recruiting), and carefully balancing pull products against push, the latter requiring multiple costly visits by sales agents to educate customers, which can have a direct impact on the bottom line.</p>
 <p>GO-TO-MARKET</p> <p>Dedicated local sales agents assure effective delivery, coupled with network of nearby distribution centers.</p> <p>Recruiting agents from same communities that the company targets ensures some degree of market accessibility.</p> <p>Sourcing at a company level maintains cost-effective wholesale pricing.</p>	 <p>SMALLHOLDER VALUE</p> <p>Product and service education from sales agents reduces "poverty penalty" on farmers by ensuring they understand the utility and income-generating potential of purchases.</p> <p>Local sales force provides farmers access to products/services and reduces time farmers spend traveling to distant points of sale; time can be spent on income-generating activities.</p>	<p>Key scaling strategies can include bundling other services, such as arranging for financing, providing transportation services for bulk purchases, and developing sales agent incentive schemes to drive sales revenues.</p> <p>Achieves financial sustainability by effectively incentivizing and dispatching sales agents to locations they know well and offering diversified pricing structure for products.</p>

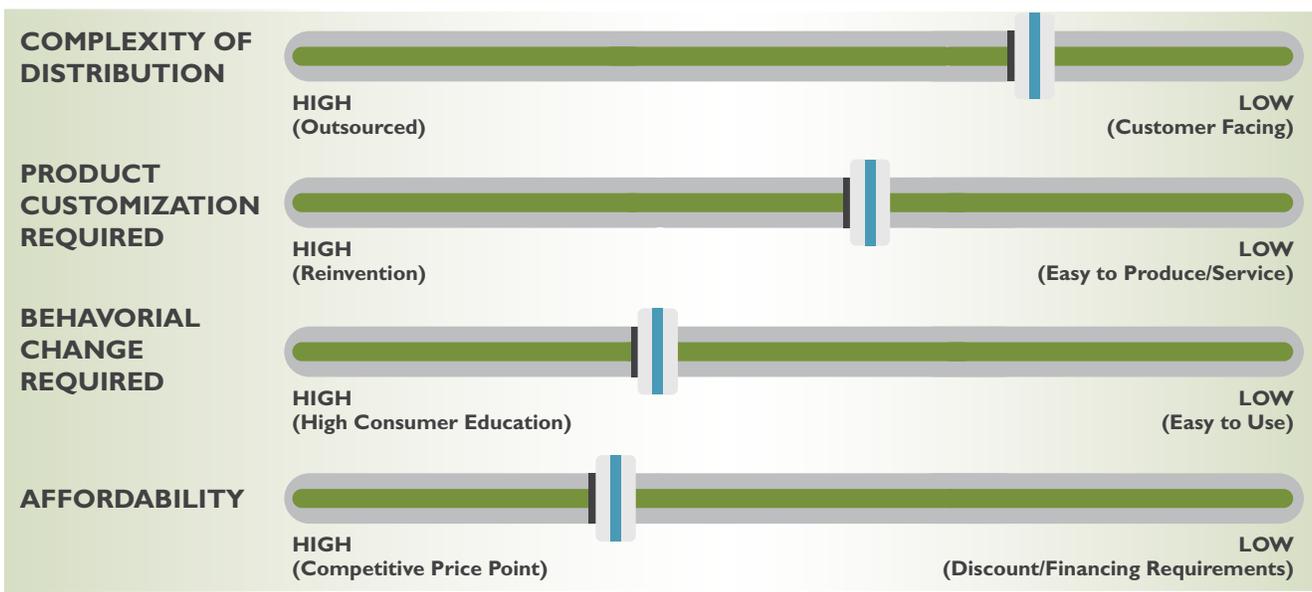


DE-RISKING AND VALUE ACCELERATION

May accelerate value creation through impact investment with a goal of **increasing access to socially beneficial and commercial goods** and defraying companies' cost of agent training and distribution network.

May de-risk venture and increase sustainability **by helping arrange financing for customers through microfinance institutions (MFIs) to accelerate demand generation** for newly available products.

DEDICATED DIRECT SALES FORCE: When and how can it best be used?



CRITICAL QUESTIONS FOR MODEL DESIGN

Profit

- Can the business sustain standard profit margins with this sales model? If not, what increased costs of distribution can be accepted while still maintaining minimum required margins?
- If price changes are needed to accommodate low-income consumers, what reductions are possible?

Products

- Does the company intend to sell a specific product or a basket of them? Do any of the products require modification for low-income customers?
- Do any products require demand stimulation? If so, how much agent training is needed and affordable?

Agents

- How will the agents remain knowledgeable about updated products and services?
- How will the commission structure for agents be structured? Is there a premium for agents engaging more difficult-to-reach customers?

Operations

- Is the company manufacturing locally and distributing products via sales agents from the production floor, or relying on third-party wholesalers and distributors?

ENABLING CONDITIONS FOR THE MODEL TO WORK³⁹

- Sales agents should originate from the same communities as those selected for targeted sales.
- There should be a balance between the high cost of distribution and product affordability.
- Assures that training and equipping agents is in place; and that pricing, margins, product mix, and demand stimulation are implemented.

³⁹ Ibid.

DEDICATED DIRECT SALES FORCE: How has it been used?

TOYOLA ENERGY: IMPROVING NUTRITION AND PROTECTING THE ENVIRONMENT⁴⁰

BUSINESS CASE



Problem: Firewood is the major source of fuel in rural areas and is especially common in developing countries where alternatives are either unavailable or prohibitively expensive.

Environmentally friendly energy is essential to minimize pollution and environmental degradation, which directly or indirectly impacts agricultural productivity.

Solution: After emerging out of a USAID and Shell Foundation sponsored EnterpriseWorks Ghana training program, Toyola Energy designed new cookstoves that use charcoal and are 40% more efficient than traditional models.

Toyola delivers stoves from its manufacturing site to depots that are used to supply its sales force, and also uses mobile delivery to reach customers in remote locations.

Toyola hires local sales agents, working on a 10% sales commission instead of a salary, to access their communities, explain the health and financial benefits of the stoves, and drive cookstove sales.

VALUE DELIVERED



Private sector partner:

Has reached 35,000 households with new cookstoves.

Has sold over 100,000 cookstoves in Ghana.

Generates job opportunities for Ghanaian entrepreneurs, employing local community members to become sales agents and to manufacture cookstove components.

Direct sales agent: Agents generate profits of around \$0.69 per cookstove sold.

High-performing agents can sell as many as 10 stoves a day, generating daily income of about \$7—more than three times the Ghanaian daily minimum wage of \$2.

Cookstoves reduce the amount of charcoal necessary to cook and therefore reduce carbon dioxide emissions while saving families money.

SUCCESS FACTORS



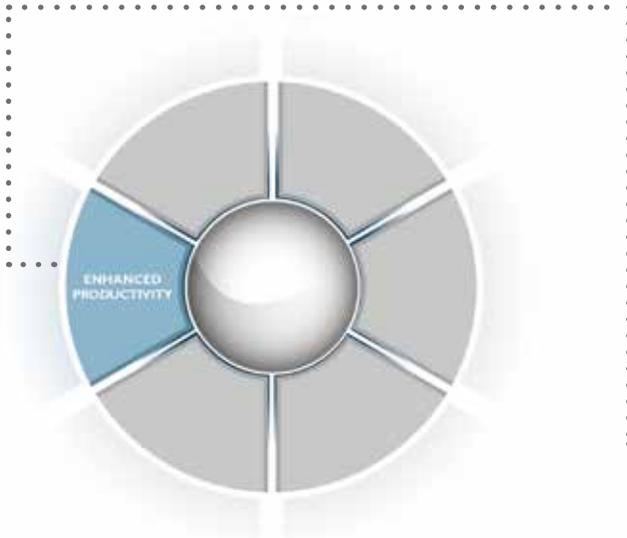
Accelerated cookstove adoption by using a direct sales force that accessed

otherwise unreachable communities and leveraged relationships to generate demand and trust in the product.

Toyola **benefited from donor programs** targeting adoption and development of energy efficient cookstoves. **External financing** also helped Toyola pre-finance its artisan suppliers and production centers.

Diversified pricing structure and financing based on stove size and customer payment ability helped drive market penetration and customer affordability.

⁴⁰ Osei, Robert D. "Toyola Charcoal Stove: Improving the Environment and Health of the Poor in Ghana." GIM Case Study No. B095. New York: United Nations Development Program, 2010. http://www.growinginclusivemarkets.org/media/cases/Ghana_Toyola_2010.pdf.



CONTRACT FARMING MODEL

CONTRACT FARMING: What is it and why use it?



CHALLENGE: Smallholder farmers face a range of issues at the farm level: they produce limited quantities of low-quality supply, lack capital, operate with limited market access, and often sell to informal buyers through one-time transactions, in turn reducing repeat sales and leaving future potential sales in doubt. Purchasers up the value chain then see little value in engaging these low-volume, low-quality supply sources.



MODEL: Contract farming arrangements involve a buyer contracting smallholder farmers or producers to directly source agricultural supply. The buyer organizes the supply chain from the top, including collection and processing services, and provides critical inputs, specifications, training, and credit to its suppliers. The farmer provides assured volumes of crops of specified quality, on specified dates, at agreed-upon prices.⁴¹



MODEL ELEMENTS: Contract farming enables purchasers to **better control smallholder farmer production and product quality**, leading to a **more predictable and repeatable economic relationship**. These arrangements typically have five features:

CORE ELEMENTS⁴²

- **Agreement to future purchase**, usually at a pre-determined price. Payment is typically made at the time of purchase, on the spot.
- **Provision of inputs and other resources** such as seeds, fertilizers, and pesticides—or in the case of poultry, chicks and feed—on credit to each contracted farmer. Technical advice and assistance may also be provided.
- **Technical specifications** that include requirements and/or standards for farmers' use of inputs, quality assurance, permissible varieties, cultivation and harvesting and sometimes even packing and shipping.
- **Direct collection**, often from the farm, but sometimes delivered by the producers.
- **Onward sale and fulfillment**, in which the contracting enterprise maintains the market relationship and grades, processes, packs and ships the harvested commodity.

⁴¹ Emerging Markets, Emerging Models, Monitor Group, March 2009. http://www.beyondthepioneer.org/wp-content/uploads/2014/04/emergingmarkets_full.pdf.

⁴² Ibid, verbatim adaptation.

CONTRACT FARMING: How does it work?

