

***Developing Guidelines for  
Public Private Partnerships in Agriculture  
in the Lao PDR***



**Report for the  
Sub Sector Working Group on Farmers and Agribusiness (SWGAB)**

***Produced by:  
GIZ / Land Management and Rural Economy Development (LM-RED program)***

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## **Executive Summary**

GIZ's Land Management and Rural Economic Development Program (LM-RED) is developing promotion concepts for selected agricultural products in target provinces with Public Private Partnerships (PPP) being seen as an efficient tool for such. This study was commissioned to a) review experiences of PPP's in agriculture sector in Laos and b) develop a definition and draft guidelines for designing PPP's.

The study undertook semi-structured interviews with representatives from development partners, the Ministry of Agriculture and Forestry (MAF), ODA financed projects working with MAF, Provincial Departments of Agriculture and Forestry and private sector representatives. A series of provincial visits were undertaken to consult with Provincial Agriculture and Forestry Offices (PAFO's) and meet with companies engaged in PPP's in the sector. It proved to be reasonably difficult to identify examples of PPP's that fitted well with internationally accepted definitions of PPP's and it appears that this stems in part at least from a lack of clarity amongst MAF and PAFO staff on the subject. A number of these stakeholders requested clearer guidance from MAF on the subject of PPP's. In particular clarity over what constitutes a PPP as compared to a 'normal' relationship between government and the private sector is required.

This report looks at international definitions of PPP's and identifies core elements within such definitions that need to be considered in developing an appropriate national definition. These include a) the fact that the term PPP is an umbrella term covering a range of models, b) that partnerships are formed to achieve clear, publically set, goals associated with the public good and c) that partnerships enable the private sector to supply goods or services that hitherto had been supplied by the state. Based on study findings through examination of a number of case studies additional elements that could be considered in a Lao definition for PPP's in agriculture included) that PPP's can be used to develop the capacity of the domestic private sector – i.e. also have enterprise development goals, e) specific to the agriculture sector PPP's can be used to develop, or establish new, value chains, f) there are instruments available to local government and MAF that can reduce the risks faced by the private sector in entering into a PPP arrangement and g) that PPP's are discrete from 'normal' business, and the normal incentives provided by the state to business. In addition to these definitional aspects GIZ has its own set of principles that need to be considered in supporting a PPP.

Laos currently lacks a regulatory framework specifically designed to enable Public Private Partnerships. However a range of other existing policies, laws and regulations designed to promote the development of commercial agriculture and agribusiness are in place that can facilitate the development of PPP's in agriculture. With ADB financed technical assistance the Ministry of Planning and Investment plan are developing a PPP regulatory framework that is expected to generate a Prime Ministers Decree in late 2014, following which two pilot PPP's in the field of education and health are anticipated.

The study team explored a number of arrangements established between the government (including aid financed projects) and private sector with a view to identifying case study PPP's from which experiences could be drawn. This report documents four of these arrangements (PPP's) namely, the EMRIP project associated with rice, the SNRMPEP project associated with Cardamom in Paksong and Pig breeding in Sekong and the operations of the Taniyama Siam company also in Paksong.

EMRIP has demonstrated a successful approach to the upgrading of the rice value chain as a whole through working with millers rather than farmers. This approach has seen the significant development of the millers 'business model' and there is thus a strong enterprise

development theme within this case. EMRIP has successfully increased farmer yields and rice quality through working with millers to establish contract farming type arrangements with groups of rice farmers. Millers have provided inputs and extension advice to farmers. The experience is widely viewed as having been successful and is held up as a model for wider replication. Key factors in the success of EMRIP were a) an open, public, criteria based and competitive selection process was used to identify the best private sector collaborators, b) the activity built upon a detailed understanding of the value chain and opportunities and constraints and c) it built on a long history of engagement with millers. While the project initially provided capital grants to millers to improve their milling facilities subsequent expansion to include other millers has not relied on the provision of these.

The SNRMPEP project sought to introduce true green cardamom (*Elettaria cardamomum*) production in a number of southern provinces with an initial focus on Paksong district. This has entailed developing the framework for the creation of a value chain for this new crop. A company was established specifically to provide planting material to the project for distribution to farmer groups. An agreement between the project and the company was signed outlining volumes and prices of planting material to be supplied and on this basis the company invested in sourcing planting material from India and establishing sites for multiplication. The company intends to also export cardamom and has a small land concession on which its own cultivation can take place. All risk associated with the multiplication of planting material and establishing the value chain for production is borne by the company but mitigated through the agreement with the project.

