



BRIEF 35. Public-Private Partnerships: Key Areas for Intervention

We present key areas for intervention using Private Public Partnerships (PPP's) for pro-poor business development. Interventions focus where we think public donors can stimulate the provision of commercial services to improve small farmers' access to markets. These interventions are not for public donors alone. Progress will require partnerships with private social investors as well. Such partnerships could support commercialization up to the point where commercial investors can come in. Four key areas for intervention are:

1. Short-term trade credit to facilitate small farmer payment is made available.
2. Rural entrepreneur networks expanded to reach commercially viable.
3. User-led programming developed for SMS-Internet applications that will benefit rural.
4. Pre-commercial R&D to be conducted on new ventures for rural entrepreneur.

We, however, warn that PPP interventions can be sabotaged. Unfortunately, experience suggests there is the danger that the same services are again invented by other donor projects. These projects provide these services under subsidies or even for free. This behaviour sabotages the commercial viability of the very ventures that are being developed by PPP's.

Short-term credit to facilitate trade

By far the most produce makes its initial move from farm to market with money from the pockets of local itinerant traders. Sometimes traders will get cash advances from "agents" of large buyers. This behaviour severely limits the amount of cash available to buy produce from farmers. Limited access to cash results in wastage and inefficiencies in market chains. Itinerant traders only have enough cash to buy

one load. Once the trader has sold the first load he now has cash to buy the next load. Unfortunately when he returns for the next load the farmer has already sold to another trader. Not only is the trip wasted but also the trader must now spend more time finding produce to buy. A trader may have to make two or three trips for each full load. Big buyers also suffer from inefficiencies. The cash advances they provide to their agents end up in the hands of many smaller traders. These traders will side-sell for a better deal instead of buying for the agent. Some will simply run away with the money. Some will buy cheaper poor quality produce and hope to get away with it. All this results in huge inefficiencies. Worse still it spreads distrust through the market chain from farmer to big buyer. Even an honest trader trying his utmost to fulfil his commitments cannot find a bank to get trade credits at acceptable rates. One commercial bank offered short-term credit at 45% per annum. A further problem with banks is their requirement for collateral that small businesses cannot meet. Money on the black market that does not require collateral is up to 2% per day. Such high interest rates eat into the trader's profits and reduce farmers' prices. With these constraints in mind RAVI set up a short-term credit facility for network members only. The credit is used exclusively for facilitating deals that are registered as Transaction Security Services deals. The credit allows farmers to be paid when they hand over their produce 'cash-on-the-bag'. The buyer pays off the credit when the produce arrives at their premises. A public engagement in priming the pump for such funds and related monitoring can interact with private efforts at more efficient trading.

Expanding capacity of rural entrepreneur networks

Thirteen rural entrepreneur networks now operate commercially in Kenya (6), Uganda (5) and Tanzania (2). Each network member is licensed to provide market access services by national service providers: AgriTrade in Kenya, AgriNet in Uganda and RAVI¹. Some are

¹ AgriTrade www.agri-trade.biz in Kenya and AgriNet www.agrinetug.net in Uganda. Rural African Ventures Investments (RAVI) www.ravinest.biz

registered as private companies and the others are following their lead. These networks are proving to be very attractive to potential clients. Small farmers, traders and buyers like the human presence the network has at both ends of the market chain. At the seller end, members organize the collection and quality checking of produce. At the buying end they organize the delivery of product. Also in demand is the handling of payments of farmers. While individual network members make a profit, their monthly turn over cannot yet cover the costs of their national service provider. The corporate overhead for training and growing the network is too large for the emerging network businesses to carry. Two things must happen for the network to be commercially successful: Firstly, the number of deals done by the network members must increase. Secondly, the number of network members must increase. Many more rural entrepreneurs need to join the networks in Kenya, Uganda and Tanzania. New networks need to be started in other countries in East Africa. Trade links with Rwanda and Sudan are already developing. These new entrants need to learn the business from experienced network 'champions'. The way to scale up network numbers is through peer-to-peer learning. Exchanges between new and old network members supported with local mentors and cross business visits. A public engagement in providing the resources for capacitation can interact with plans of the private network to expand its reach.

Open source SMS/Internet applications

A new approach to programming SMS-Internet application for mobile phones emerged from our difficulties with using 'off-the-shelf' software. Ready made applications tend to be over designed. The many functions available are not all used and confuse rural users. Pioneered by software companies Ideso in Switzerland and MobilInfo in Tanzania, 'user-led programming' keeps applications as simple as possible. No functions beyond what is required are added. Programming only starts after a manual version has been tried. At first all the programmers do is automate the manual version. Then they change the software according to feedback from users under real conditions. They only program what has been actively requested from the users. Applications

developed in this way result in much less confusion and immediate usefulness. User-led programming would further enhance existing market intelligence application. A new application needs to be developed for produce and payment tracking. A new application for an SMS interface with online learning platforms is needed. This application would greatly benefit those rural areas with the least access to the Internet. Such applications will not emerge commercially. Software companies focus on faster and easier urban markets. Furthermore there is a strong public interest in making sure such applications remain in the public domain so, they are programmed using open source software. A public engagement in providing for open source user-led programming can interact with rural business ventures that thereby become viable.

Pre-commercial research and development

A rural entrepreneur network provides a backbone on which many new ventures can be built. Market access is proving to be one such new venture. However, manufacturers also see these networks as vehicles to distribute their products to rural customers. This is particularly the case for makers of solar equipment, irrigation equipment and farm machinery. Successful leasing of ICT equipment also depends on such networks. Many new ventures become possible where a tightly knit network of entrepreneurs communicating effectively with each other reaches deep into rural areas. The very dynamic area of mobile money also offers new business opportunities for such rural entrepreneur networks. Many of these new opportunities would greatly benefit rural development. However, before any benefits are realised a lot of operational R&D is required. What is shown to be technically possible still needs R&D to achieve operational and commercial proof of concept in rural areas. Investment in 'pre-commercial' R&D is needed to realise these many opportunities for rural entrepreneur networks and their rural clients. A public venture in financing the R&D can interact with private investments in the emerging business opportunities.

For more information contact:
clive.lightfoot@linkinglearners.net
uscheuermeier@yahoo.com