PRIVATE SECTOR PARTNER VALUE	SMALLHOLDER VALUE	GROWTH POTENTIAL
 <p>COMPANY VALUE</p> <p>Increases potential for higher margins by reducing supply costs and extending an actor's control over its sourcing processes.</p> <p>Expands potential for product marketing through increased sales.</p> <p>Improves sourcing by specifying quality needs, improving traceability, and improving quality through resource provision.</p> <p>Builds a license to operate by establishing a valuable direct relationship with smallholders.</p>	 <p>CUSTOMER EXPERIENCE</p> <p>Builds long-term smallholder partnerships through a “high-touch” relationship providing goods such as seeds and fertilizers and services, such as technical assistance and financing.</p> <p>Improves farm quality and productivity through the provision of goods and services.</p> <p>Creates trust and smallholder loyalty, so long as contracts provide fair terms and mutual benefit.</p>	 <p>SCALE AND SUSTAINABILITY</p> <p>Reaches scale by achieving sufficient savings from the contract farming model such that returns outweigh the costs of good and service provision, transaction costs including contracting and collecting supply, and establishing the network of contracted farmers.</p> <p>Key scaling strategies can include expanding an existing contract farming model to new geographies, new farmer segments, or new crop types suitable to the model.</p> <p>Scales cost-effectively by controlling transaction and operational cost metrics such as number of contracts, costs of inputs and provision, collection costs, and post-harvest losses. Costs may be controlled by using third parties for goods and service provision.</p> <p>Achieves financial sustainability by balancing model costs against a purchaser's revenue potential. This is particularly important when changing crop types; moving toward staple crops or away from export products may dilute revenue streams and reduce financial viability.</p>
 <p>GO-TO-MARKET</p> <p>Improves supply chain operations by clearly defining value chain roles, giving a buyer greater control over supply chain costs, and reducing inefficiencies like post-harvest losses and side-selling.</p> <p>Builds supply chain sustainability by reducing risks and providing buyers and farmers flexibility to respond to market signals and changing consumer preferences.</p>	 <p>SMALLHOLDER VALUE</p> <p>Increases smallholder income potential and access to agricultural markets through forward purchase agreements that fix purchase prices higher than local spot markets.</p> <p>Expands opportunities to improve livelihoods and promotes farmer investment through purchase agreements that stabilize demand, build creditworthiness, and improve access to finance.</p>	



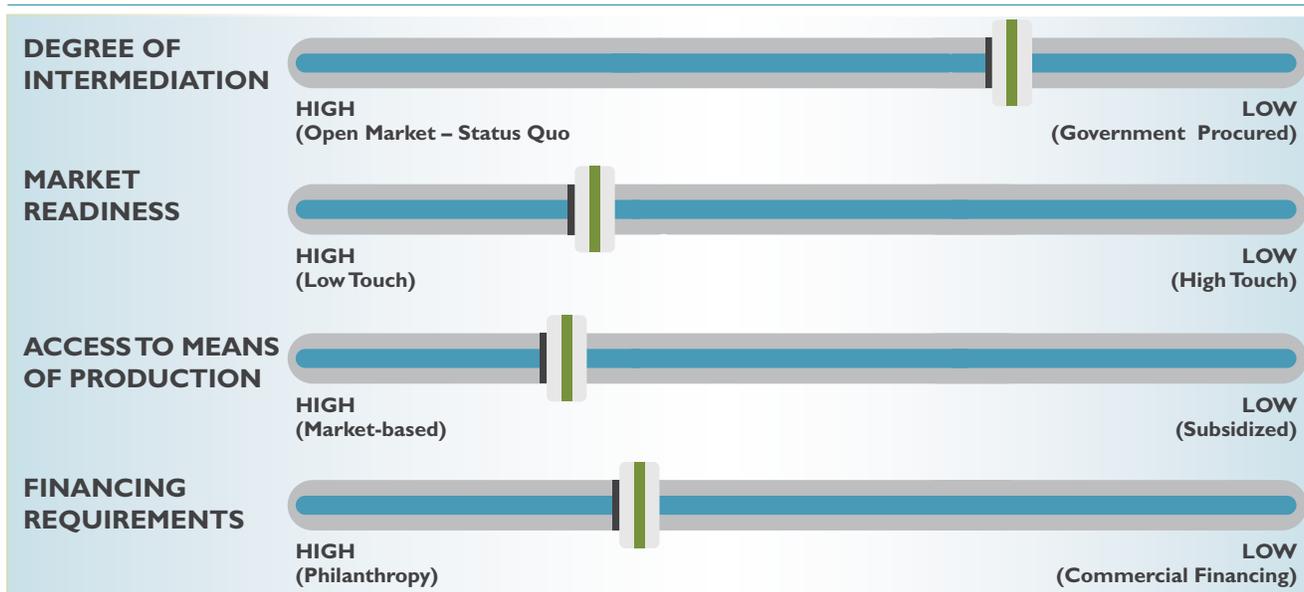
DE-RISKING AND VALUE ACCELERATION

May accelerate value creation **by organizing farmers and building their capabilities** and understanding of the value of honoring contracts.

May de-risk the venture **by advocating for conducive land tenure policies** to help minimize market entry risks.

May advance model sustainability **by identifying appropriate third party actors** that can reliably provide farmers goods and services.

CONTRACT FARMING: When and how can it best be used?



CRITICAL QUESTIONS FOR MODEL DESIGN

Model Type

- What is the right model variation given the buyer's needs and investment appetite, the farmer's capacity, and the local market/enabling environment?

Market Transaction

- How will the contract ensure farmers do not side-sell in local spot markets when prices rise? Will the buyer take a loss or penalize farmers?
- How will the buyer respond if the supplier does not fulfill their contractual obligation? How can companies mitigate against fixed-price contract arrangements and oscillating market prices?

Farmer Incentives

- Is the crop “switching time”—that is, time the farmer takes to begin earning returns—short enough for the farmer to buy into the relationship? Does the buyer need to finance “switching costs?”

Farmer Aggregation

- Rather than engaging few large farmers, is it possible to incorporate more, smaller farmers through an aggregation mechanism?

Product Selection

- Which crops are suitable based on markets, level of input and technical expertise requirement, side-selling risk, buyer specification, and price differential?

ENABLING CONDITIONS FOR THE MODEL TO WORK⁴³

- Trust and appropriate scope for negotiation/fair terms.
- Economic viability/incentives for buyers and farmers.
- Contract arrangements that mitigate associated risks.
- Technology transfer, extension, and innovation.
- Stable and transparent land tenure regime.
- Sound analysis, planning, and monitoring of contract farming schemes.

⁴³ Contract Farming Handbook, GIZ, June 2013: <http://www.giz.de/expertise/downloads/giz2013-en-handbook-contract-farming-manual-low-resolution.pdf>.

CONTRACT FARMING: How has it been used?

SABMILLER: EXPANDING SUPPLY SOURCES TO MEET INCREASED DEMAND IN INDIA⁴⁴

BUSINESS CASE



Problem: SABMiller, the world's second largest beer manufacturer, needed greater supplies of high-quality malting barley to meet the growing Indian consumption of beer.

The majority of the 1.5 million tons of barley produced each year in India is feed grade, not suitable for making lager, and drives up brewers' processing costs.

Growing high-quality barley requires significant farmer investments, but because barley does not command a premium in local agricultural markets, there is little incentive to do so.

Solution: SABMiller India launched Progress through Partnership to contract farmers in the state of Rajasthan.

SABMiller guaranteed a market for set amounts of farmers' high-quality barley at defined volume and for an agreed price, while providing seeds, agronomical advice, and technical assistance on cultivation.

VALUE DELIVERED



Private sector partner: SABMiller grew its barley procurements from 3,298 MT in 2006 to 27,426 MT in 2010, nearly 60% of the company's total barley requirements.

Product quality, measured by malt extract, improved by 2%, reducing company malt usage and grain losses.

SABMiller India expects to source 100% of its malting barley locally within the next five years.

Smallholder farmers: Program reached over 8,000 farmers.

Farmer income increased about 10% from 2008 to 2009 after program farmers experienced a 5% increase in barley sale prices over traditional agricultural middlemen.

Farmer barley yields grew by 20% to 25% from 2,272 kilos per hectare in 2005-2006 to 2,784 kilos per hectare in 2008-2009.

SUCCESS FACTORS



Clear strategic sourcing objective tied the business model to SABMiller's financial interests and established the program with a pre-defined set of near-term growth targets.

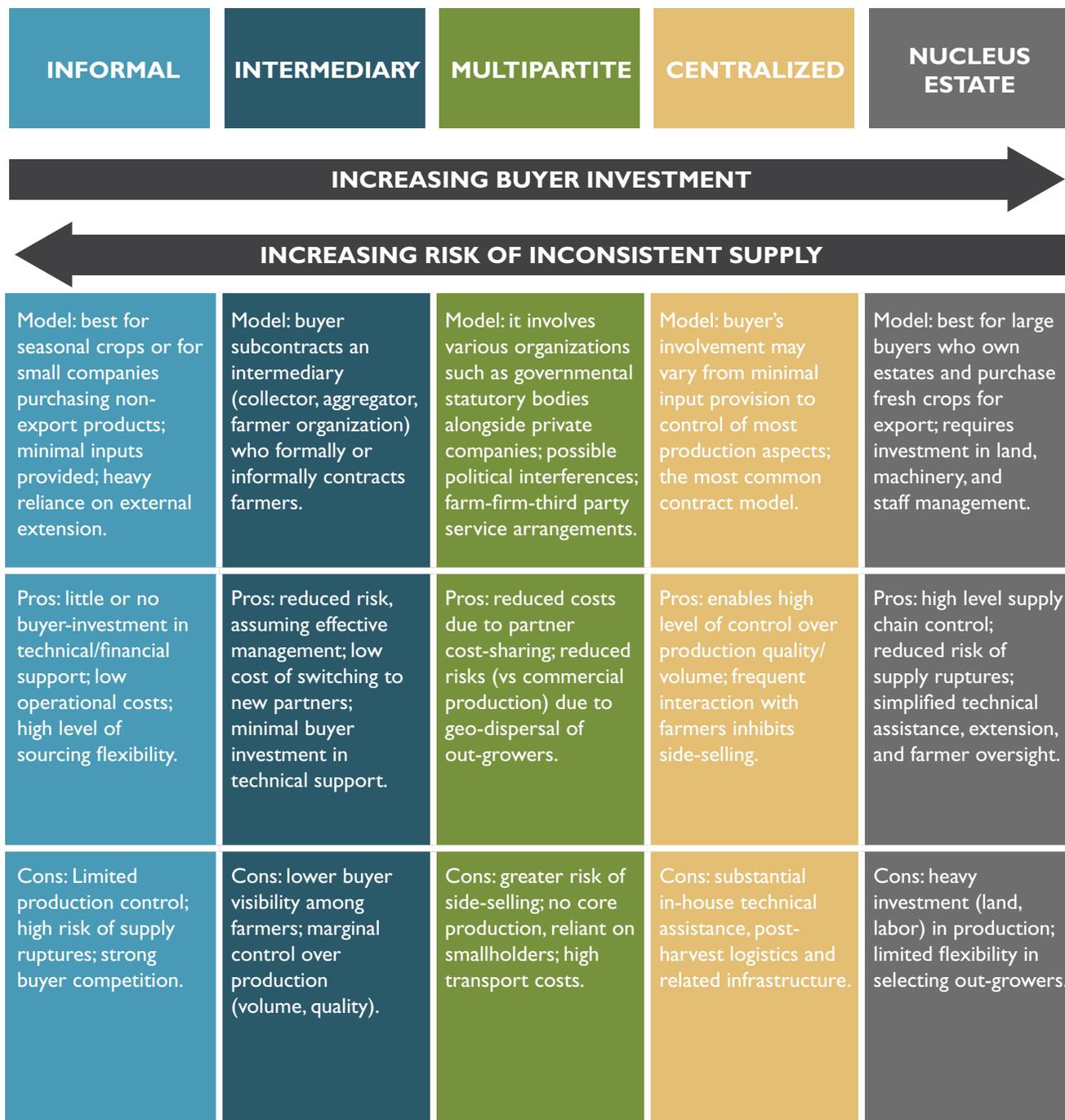
Previous inclusive business experience in a pilot for Uganda Progress through Partnership facilitated application of the model to an Indian context.