In Sekong the same project sought to source piglets for fattening for farmer groups and to enable a sustainable supply supported a local entrepreneur to establish a piglet production facility. As with Cardamom an agreement was signed guaranteeing a market and outlining pricing. In addition the project provided the enterprise with a loan to contribute to startup costs with repayment being structured through a discount price on piglets sold to the project. In this manner risk was shared between the project and enterprise. The opportunity to partner with the project was locally advertised and a selection process used. The enterprise enjoys strong Provincial government support which has facilitated a) access to substantial additional loan finance, b) access to critical veterinary services from the PAFO, and c) a reported monopoly on pork sales for the provincial market. As such the enterprise is both supplying inputs to farmer groups (piglets) as well as buying outputs for slaughter and sale.

Taniyama Siam operations in Paksong with Okra export was reported as an example of PPP's in agriculture for Laos. However the study found that in fact the operations of the firm, as they have transpired, are simply normal business operations. In Thailand Taniyama Siam work with over 1000 farmers producing high value, low chemical input, vegetables for the Japanese market and it was initially intended that a similar outgrower scheme would be undertaken in Laos. This has not occurred and the firm has solely concentrated on production within its land concession area. In part this has been a result of the company struggling to identify a profitable crop which has now occurred with their up scaling of Asparagus production. In the longer term the company may operate an outgrower program but at this stage their focus is on moving into profit and recouping their substantial investment made to date. Aside from the concession there is no separate agreement with the government regarding outgrower operations and company management do not consider that they are operating a PPP.

Reviewing the case studies and other partnerships studied a number of 'good practices' for undertaking PPP's were able to be identified; a) open and stringent private sector partner selection, b) early Private Sector engagement, c) careful selection of instruments to reduce private sector risks, d) public sector playing a role in mediation between the private sector and producer groups and e) appropriate allocation of risk between the public and private sectors with longer term risk being private sector borne.

An initial broad set of guidelines has been drafted for further development. These guidelines lay out elements of a definition for PPP's in agriculture, principles that could guide the development of such partnerships and an outline process for their development. This process covers the basic steps of objective formulation, feasibility assessment, detailed design, contracting and monitoring. It needs to be stressed that while these guidelines were developed for the LM-RED program the implementation of PPP's does not necessarily require project financing and that there sufficient 'tools' available to the public sector to establish such partnerships outside a project context.

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**Abbreviations:**

<b>ADB:</b>	Asian Development Bank
<b>ADS:</b>	Agriculture Development Strategy
<b>DAEC:</b>	Department of Agriculture Extension and Cooperatives.
<b>DAFO:</b>	District Agriculture and Forestry Office
<b>DoA:</b>	Department of Agriculture
<b>DoIC:</b>	Department of Industry and Commerce
<b>EMRIP:</b>	Enhancing Milled Rice Production in Lao PDR
<b>GIZ:</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>GoL:</b>	Government of the Lao PDR
<b>IFAD:</b>	International Fund for Agricultural Development
<b>LM-RED:</b>	Land Management and Rural Economic Development Program
<b>MAF:</b>	Ministry of Agriculture and Forestry
<b>MoIC:</b>	Ministry of Industry and Commerce
<b>MPI:</b>	Ministry of Planning and Investment
<b>ODA:</b>	Official Development Assistance
<b>PAFO:</b>	Provincial Agriculture and Forestry Office
<b>PPP:</b>	Public Private Partnership
<b>SDC:</b>	Swiss Development Cooperation
<b>SHDP:</b>	Smallholder Development Project
<b>SNRMPEP:</b>	Sustainable Natural Resource Management and Productivity Enhancement Project
<b>SNV:</b>	Netherlands Development Organization
<b>SSWG:</b>	Sub-Sector Working Group

## **1. Introduction**

The Land Management and Rural Economic Development Program (LM-RED) is developing promotion concepts for selected agricultural products in three target provinces (Luang Namtha, Sayaboury, and Attapeu). Public Private Partnerships (PPP) are seen by the program as an efficient tool to achieve the goals that are set in these promotion concepts as they provide leverage to existing resources by teaming up with the private sector. A major obstacle in setting up such partnerships is the lack of a comprehensive description or guidelines that provide the framework for designing these interventions.