Collaboration with local organizations accelerated SABMiller's understanding of the market, facilitated identification of high-potential farmers to contract, and improved its social license to operate.

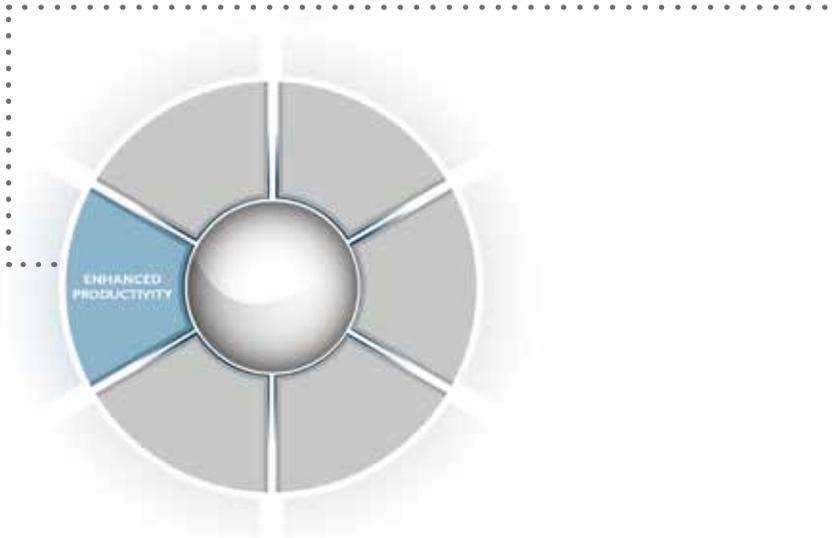
⁴⁴ SABMiller Case Study, Business Call to Action, June 2010. <http://www.businesscalloaction.org/members/2010/08/sabmiller/>.

CONTRACT FARMING: What are common variations of the business model in the marketplace?

Contract farming model variations involve varying levels of investment and risks. All models should be critically examined for the opportunity in hand to ensure success.



Source: Contract Farming Handbook, GIZ, June 2013: <http://www.giz.de/expertise/downloads/giz2013-en-handbook-contract-farming-manual-low-resolution.pdf> adapted from Technoserve, IFAD, 2011.



BUNDLING MODEL

BUNDLING: What is it and why use it?



CHALLENGE: Distribution and retailing costs in developing countries can be so high that companies can make only razor-thin margins on individual products. Companies see little incentive in selling small volumes of low-margin products, as the high mark-up necessary to turn a profit makes products unaffordable by the low-income segment. Smallholder farmers, in effect, lack access to products and services that could potentially increase their livelihoods.



MODEL: Bundling is a product delivery and marketing technique that goods and service providers use to package, deliver, and market several products together. Reducing the costs of bringing the bundle to market makes the bundle more affordable for low-income segment consumers.



MODEL ELEMENTS: This scheme **reduces the logistical costs** of producing and delivering the product to market, and **limits operational costs** by using a single agent as distributor for all of the products.

CORE ELEMENTS

- **Packages complementary goods and services** that farmers might not purchase or easily afford individually, but when bundled together, lowers customer aversion to big purchases.
- **Establishes a single point of sale** for numerous products to facilitate and reduce costs of sales and marketing.
- **Often bundles intangible services** such as crop insurance with tangible products like inputs and equipment, accelerating customers' uptake of the bundle and its impact.
- **Often bundles goods and services that generate benefits in different time horizons**, increasing customer focus on the bundle's near-term benefits (e.g., inputs) while offering valuable long-term benefits (e.g., insurance).

BUNDLING: How does it work?

PRIVATE SECTOR PARTNER VALUE	SMALLHOLDER VALUE	GROWTH POTENTIAL
 <p>COMPANY VALUE</p> <p>Reduced price point and greater product margins opens potential for developing new low-income market segments.</p> <p>Generates revenues by lowering price points for bundled products and services and driving greater sales for price conscious low-income consumers.</p> <p>Reduces costs of goods sold by driving down expenses related to sales and marketing.</p>	 <p>CUSTOMER EXPERIENCE</p> <p>Purchasing complementary products and services targeted to low-income segment needs unlocks value for customers.</p> <p>Engaging a single point of sale for multiple valuable products lowers a customer's transaction costs and fosters a stronger relationship between customer and vendor.</p> <p>Builds a high-touch relationship providing various benefits including training, education, and after-sales support.</p>	 <p>SCALE AND SUSTAINABILITY</p> <p>Reaches scale by driving enough sales such that total returns on the bundled products and services are greater than the cost of building or maintaining a distribution network and the cost of training sales agents.</p> <p>Scales cost-effectively by controlling cost metrics like total distribution network costs, costs per point of sale, and by maximizing sales and bundle margins.</p> <p>Key scaling strategies can include bundling greater numbers of products and services together; driving a greater number of sales through existing points of sale, and expanding to new geographies.</p>
 <p>GO-TO-MARKET</p> <p>Significantly reduces distribution costs by packaging goods together and reducing the number deliveries, necessary inventory, and other logistical expenses.</p> <p>Establishing a single point of sale for the bundled products and services greatly reduces marketing and retailing costs.</p>	 <p>SMALLHOLDER VALUE</p> <p>Expands low-income customers' market access by extending availability of valuable products and services deeper into the base of the pyramid.</p> <p>Increases customer income and livelihoods by introducing potentially wealth-generating products and services that are less expensive than traditionally packaged solutions.</p>	<p>Achieves financial sustainability by moving sufficient sales volume to generate positive returns for the product and service provider; the distributor and retailer; and for the sales agent.</p>



DE-RISKING AND VALUE ACCELERATION

May accelerate value creation **by identifying partners that have deep distribution reach** into the bottom of the pyramid.

May de-risk the venture **by offering retailer micro-financing, or by identifying the highest-potential markets** in which to build the network.

May advance model sustainability **by supporting sales agent development** such that they may retail the products and services of multiple manufacturers and providers.

BUNDLING: When and how can it best be used?



CRITICAL QUESTIONS FOR MODEL DESIGN

Pricing and Retail

- How deeply can the product and service bundle be discounted to both generate demand for the bundle while maintaining an attractive margin to share between all actors in the value chain?
- Does the bundle offer large enough margins for the retailer to solely focus on delivering the bundle or must the retailer sell other products?
- Can including additional products and services in the bundle increase the per-bundle margin?

Product and Service Demand

- How much demand for the products and services exists?
- Must the provider use a marketing effort or other demand generation tactics (e.g., coupons, model farmer approaches) to “push” the product?

Supply Chain and Distribution

- Where in the supply chain should the physical bundling take place (e.g., at the retail shop, at a distribution center, at the product and service provider)?
- What is the distribution network’s scale of geographic reach? Is the bundle accessible to low-income customers in isolated location?

ENABLING CONDITIONS FOR THE MODEL TO WORK

- Latent demand for bundled product/service has to exist to avoid costly demand stimulation via marketing.
- Price points have to be attractive and market research should indicate viability of bundled product/service.
- Model has high adoption rate when purchased from trusted vendors and when there is ease of accessibility.

BUNDLING: How has it been used?

ACRE: BUNDLING SERVICES TO INSURE FARMERS' CROPS^{45, 46}

BUSINESS CASE



Problem: African rain and drought can decimate farmers' livelihoods.

Farmer insurance available in Africa is based on actual crop damage or loss, which requires filing claims, insurance agent field visits, and in-person payouts.

Existing insurance cycles are too long for smallholder farmers living harvest-to-harvest, and servicing dispersed smallholders with small policies is too costly and time-consuming for insurance providers.

Solution: ACRE, formerly known as Kilimo Salama in Kenya, bundles insurance and agricultural inputs to make services affordable to smallholders.

Farmers purchase inputs from agro-dealers and have the option to also buy insurance at 5% of the inputs' value.

Agro-dealers use partner Safaricom's M-PESA mobile money service to transfer the premiums to partner UAP Insurance.

Policies cover excessive rain or extreme drought as detected by nearby weather stations.

VALUE DELIVERED



Private sector partner: Insured customers have grown from 200 farmers in Kenya in 2009 to 185,000 across Kenya, Rwanda, and Tanzania in 2013.

Telecom partner Safaricom has generated a profit from the product through its transaction fees for M-PESA; insurer partner UAP expects to generate profit in next few years.

Smallholder farmer: Farmers receive a payout based on extreme weather as detected by a station, regardless of whether or not they incur crop damage, which is deposited directly into their M-PESA account.

Has motivated investment and increased earnings: insured farmers invested 19% more and earned 16% more than neighboring uninsured counterparts.

Has increased farmers' access to finance: 99% of customers have loans linked to insurance coverage. Over 30,000 Kenyan customers accessed \$5.5 million in financing because they had insurance.

SUCCESS FACTORS



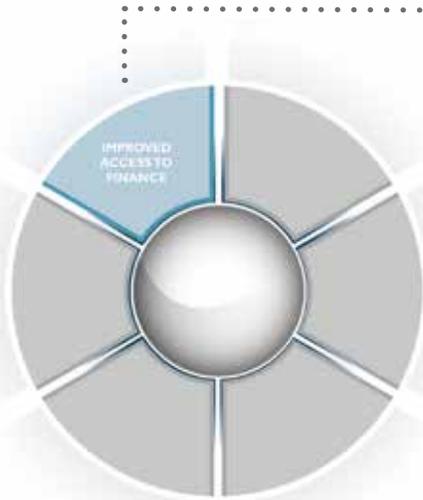
Easily accessible technologies such as M-PESA both reduce transaction costs associated with insurance cycles and strengthen the credibility of the insurance product.

Bundling the sales of inputs with insurance simplifies uptake of an intangible and otherwise "push-reliant" service, which farmers typically distrust.

Agro-dealer distribution networks are critical for selling and building trust in the product.

⁴⁵ Kilimo Salama—Index-based Agriculture Insurance: A Product Design Case Study. IFC Advisory Services.

⁴⁶ IFC Case study: "Kilimo Salama/Syngenta Foundation for Sustainable Agriculture - Kenya, Rwanda, Tanzania." <http://www.ifc.org/wps/wcm/connect/2de52e004958606ba2bab719583b6d16/Kilimo+Salama%E2%80%93Index-based+Agriculture+Insurance-Final.pdf?MOD=AJPERES>.



ASSET FINANCING MODEL

ASSET FINANCING: What is it and why use it?



CHALLENGE: Smallholder farmers traditionally obtain financing for single-use inputs like seeds and fertilizer, but lack collateral to obtain financing for long-term productive assets (e.g., equipment, livestock). As a result, MFIs and other lending institutions with traditional collateral requirements cannot access the majority of smallholder farmers as customers to provide them with asset financing opportunities.



MODEL: Asset financing is a system whereby lending institutions consider future expected income streams to determine payback periods and amounts, discarding traditional collateral requirements. Farmers can acquire previously unattainable long-term productive agricultural assets and use the income from using these assets to either repay the loans or acquire additional assets.



MODEL ELEMENTS: The model improves farmers' access to finance and expands a lending institution's ability to reach low-income customer segments.

CORE ELEMENTS

- **Relies on smallholder farmers' ability to generate cash flow** and on relationships across the value chain, with loan amounts built on borrowers' repayment ability and stability.
- **Expands the risk-profile to consider the asset being financed** as a form of collateral.
- **Finances income-generating assets** instead of traditional loan instruments financing transactions or inputs such as input supplier credit, trade credit, or other short-term loans.
- **Identifies up-front the primary and secondary sources of repayment** in case of cash flow constraint and/or inability to service payments.
- **Provides collateral-free credit** with a long-term, strict or flexible repayment schedule designed around farmer income levels.
- **Often relies on close collaboration** between the asset or equipment providers and the financial institutions extending the credit.

ASSET FINANCING: How does it work?

PRIVATE SECTOR PARTNER VALUE	SMALLHOLDER VALUE	GROWTH POTENTIAL
 <p>COMPANY VALUE</p> <p>Drives financial institution revenues by reaching and retaining more low-income and smallholder farmer customers.</p> <p>Opens potential for building a new market for asset manufacturers, distributors, and retailers to sell products and services to smallholder farmers.</p> <p>Diversifies income streams for financial institutions and asset manufacturers.</p>	 <p>CUSTOMER EXPERIENCE</p> <p>Customer loyalty and retention is generated by extending credit at reasonable interest rates with little to no collateral and by providing appropriate after-sales asset support.</p> <p>Customer relationship can be strengthened through field visits and active client engagement by credit staff.</p>	 <p>SCALE AND SUSTAINABILITY</p> <p>Reaches scale by generating a sufficient number of and amount in loans and driving a sufficient amount of revenue.</p> <p>Scales cost-effectively by controlling loan repayment rates, controlling the number of loans, increasing the average size of loans, growing sales revenues and margins, and maximizing farmer ROI on the asset.</p> <p>Key scaling strategies can include partnering with mobile and technology companies to collect credit and income data and reduce transaction costs, increasing loans per sales agent/loan officer; and expanding credit assessment tools to include cash flows that assess household costs and revenues to broaden prospective customer pools.</p>
 <p>GO-TO-MARKET</p> <p>Can efficiently access target farmers by engaging cooperatives, aggregators, and other farmer groups.</p> <p>Asset demand may be generated by distributors and retailers by a combination of below-the-line (sales promotion, direct marketing) and above-the-line (radio or print) marketing, community word-of-mouth, or by using traditional “model farmer” approaches.</p>	 <p>SMALLHOLDER VALUE</p> <p>Expanding access to wealth-generating assets with improved financing provides farmers the means by which to grow farm productivity, increase income levels, and improve their livelihood.</p> <p>Reduces the “poverty penalty” on farmers by introducing innovative risk analysis methods that link payment structure to potential income rather than current balance sheets.</p>	<p>Achieves financial sustainability by expanding sales revenues and margin for the asset vendor; minimizing defaults and growing interest payments for the financial institution, and maximizing farmers' ROI of using the new asset.</p>

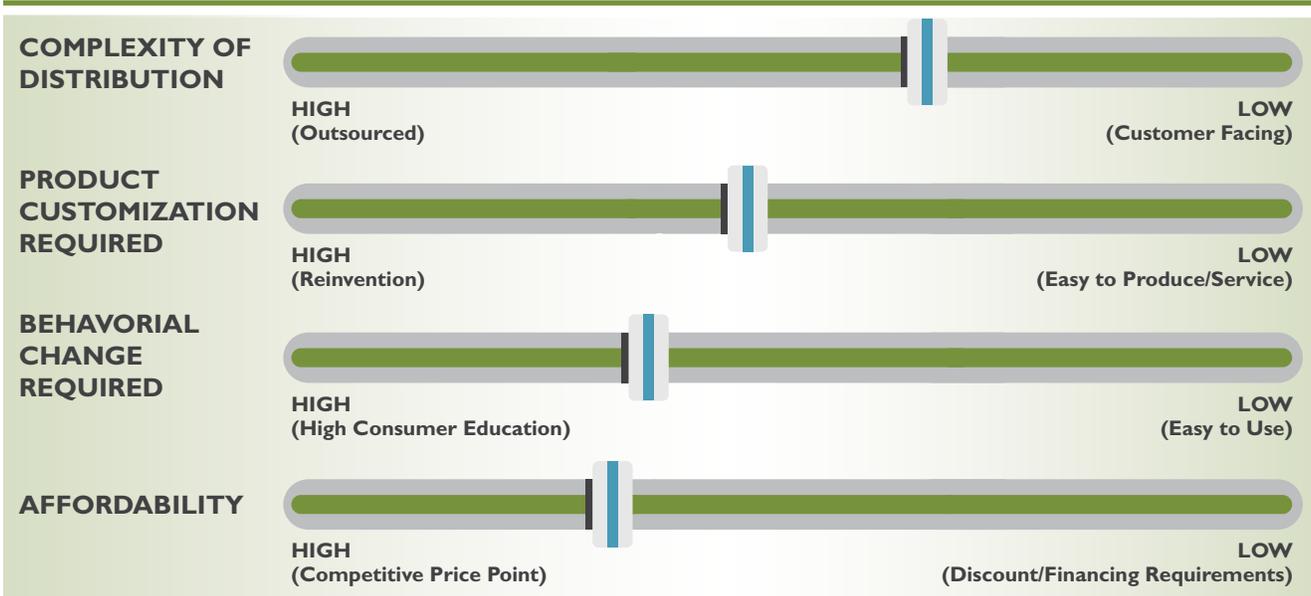


DE-RISKING AND VALUE ACCELERATION

May accelerate value creation by providing training to farmers on how to best use the asset, and **by increasing market access to and generating demand for the more affordable asset** product.

May de-risk the venture by providing credit guarantees to the financial institutions and **by strengthening farmer value chain** connections to ensure demand for his or her crops.

ASSET FINANCING When and how can it best be used?



CRITICAL QUESTIONS FOR MODEL DESIGN

Understanding the Market

- Does the financial institution understand farmer cash flows and needs? Can it appropriately price the potential income risks in the farmers' value chain?
- Do the institution and the asset manufacturer understand the laws, regulation, and local customs around financing?

Risk Appetite

- What level of risk are financial institutions willing to take on by using these new cash flow methods of credit assessment?

External Partnerships

- What other local service providers may be useful to partner with for more efficient customer due diligence and/or delivery of services?

Training the Farmer

- Who will provide farmers with technical assistance and basic financial and business training to minimize risks of loan default?

ENABLING CONDITIONS FOR THE MODEL TO WORK

- Availability of cash-generating assets should be in place to pay initial loan.
- Assuring that portfolios are diversified with assets that are not prone to volatility (irrigation equipment, grain mills) in order to reach more customers and minimize risk.
- Established linkages between farmers and other stakeholders (buyers, input suppliers) along the supply chain.
- Strong relationships with various aggregators or contract farms should be in place to increase uptake.
- A mix of mobile banking, bank branches, and mobile payment systems to reach farmers should be in place.

ASSET FINANCING: How has it been used?

JUHUDI KILIMO: BUILDING INCOME-GENERATING ASSETS FOR FARMERS^{47, 48, 49, 50}

BUSINESS CASE



Problem: 80% of Kenyans (30 million people) derive their livelihoods from farming but have traditionally had limited access to finance.

A combination of perceived and evident risks have deterred banks and other financial institutions from serving this group and has led them to charge high and therefore unserviceable interest rates.

About 36% of rural Kenyans have no access to any form of financial services, making productive agricultural assets unattainable.

Solution: The financial institution Juhudi Kilimo provides asset-based financing to Kenyan smallholder farmers to purchase productive assets, such as dairy cows and machinery, that act as collateral.

Farmers can use these assets to pay off their initial loan or to acquire more income generating assets.

Juhudi Kilimo conducts farmer assessments, provides them training, and structures payment schedules that fit farmers' cash flows.

VALUE DELIVERED



Private sector partner: Return on assets is nearly positive at -0.4% and has increased almost 100% from 2010-2013.

Loan portfolio grew nearly 300% from 2010 to 2013, from \$1.3 million to \$5.0 million.

Borrowers take out an average loan of about \$400 and maintain a repayment rate of about 95%.

Customer retention has increased from 44% in 2010 to 85% in 2013, suggesting customers find real value in the company's financing products.

Smallholder farmer: Customer base has seen high growth rates over the last few years (CAGR of 65%), with 20% of customers living below the poverty line.

For every \$1 invested, Juhudi Kilimo expects a farmer to make \$15 in net returns.

SUCCESS FACTORS



Conducting thorough community assessments enables Juhudi Kilimo to better understand unique local needs, better select its candidates, and understand local market risks.

Coupling loans with business training and technical assistance increases loan repayment rates.