This study was commissioned in order to develop a) guidelines for designing public private partnerships in agriculture and b) a definition of Public Private Partnerships (Presented in Annex 1). As such the definition and guidelines are designed to be used to support the LM-RED program of GIZ. A copy of the full terms of reference is given in Annex 2.

The study undertook semi-structured interviews with representatives from development partners, the Ministry of Agriculture and Forestry (MAF), ODA financed projects working with MAF, Provincial Departments of Agriculture and Forestry and private sector representatives. Activities described as PPP's in agriculture were identified through these meetings and short field visits undertaken to these activities. Again semi-structured interviews were held to understand the nature of the PPP in each case, the roles of different players within the partnership and instruments used by the public sector in supporting the partnership. Key features of PPP's derived from an examination of secondary data on PPP's internationally were explored.

Field visits were undertaken with a representative from the Department of Agriculture joining the team and participating in interviews. Given the short duration of the assignment triangulation of findings from interviews was not largely possible and as such statements made during interviews were taken at face value.

There are a number of limitations to the report;

- Time available for interviews was typically an hour; information provided during these interviews had to be taken at face value with limited triangulation of information possible. In some cases contradictory information was provided by different stakeholders.
- Lack of clarity amongst many interviewed over what distinguishes a PPP from 'normal' business activity where government incentives are provided,, e.g. concessions, tax breaks etc.
- Only a small number of PPP's were identified for investigation and those that were identified have a 'project' bias. Other PPP's that were provisionally identified were unable to meet.
- In some cases examples of activities that have been described elsewhere as PPP's do not appear at present to exhibit such characteristics.
- Despite Public Private Partnerships being referred to within key policy documents of MAF a number of interviewees reported the need for clarity on exactly what constitutes a PPP.

This report starts by exploring different definitions of PPP's used internationally and from this draws out key features that appear to have applicability to the Lao context and the agricultural sector. This selective process draws upon the PPP cases seen in the field and associated discussions. A proposed definition for use by GIZ in Lao PPP's in Agriculture is presented in Annex 3 as part of the PPP guidelines.

The report then provides an overview of the regulatory framework for PPP's in agriculture and work underway to further develop this framework. The cases visited during the study are

then described and key PPP features of each drawn out and explained. Some analysis of the different cases against key features of PPP is then undertaken and good practices from these case studies drawn out.

Draft guidelines (Annex 1) for PPP's in agriculture have been developed based upon stakeholder consultations and the examples of PPP's visited. These guidelines comprise a working definition, key principals and an outline process for the development of PPP's.

## **2. Defining Public-Private Partnerships**

The terms of reference required that the study develop a comprehensive definition of PPP's in agriculture in Laos. The need for such a definition was re-enforced during stakeholder meetings with a number of those met requesting definitional clarity. In particular clarity over what constitutes a PPP as compared to a 'normal' relationship between government and the private sector is required.

A standard international definition<sup>1</sup> of what may be described as a 'conventional' PPP may be as follows:

*A PPP is a cooperative venture between the public (and thereby also donor agencies) and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards. Public-private partnerships span a spectrum of models that progressively engage the expertise or capital of the private sector. At one end, there is straight contracting out as an alternative to traditionally delivered public services. At the other end, there are arrangements that are publicly administered but within a framework that allows for private finance, design, building, operation and possibly temporary ownership of an asset.*

This spectrum is summarized below:

**Table 1: Forms of PPP and responsibilities**

<b>Contract Type</b>	<b>Asset Ownership</b>	<b>Operation &amp; Management</b>	<b>Capital Investment</b>	<b>Commercial Risk</b>
<b>Service contract</b>	Public	Public / Private	Public	Public
<b>Management contract</b>	Public	Private	Public	Public
<b>Lease agreement</b>	Public	Private	Public	Public
<b>Concession</b>	Public & Private	Private	Private	Private
<b>Build Operate Transfer</b>	Public & Private	Private	Private	Private
<b>Divestiture</b>	Public & Public & Private	Private	Private	Private

The extent to which risk within a PPP is shared or borne by the private sector is a key factor which definitions varying in this regard. In general however different forms of PPP (as per table 1 above) see risk managed in different ways.