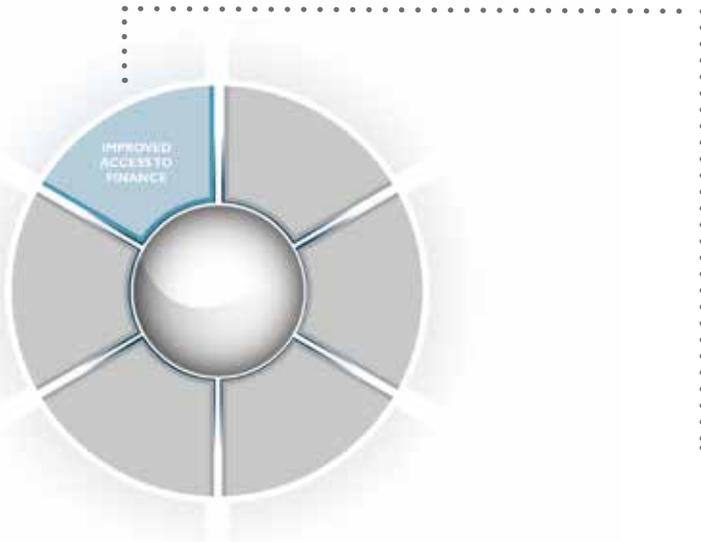
Uses farmer groups to act as guarantors that provide assistance to farmers unable to service their loans, providing a community-financing aspect that also reduces repayment risks.

⁴⁷ Acumen investment report.

⁴⁸ "Juhudi Kilimo: Changing the way farmers do business." Presentation to investors. 2010. <https://www.agrifinfacility.org/sites/agrifinfacility.org/files/21%20-%203.29%20-%20Brkout%20B%20-%20Juhudi%20Kilimo%20-%20Robinson.pdf>.

⁴⁹ Nat Robinson Knowledge@Wharton interview, January 2013.

⁵⁰ Moody's Social Performance Assessment: Juhudi Kilimo, September 2013.



SHARED CHANNEL DISTRIBUTION MODEL

SHARED CHANNEL DISTRIBUTION: What is it and why use it?



CHALLENGE: Reaching smallholder farmers and other low-income customers at the base of the pyramid can be difficult and costly. Infrastructure, especially roads, is often poorly developed, and customers are often geographically dispersed enough to prevent cost-effective delivery to low-income segments in hard-to-reach places.



MODEL: Shared channel distribution uses networks that reach into remote markets by piggybacking onto existing distribution platforms of other products and services while sharing the costs. This enables people at the base of the pyramid to gain access to affordable agricultural inputs and other goods that would otherwise be unavailable to them and at a reasonable price (given lower distribution costs).⁵¹



MODEL ELEMENTS: The model **saves companies the operating and capital costs** of building and maintaining their own distribution networks. **By strategically selecting existing distribution channels** that complement their products and services and by **building partnerships**, companies can tap into remote markets.

CORE ELEMENTS⁵²

- **Use of existing distribution platforms**, which can be already functioning channels or networks created for other products and/or purposes.
- **Places increased responsibility on a field sales force** to carry multiple products from a single distribution hub deeper into rural areas.
- **Proper incentives to all participants in the distribution chain**, including warehouseers, intermediate distributors and end dealers, such that margins approach levels competitive with existing products/services they store, distribute, and sell.
- **Structures a value chain the leverages each channel's core competency**, allowing a degree of specialization by task or capability—e.g., those channels with better logistics and fulfillment capability might handle physical delivery, while another channels can provide group-customer introductions to field sales forces.

⁵¹ Emerging Markets, Emerging Models, Monitor Group, March 2009. http://www.beyondthepioneer.org/wp-content/uploads/2014/04/emergingmarkets_full.pdf.

⁵² Ibid.

SHARED CHANNEL DISTRIBUTION: How does it work?

PRIVATE SECTOR PARTNER VALUE	SMALLHOLDER VALUE	GROWTH POTENTIAL
 <p>COMPANY VALUE</p> <p>Reduces costs by piggybacking on the distribution channels of other entities and by creatively using delivery platforms.</p> <p>Companies can reach new customers in a cost-effective manner, develop new low-income markets, and generate greater revenues.</p>	 <p>CUSTOMER EXPERIENCE</p> <p>Leads to customer growth and productivity by increasing accessibility to a wider variety of products and services.</p> <p>Innovative strategies, such as using microfinance institutions or cooperatives to reach large group of farmers with products and credit services, can generate customer loyalty and deliver value.</p> <p>Direct engagement with a local salesforce may improve product uptake and consumer education opportunities.</p>	 <p>SCALE AND SUSTAINABILITY</p> <p>Reaches scale by driving sufficient revenues and margin from new product sales to outweigh the costs of “renting” other actors’ distribution channels.</p> <p>Scales cost-effectively by controlling per-unit product costs and by maximizing distribution channel utilization and “throughput” (i.e., how much product is moving through a channel), calling for sufficient customer demand and sales volume.</p> <p>Key scaling strategies can include adding strategic channel partnerships in an existing distribution channel (e.g., adding a distributor partner or a point of sale partner), adding new distribution channels in new geographic markets, increasing demand and sales volume, or increasing channel throughput with new products.</p>
 <p>GO-TO-MARKET</p> <p>Ensures efficient delivery by spreading distribution costs and saving time, leading to increased accessibility of products.</p> <p>Enables effective delivery of products and services by offering incentives for all distribution channel participants.</p> <p>Shares distribution risks and logistical costs across several actors.</p>	 <p>SMALLHOLDER VALUE</p> <p>Low-income customers are able to access various products and services that otherwise would not be available to them.</p> <p>Valuable products and services become more affordable as vendors’ unit-costs drop.</p>	<p>Achieves financial sustainability by generating sufficient returns for both the product vendor and each partner in the distribution channel.</p>

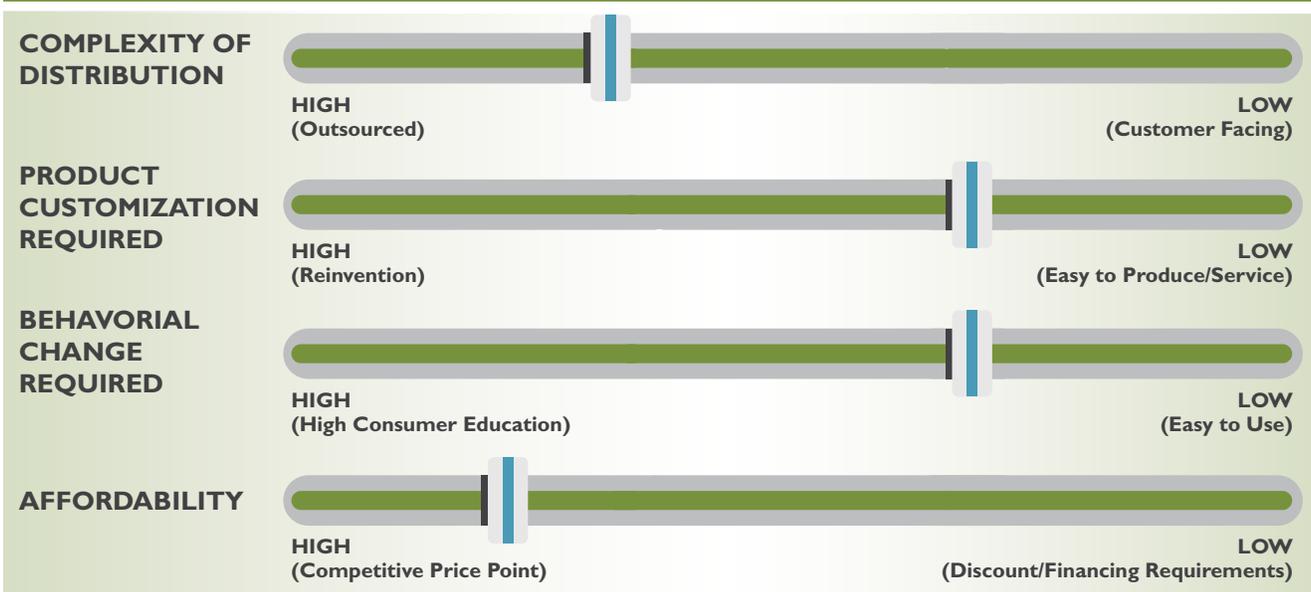


DE-RISKING AND VALUE ACCELERATION

May accelerate value creation by examining **actors’ existing distribution networks** and facilitating partnerships with these market players.

May de-risk the venture **by offering donor or NGO distribution networks**, though company and product due diligence is necessary to avoid program reputational risks.

SHARED CHANNEL DISTRIBUTION: When and how can it best be used?



CRITICAL QUESTIONS FOR MODEL DESIGN

Customer Demand

- Is there sufficient expressed or latent consumer demand for the product or service?
- Do the products or services require marketing and consumer education (a push product), or is the value obvious enough on its own to sell (pull product)?

Channel Partnerships

- Does the partner's channel have the adequate characteristics and capabilities to deliver the product or service to market (e.g., cold chain capabilities for perishables)? Does the shared channel need any additional investment to increase capacity or make modifications?
- What is the financial agreement between both partners? Does it sufficiently incentivize the owner of the channel to deliver the product to market?
- How will partners adapt if a channel link fails, or to meet changing market needs? Are there other channels available?

External Partnerships

- What other local service providers may be useful to partner with for more efficient customer due diligence and/or delivery of services?

Last Mile Incentives

- If needed, can a village entrepreneur deliver a product or service in the "last mile"? Does the vendor provide adequate incentive for this delivery?
- Who will provide farmers with technical assistance and basic financial and business training to minimize risks of loan default?

ENABLING CONDITIONS FOR THE MODEL TO WORK⁵³

- Existing distribution platform is efficient, effective and reliable in reaching smallholder farmers.
- Distribution platform can absorb increased product/service volume with minimal cost increases.
- Distributors have developed trust with low-income consumer segments that can be leveraged for product diversification and increased sales.
- Distributors have the capacity to provide after-care services and consumer education.

⁵³ Ibid.

SHARED CHANNEL DISTRIBUTION: How has it been used?

GRAMIN SUVIDHA KENDRA INITIATIVE: LEVERAGING EXISTING DISTRIBUTION NETWORKS TO DELIVER VALUE^{54, 55}

BUSINESS CASE



Problem: Rural Indian farmers' limited access to information on prices, weather, and various crop diseases limits their productivity, market competitiveness, and potential income.

Solution: Gramin Suvidha Kendra Initiative (GSK), a joint venture between India Post and Multi Commodity Exchange of India (MCX) uses the Indian postal network to disseminate information on spot, future trading, and warehousing prices and to distribute inputs.

Uses sub-city post offices as hubs with MCX communication technologies and village offices as spokes that physically display market information and engage farmers.

Additional services requiring registration and annual fees: farming advice (where members write in questions to spokes and responses are delivered to the farmer's home in days), and input purchase orders (farmers pay 10% in cash upon placing an order and the remainder on delivery that are transmitted by input suppliers in coordination with hubs to spokes, and finally collected by farmers).

VALUE DELIVERED



Private sector partner: Currently, 36 hubs, 519 post office branches in 1,780 villages servicing 30,000 registered farmers.

Farmers with less than 1 hectare comprise the majority of registrants, followed by those with more than 3 hectares.

India Post charges rental fees to MCX for the use of its space, while revenue generated via services is shared by participants.

Has achieved sustainability and profitability, having generated revenues of Rs. 3,658 million and profit of Rs. 1,580 million in FY09, representing growth from FY08 of 34% and 50%, respectively.

Smallholder farmers: MCX uses the data it collects on farmers that flows between hubs and spokes to better tailor and deliver its services to smallholder farmer communities.

SUCCESS FACTORS



Sharing the extensive network of India Post enabled GSK to deliver products and services cost-effectively to farmers who historically had been inaccessible.

Tapped into latent demand for market information with an upfront partner investment in hub communication technologies and spoke network set-up.

Using village post offices as the last mile collection and service provision points greatly decreased MCX delivery costs.

⁵⁴ Bahl, Sarita. Gramin Suvidha Kendra MCX & India Post Initiative. Samuel Curtis Johnson Graduate School of Management, Cornell University, 2011.

⁵⁵ Debapratim Purkayastha. "MCX's 'Gramin Suvidha Kendra': A Sustainable Model for Inclusive Growth." ICMR Center for Management Research, 2009.



APPENDIX I

A Preliminary Selection of Private Sector Engagement Tools

Appendix I includes a preliminary selection of practical tools that may be useful during the private sector partnership development process. It includes a sample of materials in five areas: partnerships with the private sector, business models, managing risk, finance, impact assessment and due diligence. It also includes a few partnership development checklists that could be used to accompany a traditional USAID partnership development process.

PARTNERSHIPS WITH THE PRIVATE SECTOR

This Roadmap sets out a systematic approach to engaging with business as a partner in development. It recommends five essential areas for action within which government, development agencies, business organizations, and civil society have a role to play.

Unleashing the Power of Business: A Practical Roadmap to Systematically Engage Business as a Partner in Development
<http://www.bpdroadmap.org/>

This resource from The Partnering Initiative builds on the experience of those who have been at the forefront of innovative partnerships and offers a concise overview of the essential elements that make for effective partnering.

The Partnering Toolkit: An Essential Guide to Cross-sector Partnering

<http://thepartneringinitiative.org/w/resources/toolbook-series/the-partnering-toolbook/>

USAID's Office of Development Partners/Private Sector Alliances Division (ODP/PSA) has developed the following Alliance Assessment Framework as a tool for use by Missions and USAID contractors to identify and prioritize strategic alliance opportunities where partnership with the private sector can demonstrably improve results.

A USAID Framework for Addressing Public-Private Alliance Development Methods

http://pdf.usaid.gov/pdf_docs/Pnadw152.pdf

As part of its mandate to guide and define the role of the private sector in poverty reduction and inclusive development, the UNDP Istanbul International Center for Private Sector in Development (IICPSD) has developed the following foundational report.

Barriers and Opportunities at the Base of the Pyramid – The Role of the Private Sector in Inclusive Development

http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Private%20Sector/undp-osd-barriers_and_opportunities_BOP_full%20report_Web.pdf

The Private Sector Engagement Toolkit is a resource for effectively building and sustaining program partnerships with the private sector.

Private Sector Engagement

<http://www.mercycorps.org/research-resources/private-sector-engagement>

Partners and donors both struggle to measure not only how well a partnership is executed, but also how the alliance contributes to each partner's desired impact. This report proposes an outcome-based approach to forming, operating, and valuing PPPs.

(Re) valuing Public-Private Alliances: An Outcome-based Solution

<http://www.usaid.gov/sites/default/files/documents/1880/RevaluingPublicPrivateAlliances.pdf>

This document has been developed to provide guidance to stakeholders on identifying opportunities where public and private sector parties can work together to increase access to high quality life-saving commodities and the process for engagement to ensure a productive and smooth process for all parties involved.

Private Sector Engagement: A Guidance Document for Supply Chains in the Modern Context

http://unfpa.org/webdav/site/global/shared/procurement/10_supply_chain/UNCoLSC%20Private%20Sector%20Engagement%20Guidance%20Document_FINAL.pdf

This handbook assists UN practitioners and corporate representatives to effectively design, implement and evaluate UN-business partnerships.

UN-Business Partnerships: A Handbook

https://www.unglobalcompact.org/docs/issues_doc/un_business_partnerships/UNBusinessPartnershipHandbook.pdf

This tool, based on World Wildlife Fund's partnership building experience, shows approaches to the development and maintenance of robust, equitable partnerships.

The Partnership Toolbox

http://assets.wwf.org.uk/downloads/wwf_partnershiptoolboxartweb.pdf

This toolkit aims to identify sustainable ways and practices in which local and international business community can be better engaged in the effort to scale up nutrition at the country and global levels.

Scaling Up Nutrition Private Sector Engagement Toolkit

http://scalingupnutrition.org/wp-content/uploads/2013/02/Business-Network_Private-Sector-Engagement-Toolkit.pdf

This toolkit from the Millennium Challenge Corporation presents four models of private sector collaboration: Private Finance of Infrastructure, Outsourced Management, Output-Based Aid, and Social Franchise.

Millennium Challenge Corporation Private Sector Initiative Toolkit

<http://www.mcc.gov/documents/guidance/toolkit-060308-privatesector.pdf>

Based on interviews with 15 companies, this paper presents a framework to help companies formulate their options around practical ways of alleviating global poverty. A menu of six approaches, with their benefits and risks, is presented.

A Menu for Corporate Engagement

http://www.cgdev.org/files/15004_file_corporate_engagement_web.pdf

How the development community partner with business to deliver the Post-2015 development framework and achieve sustainable prosperity in Africa is discussed in this paper.

A New Global Partnership with Business

<http://1ptgon13jil0lby4e3lzk4gy1lta.wpengine.netdna-cdn.com/wp-content/uploads/sites/40/2014/05/BAA-Post-2015.pdf>

This publication provides guidance on how companies can build a partnership with USAID. Based on interviews with BSR member companies, this resource provides success factors for building an effective partnership and tips on making the internal case for partnerships, identifying shared priorities, and navigating government logistics.

Partnering with USAID: A Guide for Companies

<http://www.bsr.org/en/our-insights/report-view/partnering-with-usaid-a-guide-for-companies>

This BSR publication outlines approaches for companies to initiate and sustain constructive and cost-effective stakeholder relationships over time.

BSR's Five-Step Approach to Stakeholder Engagement

<http://www.bsr.org/en/our-insights/report-view/bsrs-five-step-approach-to-stakeholder-engagement>

The report identifies 12 good practices for increasing the value of results measurement and reducing its costs to public- and private-sector partners.

Proving and Improving the Impact of Development Partnerships

<http://www.endeva.org/building/publications/>

BUSINESS MODELS

The LINK methodology provides an understanding of the current functioning of the market chain and key business models, design innovations that empower producer groups to engage more effectively and buyers to act in ways more amenable to smallholder farmers.

LINK METHODOLOGY: A Participatory Guide to Business Models that Link Smallholders to Markets

http://dapa.ciat.cgiar.org/wp-content/uploads/big-files/2012/LINK_Methodology.pdf

This online resource shows how to design, test, and build Business Models and Value Propositions based on the methodology practiced by the world's leading organizations and ventures.

Strategyzer: Business Models That Work & Value Propositions That Sell

<https://strategyzer.com/academy/course/business-models-that-work-and-value-propositions-that-sell/>

As part of its mandate, UNDP's African Facility for Inclusive Markets (AFIM) has developed an African Agribusiness Supplier Development Program (AASDP) in support of the Africa Union and Comprehensive Africa Agriculture Development Program's agriculture transformation and food security agenda. The program's objective are 1) to improve the quantity and quality supply of agricultural products by farmers and SMEs to markets; 2) to provide smallholder farmers and SMEs with support in accessing the growing agricultural supply chains of lead firms; 3) to contribute to the development of national African economies by developing agricultural products that meet market quality standards.

African Agribusiness Development Program Toolkit

http://www.undp.org/content/undp/en/home/librarypage/poverty-reduction/private_sector/african-agribusiness-development-programme-toolkit/

The objective of this publication is to provide the essential information and tools to build inclusive business models with companies and other partners.

Brokering Inclusive Business Models

http://www.undp.org/content/undp/en/home/librarypage/povertyreduction/private_sector/brokering-partnerships/

MANAGING RISK

The primary objective of this Rapid Agricultural Supply Chain Risk Assessment (RapAgRisk), developed by the Agricultural Risk Management Team (ARMT) of the World Bank, is to help decision makers understand the risk exposure of agricultural supply chain participants and to improve risk management strategies for selected commodity systems.

Rapid Agricultural Supply Chain Risk Assessment: A Conceptual Framework

https://www.agriskmanagementforum.org/sites/agriskmanagementforum.org/files/Documents/RapApRiskAssessment_Framework_Final_Web.pdf

This Handbook from the International Finance Corporation is intended for agro-commodity companies that want to manage supply chain environmental and social risks.

Good Practice Handbook: Assessing and Managing Environmental and Social Risks in an Agro-Commodity Supply Chain

http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/publications/publications_handbook_agrosupplychains

This interactive map, briefs and accompanying video from the Initiative for Smallholder Finance presents an inventory of principles, methodologies, metrics, data collection efforts, and data aggregators that can be used to guide, track, measure, and report activities in support of smallholder farming.

A Landscape of Smallholder Impact and Risk Assessment Tools

<http://www.globaldevincubator.org/initiative-incubator/current-initiatives/smallholder-impact-risk-metrics/>

FINANCE

This agricultural lending toolkit outlines a package of resources to support financial institutions (commercial banks, microfinance institutions and credit unions) in emerging economies, with a focus on sub-Saharan Africa, to increase their comfort with and capacity to extend agricultural lending.

Lending to the Agriculture Sector: A Toolkit

<https://www.agrifinfacility.org/usaids-E2%80%99s-lending-agriculture-sector-toolkit>

As part of the United Nations Development Program African Facility for Inclusive Markets commitment to the facilitation of access to finance for low income communities and efforts to assist those who support these communities, this guide on mobilizing inclusive business finance has been developed to serve as a practical, easy-to-use resource for development practitioners.