This reasonably clear definition is somewhat complicated by other commentators that report:

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<sup>1</sup> For other example definitions please see Annex 2.

*The term PPP is used to describe a wide variety of working arrangements from loose, informal and strategic partnerships to design build finance and operate (DBFO) type service contracts and formal joint venture companies.*

Source: 4Ps, UK local government procurement agency

This then introduces what may be described as 'strategic PPP's' that varies significantly from the more 'conventional' type described earlier. It is worth noting that the work currently being undertaken by the Ministry of Planning and Investment (MPI) described in section 3 below, appears based upon a conventional definition where the private sector will be supplying services that have to date been provided by the public sector.

Key definitional features of conventional PPP's are therefore as follows:

Firstly; PPP is an umbrella term describing a wide variety of working arrangements between the state and private sector from loose, informal and strategic partnerships to design build finance and operate (DBFO) type service contracts and formal joint venture companies. In conventional PPP's some form of formal contract between the public and private sectors for undertaking the partnership is utilised.

Secondly; partnerships formed are designed to achieve a specific goal or project purpose that are of public benefit, within the Lao agricultural context these could relate to increased quality or yields of certain crops or other defined agricultural development objectives. The key point here is that a clearly defined goal is established and in some cases, closely monitored on a performance basis.

Thirdly; many definitions of PPP stress that the mechanism is used to enable private sector supply of services or public goods that would hitherto have been supplied by the state. The nature of the PPP's is thus context dependent varying according to the extent to which the state has provided certain services. Within the Lao agriculture context services provided by the state include extension, input supplies (improved seed, fish fingerlings etc), agricultural credits,

Within the agriculture sector PPP's are a relatively new concept and are the subject of considerable interest because<sup>2</sup>:

- Growing state budgetary constraints
- Developing competitive agriculture is costly
- Rural Areas, low population densities, remote locations and weather dependent production systems makes agriculture high risk.
- PPP modality provides option to modernize agriculture and revitalize rural economies

Within the Lao Agriculture Development Strategy (ADS) 2011-2020 (sector framework, vision and goals) PPP's are defined as follows:

*"Whenever private companies share the public interest in economic development, public agencies may realize certain development activities jointly with a company. PPP denotes a joint project of government and private enterprise to realize certain upgrading activities, An important criteria for a public agency engaging in a PPP is that an adequate proportion of the benefits accrue to other value chain actors or to*

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<sup>2</sup> Mahmood Ahmad, *Enhancing Public and Private Partnership in Agricultural development, Expert group meeting on food security in member countries in a post-crisis world, No date.*

*the general public or in other terms that no undue windfall profits are realized by the private sector company” (ADS, pp VI).*

Within the ADS it is envisaged that PPP’s will progressively become providers of services to farmers and farmer groups, for example the ADS envisages that irrigation infrastructure construction or rehabilitation could be financed by the private sector.

The ADS also envisages that commodity associations will be established as PPP’s to facilitate the strategic development of the respective value chains. A recurring theme within the ADS is that the Ministry progressively moves from a direct implementation role of services to farmers to a supervisory one.

The ADS thus envisages both a) conventional PPP’s associated with provision of services and b) strategic PPP’s associated with the development of value chains as a whole. The ADS is thus clearly in line with work being undertaken by MPI on PPP’s.

## **2.1 PPP’s in Agriculture – International experience**

A FAO study on PPP’s in Indonesian agriculture<sup>3</sup> looked at a number of case studies exploring the instruments used by the Indonesian government, the nature of agreements between the government and private sector actors and the results of these partnerships. A number of lessons learned were drawn from these examples for PPP’s in agriculture more generally. Key findings were as follows:

- Programs received direct or indirect funding from the government through state owned banks, enterprises or government departments.
- Roles and functions of all parties were clearly defined within written agreements signed by all parties.
- Government support has included the development of policies explicitly designed to assist these programmes.
- Government has monitored and supervised partnership approaches and promoted institutional development through extension agencies.
- The main role of the companies has been to guarantee a market and facilitating access to capital.