Inclusive Business Finance Field Guide 2012: A Handbook on Mobilizing Finance and Investment for MSMEs in Africa

<http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/Field%20Guide.pdf>

IMPACT ASSESSMENT

This framework is designed to help companies understand their contribution to development and use this understanding to inform their operational and long-term investment decisions and have more informed conversations with stakeholders.

Measuring Impact Framework: Understanding the Business Contribution to Society

<http://www.ifc.org/wps/wcm/connect/7ddc9a80488552c3ac8cfe6a6515bb18/Measuring%2BImpact%2BFramework%2BMethodology.pdf?MOD=AJPERES&CACHEID=7ddc9a80488552c3ac8cfe6a6515bb18>

The background paper reviews available tools and their relevance for Asian Development Bank's Inclusive Business Initiative.

Impact Assessment Tools for BOP and Other Types of Triple Bottom Line Investing

<http://www.scribd.com/doc/80720133/Impact-Assessment-Tools-Review>

DUE DILIGENCE

Within the context of USAID's Global Development Alliance, this resource highlights the step-by-step guide to evaluate the risks and benefits of working with a potential private sector partner.

Due Diligence: A Step-by-Step Guide

<http://www.usaid.gov/documents/1880/due-diligence-step-step-guide>

In this 16-page Issue Brief, Root Capital posits that social and environmental due diligence can also create financial benefits that partially or fully offset the costs involved for lenders and investors.

Social and Environmental Due Diligence

<http://info.rootcapital.org/social-and-environmental-due-diligence>

PARTNERSHIP DEVELOPMENT CHECKLISTS

The following checklists were compiled from various sources to help guide Mission personnel in developing private sector partnerships. They mirror the partnership development process summarized in Chapter 1 and include checklists for partnership alignment (to be used during the problem definition and opportunity identification phases), design, implementation, and performance monitoring.

EXAMPLE PARTNERSHIP ALIGNMENT CHECKLIST (best used during the problem definition/opportunity identification phases)

Scope and assess partnership opportunities

- Identify potential partners in a specific country or region that can help meet Mission objectives by developing a set of relevant questions. Examples include the following:
 - » Which food product companies or agribusinesses have procurement challenges attributable to low volumes or poor quality? Are local processors operating below maximum capacity?
 - » Which local, regional, and global companies are seeking to expand their market share or add new products to their portfolios? Are there producer or business associations with insight into industry trends and needs?
 - » Which firms are developing and supplying the agricultural sector with inputs? Do these inputs meet smallholder needs?
 - » Which financial firms are active or interested in the agricultural sector? Are there other firms supplying services to the agricultural sector or offering services that could be of benefit?⁵⁶

- Consider (1) the partnership's potential impact on the private sector partner, USAID, and smallholder needs; (2) business potential; and (3) effectiveness.

Understand priorities

- Conduct desk research to better understand the potential partner's basic structure and priorities—for example, whether it is (1) a publicly-traded or privately-held company; (2) producing multiple product lines or focused on a single, specific business; and (3) an industry newcomer or well-established enterprise.

- If the potential partner is a publicly traded company based in the United States, examine the 10-K report filed online with the SEC, because the 10-K clearly states the mechanics of the business model, how it generates money, its short- and long-term strategies to improve and grow its business, and its position in its industry.
 - » For foreign companies that are traded in the United States, consult the SEC's Form 20-F in addition to other business and financial information service providers.

- For foreign privately held corporations, consult similar information service providers.

- Interview potential partners and stakeholders to deepen USAID's understanding of their organizational characteristics and business goals, and how smallholder engagement fits with their broader business strategies.

- Assess how the needs and incentives of the potential partner align in relation to both USAID and smallholder farmer priorities and consider how to balance individual interests and expectations.

- Consult external/internal information sources to ascertain the most relevant smallholder development challenges and priorities and their respective compatibility with market-based solutions.

⁵⁶ "Building Alliances Series: Agriculture." Prepared by DAI. (The Office of Development Partners/Private sector Alliances, USAID, October 2009); 20-1. Applies to the entire bulleted list above.

Define the partnership vision and prepare for engagement

- Define the parameters of the proposed partnership by asking some of the following critical partnership scope questions:
 - » This partnership will expand access to what products or services?
 - » This partnership will increase value for which target customers and markets?
 - » In which regions or geographic areas will the partnership operate?
 - » What specific private sector activities would USAID be willing to support?
 - » What is the timeframe for partnership activities?
- Establish a clear sense of purpose and a shared set of objectives among stakeholders that are specific, measurable, achievable, relevant, and time-bound (SMART).
- Develop a project cost estimate for the expected duration of the partnership. (A full guide to developing a cost estimate is available through USAID's Planning Series.)⁵⁷
- Identify an appropriate partner leverage or in-kind contribution target to the partnership cost, including financial contributions, donated services or property, or intellectual property. (More information on partner leverage is available through USAID's Tools for Alliance Builders.)⁵⁸
- Define how the partnership will structure governance, operations, and management to make both development of the venture and its execution efficient and effective.
- Identify teams that will champion, lead, and execute the partnership effort on behalf of each organization. Team members may be reassigned from their typical organizational roles to concentrate solely on achieving the objectives of the partnership.

⁵⁷ For detailed guidance on how best to develop a project-level cost estimate, including for a partnership, please refer to: "How-to Note: Preparing a Project-Level Cost Estimate." Planning Series, Version I. (Bureau for Policy, Planning and Learning, USAID, August 2013).

⁵⁸ For more information on how best to value and structure a partner's leverage, please refer to USAID's "Tools for Alliance Builders" section on the topic on pages 41-44, available at the GDA's Tools & Resource site: <http://www.usaid.gov/gda/gda-tools-resources>.

- Assign clear roles, responsibilities, and authorities within each organization's team, and designate a leader or point person within each organization to facilitate effective collaboration.
- Clarify governance and decision making processes. (More information on developing partnership governance processes is available through USAID's Building Partnerships Best Practices Guide.)⁵⁹
- Communicate objectives, expectations, and management process directly to the potential private sector partner; highlighting how all stakeholders bring value to the partnership.
- Couch the potential partnership in the context of the business' interests and motivations, while emphasizing the importance of development outcomes.

Engage the partner

- Engage the partner on how it views the scope and objectives of the partnership, each stakeholder's financial and resource commitments, and partnership management processes.
- Confirm that USAID and the private sector partner's expectations of these systems and processes are aligned.
- Ensure ongoing alignment through regular and continuous communication between stakeholders.

Re-scope and assess the partnership opportunity

- Re-evaluate the partnership's potential considering its (1) alignment of private sector partner, USAID, and development objectives; (2) business potential; and (3) effectiveness.
- Re-assess the balance of individual stakeholder interests including the private sector partner, USAID, and smallholders.

⁵⁹ "Building Partnerships: A Best Practices Guide." (Community Partnerships Interagency Policy Committee, 29 April 2013).

- Review the parameters of the proposed partnership, including proposed product, target market, geographic area of operation, and timeframe.
- Revise partnership governance, operations, and management processes to ensure they are efficient and effective.
- Test assumptions about the logistical and financial success of a business model design by interviewing potential customers, value chain stakeholders, and outside experts.
- Refine the business model design and its assumptions through in-market research and hypothesis testing and by using the CAT included in the Chapter 3 of this guide.

EXAMPLE OF A PARTNERSHIP DESIGN CHECKLIST

Identify the best implementing mechanism

- Review and select the most appropriate implementing mechanism (from the options included in Appendix II). For example, these mechanisms could involve:
 - » Contributing resources (funding or in-kind) to existing USAID programs.
 - » Donating money that is earmarked for a specified issue and country, and that USAID spends based on the donor's direction.
 - » USAID and the company independently fund an implementer to execute an agreed-upon initiative.
 - » Executing a joint solicitation for application with USAID based on shared goals.

Co-design a partner business model

- Identify key business model elements such as target customers, market landscape, development challenges, and country-specific considerations.
- Collect data on the model's critical design elements by researching reports, interviewing experts, surveying potential customers, or performing in-field testing.
- Determine how the product or service has been successfully delivered in other contexts by studying past commercial efforts in- country and abroad.
- Identify specific challenges or constraints a business selling or buying the proposed product or service might face in the target market.
- Develop a prototype model design by clearly defining the market needs and challenges, and mapping the business model's design around those constraints.

- Conduct a broad economic analysis of the business model's design and, based on the tested assumptions, construct a financial model for how the business should operate.
- To ensure sustainability, validate that stakeholders in the business model see a return on their investment.

EXAMPLE OF PARTNERSHIP IMPLEMENTATION CHECKLIST

Define tactical model elements

- Research past USAID partnerships with private sector agricultural companies and identify their key risks and success factors.
- Conduct interviews with local agricultural universities; government ministries; NGOs; local, regional, and multinational private sector actors; and target customers, in order to answer the following questions regarding the enabling environment:
 - » Are there land use or ownership issues that could affect the partner's business model?
 - » Are there import or tax restrictions on inputs?
 - » Can products be efficiently and reliably transported to market given the current infrastructure?
 - » Is there special transportation, storage, or processing considerations for the proposed product?
 - » Are there warehouse, cold storage, and cold chain solutions available to reduce spoilage?
 - » What is the local, regional, and national government's attitude towards the agriculture, agribusiness, and the private sector partner?
 - » Can local government contribute by providing land, training, facilities, or technical expertise?

- » Will the partnership need to address gender roles, climate change mitigation, or local water challenges?
 - » Is there cultural significance or sensitivity around certain crops or agricultural practices?
- Coordinate with the partner to determine clear ownership over any intellectual property resulting from investment in research and development.
 - Develop realistic timeframes and budgets for product development, market entry, and business scale-up activities.
 - Identify risks and develop appropriate mitigation strategies for each one (by leveraging the CAT included in Chapter 3).
 - Establish key metrics and measures for the success of each stakeholder in the partnership to ensure progress toward the most critical development and business goals.
 - Create a learning agenda on how the business model influences these success measures. (A full guide to developing a learning agenda is available through USAID's Learning Lab.)⁶⁰
 - Integrate and adapt key findings from learning priorities to modify project implementation.