Strategic PPP’s associated with commodity sectors have been developed in Vietnam:

*Twelve global companies have joined with the Government of Vietnam to launch a public-private task force to advance sustainable agricultural growth in the country. Developed through discussions of the Forum’s New Vision for Agriculture Initiative, the task force will take an innovative approach to improve food security and agricultural sustainability nationwide. As the first of its kind in Vietnam, the task force will work to coordinate and leverage public and private sector investments in agriculture to increase high-quality production while benefiting farmers. The task force will operate both on a strategic level, exchanging best practice and addressing policy issues and on an operational level, working to scale effective initiatives by combining public and private sector capacities.* International Support Group, MARD, 17/4/2012

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<sup>3</sup> FAO. 2013. *Agribusiness public-private partnerships – A country report of Indonesia*.

## **2.2 GIZ Definitions**

When considering PPP's in technical cooperation projects GIZ require the consideration of a number of key principals that aid in defining a PPP<sup>4</sup>. These principals are as follows:

**Complementarity:** The public and private contributions must complement each other such that both partners achieve their objectives at a lower cost, more effectively and more quickly as a result of their cooperation.

**Subsidiarity:** The partnership should enable activities to be undertaken that would not normally be undertaken by the private sector without the support of the public sector and that the measure is not required by law. This is important, it indicates that PPP's should facilitate the private sector to engage in activities beyond their normal business practise.

**Fair competition:** The possibility of PPP cooperation and the individual PPP measures must be made public and brought to the attention of as many firms as possible. The process of selecting the private partners must be transparent, and the decisions must be objectively clear.

**Contribution of the private sector:** The firm must make a substantial financial, human-resource and/or in-kind contribution to the PPP measure. The resources that the private sector brings to a development partnership may take many different forms. The important factor is that the impacts generated by the contributions go beyond the original business interests of the firm and serve general interests; public goods. As such costs that are part of an original investment cannot be considered as part of a PPP measure.

Of these principals that of subsidiarity is particularly important as it highlights the difference between the activities undertaken as part of a PPP and that of 'normal' business that may have access to a range of government provided resources or incentives.

## **2.3 Conclusions**

It is useful to distinguish between two types of PPP, described above as 'conventional' and 'strategic'. This study examines 'conventional' PPP's.

There is one school of thought that land concessions in themselves constitute agricultural PPP's in Laos. This is disputed because while a concession could represent one of the instruments applied by the government to facilitate a PPP, it appears that concessions are typically provided as part of the normal process for stimulating agricultural development in the country and as such do not conform to the GIZ principal of subsidiarity. Senior leadership within MAF does not believe that a concession equals a PPP<sup>5</sup>.

From the review above and cases examined through this study four key features have emerged that could be included in any Lao definition of PPP's, these are:

Firstly, that PPP's can be designed to assist the development of the domestic private sector in agriculture through a variety of mechanisms with the objective of creating a strong national agribusiness sector. There was thus a strong 'enterprise development' theme to a number of the cases studied.

Secondly, that PPP's can seek to explicitly develop the value chain for particular crops through the restructuring of business models to generate greater efficiencies or even the

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<sup>4</sup> GIZ, *Guidelines for Development Partnerships with the Private Sector (Public-Private Partnerships – PPPs) within the Framework of TC Projects*. 31 March 2004

<sup>5</sup> *Discussion with the MAF Vice-Minister Dr Phouang Parisak, 7/1/14*

development of entirely new commodity value chains. All PPP's examined under this study – and indeed those studied by FAO in Indonesia or reported in Vietnam – had value chain upgrading as clear objectives. This sits well with the LM-RED programme strategy.

Thirdly, that instruments applied by the public sector within partnerships can be used to reduce risks faced by the private sector in implementing new business models to develop value chains. Such instruments may be temporary in nature but serve as a catalyst for new ways of working.

Finally, that PPP's are discrete from 'normal' business, and the normal incentives provided by the state to business. PPP's entail some form of contractual relationship between the public and private sectors to enable the achievement of project goals that are in the wider public interest.

It needs to be noted that not all of the examples studied meet all these criteria.

### **3. Regulatory Framework**

According to the Ministry of Planning and Investment (MPI) there is currently no regulatory framework specifically designed to enable Public Private Partnerships. However a range of other existing policies, laws and regulations designed to promote the development of commercial agriculture and agribusiness are in place that can facilitate the development of PPP's in agriculture.

Following the Law on the Promotion of Foreign Investment (2005), policies to encourage FDI in Laos are focused on "Promoted Activities" and "Promoted Areas", (Lao PDR National Assembly, 2004). Agricultural activities and production for export are provided as promoted activities that may be eligible for incentives. Promoted zones tend to be mountainous areas and are zoned based on the level of infrastructure in the area (Lao PDR National Assembly, 2004).

Based on the promoted activities and areas, projects may be eligible for incentives such as:

- Tax exemption for a certain number of years followed by a reduced rate of tax
- Exemption from minimum tax requirements
- Exemption from tax of profit used for expansion
- Exemption of import duties and taxes on equipment, spare parts, vehicles used directly for production and raw materials
- Exemption of export duty on exported products.

Investment activities that both domestic and/or foreign investors can invest in are categorized into three types:

General business	Investment in general business sector, not based on a government concession. Agricultural investments such as most contract farming arrangements fall under this category.
Concession business	Investment activities authorized by the Government to utilize ownership and other rights of the government in conformity with regulations, for the purpose of developing and conducting business operation.
Special/specific economic zones	Investments for the purpose of construction of complete infrastructure and new city development.

Land concessions through controversial and currently under a moratorium provide one instrument through which assistance can be provided to the private sector in support of a PPP. In one of the cases described below the provision of a small land concession does appear to have been an important element of the partnership in reducing the private sectors longer term risk.

Contract farming models promoted by the government (3+2 and 4+1) provide a policy framework for agribusiness that can be applied to agricultural PPP's in Laos with the EMRIP model described below as broadly conforming to the 3+2 type.

The Prime Ministers Decree on Associations<sup>6</sup> provides one framework through which strategic PPP's on a commodity wide sectoral basis could be structured. The Lao National Chamber of Commerce and Industry (LNCCI) and their Provincial branches also provide a formal structure for engagement between the private and public sectors.

The Agriculture Development Strategy (ADS) of MAF and associated documents provide an overarching policy framework for the development of PPP's in Agriculture as described above.

The national inter-sectoral committee for harmonizing food security and commodity production, chaired by the deputy prime minister, meets on a monthly basis and facilitates cross-sectoral work to develop the agricultural sector. This committee therefore plays a key role in establishing the conditions and policy frameworks through which PPP's can be developed and assisted. Similar committees have been established at Provincial levels and may provide a mechanism for PPP design and development.

### **3.1 Future policy development**

With ADB financed technical assistance MPI plan to develop a regulatory framework specifically designed to facilitate PPP's in Laos. This will commence with the development of a Prime Ministers Decree. This decree is expected to be completed by the end of 2014. MPI plan to undertake two pilot PPP's in the field of education and health. At this stage discussions are ongoing regarding the planned PM Decree which may be limited to these two sectors or may be sufficiently broad to cover all PPP's in Laos irrespective of the sector. It appears most likely that the former route will be adopted due to time constraints. In the longer term MPI anticipate other regulatory actions designed to facilitate PPP's in Laos.

## **4. PPP Case studies**

A number of example PPP's in agriculture were identified through initial meetings with MAF, MoIC, development partner and project representatives. Meetings were held during field visits with a number of these examples PPP's.

Two of the case studies relate to sub-projects under the IFAD/ADB financed SNRMPEP project. SRNMPEP sub-projects visited are clearly designed to promote commercial scale agriculture through a model that the project describes as Public- Private- Community Partnership (PPCP). A number of other example PPP's that were met through the study (e.g. EMRIP) also involved the public sector helping to facilitate the nature of relationships between the private sector and farmer producer groups. This intermediation function within

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<sup>6</sup> Decree No 115/PM on the formation of Not-for-Profit Associations (NPAs), 2009.

PPP's is not unique to Laos and is also described by FAO in their study of agribusiness PPP's in Indonesia<sup>7</sup>.