Conduct due diligence

- Conduct due diligence early on in the partnership development process and engage the necessary stakeholders as soon as possible.
- Gather information via desk research and field interviews on five essential areas of investigation:
 - » *Corporate image*: public image, pending lawsuits, negative media, transparency
 - » *Social responsibility*: corporate social responsibility policy, labor standards, health and safety, code of conduct
 - » *Environmental accountability*: monitoring, mitigating impact, improving performance

- » *Financial solutions*: publicly traded, annual reports, audited financial statements, years in business
- » *Policy compatibility*: excluded parties list, agency policies, foreign affairs sensitivities

- Make a formal and well-documented recommendation as to whether a partnership should be pursued or not. (More guidance on conducting in-depth due diligence is available in USAID's Tools for Alliance Builders.)⁶¹

Finalize terms

- Determine the appropriate procurement and approval process for the partnership within USAID's governing documents and regulations.

EXAMPLE OF A MONITORING PERFORMANCE CHECKLIST

Measure and analyze outcomes and impacts

- Identify the most important questions about project performance from both the USAID and private sector perspectives to inform and determine which financial, operational, and impact analyses to include in the evaluation.
- Develop a results framework and performance indicators, or performance management plan (PMP), that includes data collection methods, baseline data and established targets, an evaluation plan, and a management plan for the performance data collected. (A guide for planning effective M&E is available through USAID's Learning Lab and their Performance Monitoring Plan Toolkit.)⁶²
- Clarify and check specific USAID programmatic requirements before undertaking M&E activities. For example, all partnerships with the private sector with Feed the Future funding are required to use eight performance indicators, with an additional 21 potential indicators.⁶³

⁶⁰ Available at: usaidelearninglab.org/learning-guide/creating-comprehensive-learning-cla-plan.

⁶¹ "Tools for Alliance Builders." Global Development Alliance (GDA), USAID. Available at the GDA's Tools & Resource site: <http://www.usaid.gov/gda/gda-tools-resources>.

⁶² Available at: <http://usaidelearninglab.org/library/performance-management-plan-toolkit-guide-missions>.

⁶³ For more information on FTF M&E indicators, please visit http://feedthefuture.gov/sites/default/files/resource/files/ftf_guidanceseries_faq.pdf.

- Ensure credibility, objectivity, transparency, and high-quality information by using the following guidelines for collecting data:
 - » Hire an M&E team with appropriate methodological and subject matter expertise.
 - » Develop an evaluation that includes key questions, data collection methods and instruments, a data analysis plan, and a dissemination plan.
 - » Share the evaluation design with country-level stakeholders and implementing partners for feedback before it is finalized.
 - » Consider gender-sensitive indicators and include data disaggregated by sex if necessary.
 - » Use clear, established methods for data collection and analysis to ensure consistency of findings.
 - » Use accepted social science methods and tools that reduce the need for evaluator-specific judgments.
 - » Standardize recordkeeping methods and maintain comprehensive records of all data collection activities.
 - » Collect data on variables corresponding to inputs, outputs, outcomes, and impacts, as well as financial data that permit computation of unit costs and analysis of cost structure.
 - » Analyze information based on facts, evidence, and data rather than anecdotes and unverified opinions.
 - » Generate findings that are specific, concise and supported by quantitative and qualitative information that is reliable, valid, and generalizable.
 - » Compile a report that includes the original scope of work, a description of the methodology used, and the limitations on the inferences that can be drawn.
 - » Include action-oriented, practical, and specific recommendations with assigned managers in the evaluation report. More information on evaluation requirements is available through USAID's Evaluation Policy.⁶⁴

Systematize best practices and lessons learned

- Discuss findings with stakeholders to determine how the results and recommendations of the evaluation might be implemented quickly and the resulting potential impact on the business.
- Develop concrete strategies for incorporating selected recommendations into the partner's business model, and revise the partner's work plan to include these changes.

Report findings to share learning

- Identify key audiences, including national government, development partners, private sector actors, and civil society in the business partnership's industry, sector, or geographic area.
- Draft a concise communication piece that fits the need of the audience and captures the relevant insights at an appropriate level of detail. At minimum, it should include (1) the development problem; (2) how the partnership addressed that problem; (3) partner contributions; and (4) the development impact.
- Access additional references, tools, and case studies on online agricultural development communities such as AgriLinks (<http://www.agrilinks.org>), USAID Innovation Labs (<http://www.crsps.net>), The Initiative for Smallholder Finance (<http://www.globaldevincubator.org/initiative-incubator/current-initiatives/initiative-for-smallholder-finance/>), Partnering for Innovation's AgTechXChange at agtech.partneringforinnovation.org where members can share their own experiences in entering the smallholder market.
- Disseminate findings via websites, stakeholder meetings, and social media. (More information on sharing impact information and lessons learned is available through USAID's Global.⁶⁵

⁶⁴ List of evaluation requirements adapted from USAID's "Evaluation: Learning from Experience" *USAID Evaluation Policy* (January 2011): 8-9.

⁶⁵ "Tools for Alliance Builders." Global Development Alliance (GDA), USAID. Available at the GDA's Tools & Resource site: <http://www.usaid.gov/gda/gda-tools-resources>.



APPENDIX II

USAID Implementing Mechanisms⁶⁶

ALLIANCE MECHANISM	PROCESS	PROS	CONS
Existing USAID Program (“Embed”)	<ul style="list-style-type: none"> Private sector contributes funding or in-kind resources for an existing USAID program 	<ul style="list-style-type: none"> USAID has already approved funding, so process is fast Existing project infrastructure Likely to see quicker results 	<ul style="list-style-type: none"> Project activities may be largely predetermined, potentially limiting the strategic linkage to company objectives
Gift Authority	<ul style="list-style-type: none"> Private sector donates money to USAID, earmarking it for a specified purpose, country, and issue area. USAID directs spend down as specified by the donor 	<ul style="list-style-type: none"> Easy financial approval process. You can specify where you want money to go (if you are the donor for an issue or geographic area or into existing programs) Simplify internal accounting processes by treating like traditional donation 	<ul style="list-style-type: none"> Relinquish programmatic and administrative control. Legal requirements and reviews can be time consuming Could limit opportunity to participate in project activities No options to change use of funds over time
Application via Annual Program Statement (APS)	<ul style="list-style-type: none"> Implementer or private sector donor submits application for funding to USAID mission Usually follows a parallel funding structure. USAID and company both fund the implementer 	<ul style="list-style-type: none"> Satisfied required competitive bid process Flexible level of involvement by company Opportunity for high level of engagement in program design, objectives, and activities Limited logistical burden 	<ul style="list-style-type: none"> Potential that control over objectives and activities will be limited Implementing partner cannot make profit on proposed activities Less technical direction and control over implementers once grant is awarded
Joint Solicitation (RFA or RFP)	<ul style="list-style-type: none"> USAID and company create a joint solicitation for applications based on shared objectives Full participation of company in applicant review process Parallel funding structure as above 	<ul style="list-style-type: none"> Opportunity to choose implementer from a group of applicants based on their capacity and project idea High level of input and engagement in the design and direction of the project 	<ul style="list-style-type: none"> Lengthy, potentially complex, and highly regulated process High logistical burden Significant advance planning required
Collaboration Agreement	<ul style="list-style-type: none"> USAID funds company to do development work; for example, Starbucks implements a program to help farmers in Rwanda make higher quality coffee 	<ul style="list-style-type: none"> Private sector retains program and administrative control Fewer regulatory requirements than a traditional award Joint planning and strategic design 	<ul style="list-style-type: none"> Extremely long process. High logistical burden. Not a commonly used mechanism at USAID Legal requirements and reviews can be time consuming to process

⁶⁶ USAID Implementing Mechanisms: An Additional Help for ADS Chapters 200-203, USAID, September 1, 2008.

Global Development Alliance (GDA)	<ul style="list-style-type: none"> Public and private partners combine resources in pursuit of mutually agreed objectives. Best used when private entity has funding available for corporate social responsibility activities 	<ul style="list-style-type: none"> Encourages NGO innovation. Leverages private and local resources Increases number of stakeholders supportive of foreign aid 	<ul style="list-style-type: none"> Contracting officer learning curves Time consuming to make matches Does not necessarily result in host government ownership of outcome
Development Credit Authority (DCA)	<ul style="list-style-type: none"> Loan guarantees for private financing of micro-enterprise, infrastructure, etc. May be tied to technical assistance to build capacity 	<ul style="list-style-type: none"> Leverages investment capital from private sources Addresses market imperfections. Private risk-sharing partners undertake credit analysis and loan oversight Taps private commercial lenders and financial markets to meet the needs of creditworthy but underserved borrowers 	<ul style="list-style-type: none"> Time to arrange credit deals
Feed the Future Partnering for Innovation	<ul style="list-style-type: none"> Competitive BFS partnership program (2012-2017) that identifies and promotes innovative agricultural technologies for investment and distribution across the developing world and works with Missions to accelerate engagement with the private sector 	<ul style="list-style-type: none"> Encourages engagement with the smallholder market segment Results-oriented partnership Missions buy-in to central program 	<ul style="list-style-type: none"> Indirect relationships with private sector as partnerships are managed through an implementing partner
Memorandum of Understanding (MOUs)	<ul style="list-style-type: none"> Agreement between USAID and a private sector partner to pursue collective goals, generally without the exchange of financing 	<ul style="list-style-type: none"> Administratively simple, easy to administer Flexible 	<ul style="list-style-type: none"> Can be difficult to manage and control when priorities or key personnel change Not performance based
Partnering to Accelerate Entrepreneurship (PACE)	<ul style="list-style-type: none"> USAID has launched PACE with the goal of spurring innovations that accelerate the creation of promising, high growth, and sustainable entrepreneurial ventures across the developing world 	<ul style="list-style-type: none"> For more information about PACE, please refer to http://www.usaid.gov/news-information/fact-sheets/pace-initiative 	
Grand Challenges	<ul style="list-style-type: none"> Under the Grand Challenges for Development initiative, USAID will focus on defining problems, identifying constraints, and providing evidence based analysis. Addressing these challenges will require the creation and support of self-perpetuating systems, rather than one-off inventions or interventions 	<ul style="list-style-type: none"> For more information about the Grand Challenges, please refer to http://www.usaid.gov/grandchallenges 	
Development Innovation Ventures (DIV)	<ul style="list-style-type: none"> USAID provides tiered funding for innovative ideas that it pilots and tests using cutting-edge analytical methods, and scales solutions that demonstrate widespread impact and cost-effectiveness 	<ul style="list-style-type: none"> DIV's tiered-funding model, inspired by the venture capital experience, invests comparatively small amounts in relatively unproven concepts, and continues to support only those that prove they work 	<ul style="list-style-type: none"> For more information about DIV, please refer to http://www.usaid.gov/div/about



APPENDIX III

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Feed the Future Partnering for Innovation is a USAID program that helps the private sector to enter new markets and commercialize agricultural technologies for smallholder farmers through competitive grants and knowledge exchange.

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