#### **4.1 Case Study: Rice milling in Khammoune**

The successful EMRIP project built upon a history of engagement between rice millers and PAFO/SNV in Khammoune which included exploring new markets and ways to increase rice quality and productivity. As a result of PAFO support and the EMRIP project, District level rice miller associations have now formed. Key features of miller operations that have been stimulated by the project and associated activities are as follows:

- Millers have established production agreements with producer groups and provide inputs (fertilizer, seed) and extension advice to these producers. On average each miller is working with approximately 1000 farmers.
- Millers have promoted the cultivation of a single variety of rice enabling increased mill recovery rates and the production of a higher and standard quality of produce.
- Millers have upgraded the capacity and quality of their milling facilities with grant assistance from the project and in over half the cases with additional own significant investment. These improvements have enabled greater volumes of rice to be milled and high recovery rates to be achieved.
- Millers have established rice seed producer groups that are supplying them with high quality rice seed for on-distribution to producer groups.

Mills have also been able to access bank finance at 14% p.a. with assistance from PAFO/EMRIP.

The EMRIP Project and associated initiatives working with rice millers in Khammoune and other provinces has been viewed by many as a model Public Private Partnership. Key factors in the success of this partnership appear<sup>8</sup> to be the following:

- a) A history of close engagement with rice millers preceding the project that enabled PAFO and SNV to understand clearly the key constraints and opportunities faced by millers.
- b) A careful and open selection process to determine which mills could participate in the project. This process is seen by the final evaluation as being a "critical strategy that has underscored success". The selection process established criteria against which applicant mills would be rated and then publically advertised the opportunity to participate in the project. This process resulted in some 78 mills applying with 21 being initially selected by an open committee. A key criteria was that selected millers took a longer term and value chain based perspective of business opportunities rather than simply a short-term profit perspective.
- c) Farmers working with millers achieved 30-50% increases in crop yields increasing rice volumes for millers. This productivity gain was achieved through:
  - Production agreements being established between millers and producer groups enabling millers to supply inputs to farmers at reduced risk and enabling farmers

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<sup>7</sup> FAO. 2013. *Agribusiness public-private partnerships – A country report of Indonesia. Country case studies – Asia. Rome*

<sup>8</sup> Connell, J.G. 2011 *Enhancing Milled Rice Production in Lao PDR. FINAL PROJECT EVALUATION*

to have a guaranteed market for their produce at current market prices. Millers paid a small premium above market rates for rice produced of a single variety.

- Millers provided farmer access to sufficient quantities of HYV of seed at reasonable prices. Mills have enabled this through their commissioning of seed production by selected farmer groups.
  - The provision of a multilayer training approach by the project and millers with farmers. Millers have increasingly focused on the provision of such extension support to farmer groups as a means to ensuring maximum yields are obtained. In some cases mills are hiring their own extension staff<sup>9</sup>.
- a) Farmers groups have been a pre-requisite for the efficient supply of inputs by millers and for the bulking of product for sale.
- b) For millers, working with producer groups has had a profound impact on business operations generating a higher quality of paddy and with a more assured supply. This has facilitated mills being able to focus on fewer villages, reduce transaction costs, increase supply predictability and enabled greater security in accessing loan finance.

The EMRIP Project provided grants to mills to enhance the quality and scale of milling capacity, on average each grant was approximately 40,000 Euro's. It is worth noting that of the 21 mills provided with such grants, 13 made their own additional capital investment averaging 31,000 Euro's in size. In addition, none of the 79 new millers that subsequently joined the programme received this capital grant. As such while the grant appears to have been useful in initially stimulating miller interest in collaboration with the project, subsequent replication of the model did not require additional grants.

**Key findings:**

- EMRIP has demonstrated a successful approach to the upgrading of the value chain as a whole through working with millers rather than farmers. This approach has seen the significant development of millers 'business model' and as such the private sector (millers) has been a clear beneficiary of the approach. There is thus a strong enterprise development theme within the EMRIP model.
- While initial extension advice was provided by DAFO's as millers investment in inputs with producer groups has grown they have increasingly taken on the responsibility for ensuring effective use of these inputs. As such millers are now financing and providing effective technical extension support to rice producer groups.
- Millers are contracting HYV seed production for their producer groups and are supplying such seed as well as other inputs (fertilizer, irrigation costs) to these groups.
- An open, public, criteria based and competitive selection process was used to identify the best private sector collaborators for the project. This careful process resulted in a high proportion of success amongst millers initially supported and was critical in 'proving' the validity of the approach promoted.
- Grants were provided to the private sector to enable improvements in mill facilities, these public sector grants stimulated additional private sector investment. EMRIP also provided initial single variety seeds to producer groups 'on behalf of millers' which

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<sup>9</sup> *ibid*

reduced millers initial risks in entering into contract farming type arrangements. These initial grants were likely to have been instrumental in 'proving' the approach developed.

- Aside from equipment grants provided to initially supported millers, all operational risks are being borne by the millers and producer groups. At the start of the project risks were thus shared by both the private and public sectors, as the model was more broadly adopted by other millers, without receiving equipment grants, all risk was being borne by the private sector.
- The province demonstrated willingness to engage in policy dialogue with miller associations and this has resulted in streamlining of rice trade procedures, a reduction in import taxes on equipment and inputs and fewer trading restrictions.

#### **4.2 Case Study: Green Cardamom in Paksong.**

The ADB/IFAD supported SNRMPEP project sought to introduce green cardamom (*Elettaria cardamomum*) production in a number of southern provinces with an initial focus on Paksong district. Earlier attempts to introduce the crop through the DAFO were not successful although the crop was proven to be able to be cultivated in Paksong. A Public-Private Partnership was formed to enable the re-introduction of the crop and the subsequent development of the value chain.

Spices Enterprise Co Ltd was established by three investors in 2012 with a investment capital of US\$570,000. The firm, registered as a foreign owned firm in Laos has a contract (MOU) with SNRMPEP to supply 300,000 seedlings per annum to project supported producer groups for a three year period sufficient to establish close to a total area of 1000 Ha.

Under the MoU Spices Enterprise Co Ltd will sell at \$0.9 per seedling. To provide this volume of seedlings they have imported 10,000 seedlings from India for multiplication with a further 15,000 expected to be imported. Their total import cost is reported to reach perhaps \$7 per seedling and they have experienced quite high mortality rates from the seedlings already imported. The firm has established a small multiplication centre in Paksong and has an additional 80 Ha's as a concession for this purpose and subsequent cardamom production. The firm also has plans to establish a small cardamom oil extraction facility once production has commenced. It will take 2.5 years from initial planting to first harvest by producer groups. The firm claim the minimum purchase price for Cardamom will be \$10/kg with an average yield of 1,000 kgs per Ha once production starts.

Producer groups supported by the project in eighteen villages in Paksong will receive 1,100 seedlings per family sufficient to cultivate 1 ha of Cardamom. Seedlings are provided on a loan basis with repayment to the producer group in cash required after three years. Funds repaid will capitalize a village revolving loan fund. In addition to seedling supply, the company is providing training to a DAFO officer in Cardamom cultivation and will provide practical hands-on training to producer groups.

Spices Enterprise Ltd plan to purchase cardamom from farmer groups established under the project and export. A marketing office has been established in Singapore for this purpose.

Risk within this model is shared between the firm (will they be able to recoup their investment in cardamom importation through multiplication and seedling sale?) and the project (GoL). The project has signed a contract with the firm guaranteeing (if sufficient seedlings are produced) sufficient income to cover the firms investment. The firm has an incentive for effective extension of cultivation and post-harvest processing techniques as

they intend to market Lao produced cardamom. No contract is however signed and farmers will be free to sell to any buyer.

For the project the approach adopted provides them with an effective means of securing input supply to producer groups and in developing the value chain as a whole.

The companies concession of 80 Ha appears likely to enhance the companies longer term profits through own production of cardamom for sale. In this way risks associated with farmer production and post-harvest processing skills in the establishment of an entirely new value chain appear to have been mitigated to some extent.

This PPP whilst still very new is demonstrating the potential of PPP to effectively introduce entirely new value chains by integrating both input supply and output marketing.

Critically the project seedling purchase contract appears sufficient to guarantee the firm a small profit on their investment assuming that they are able to keep plant mortality rates to a reasonable level. The company's risks are thus technical. Longer term trading risks of the company are mitigated by the 80 Ha plantation they are establishing which should, if fully planted, generate an annual minimum gross income of \$800,000 from cardamom pod production.

The revolving fund nature of initial input supply reduces risk to early adopting farmers as if the crop is a failure the in-village pressure to repay the loan can be expected to be low.

**Key Findings:**

- The PPP is introducing a wholly new crop and associated value chain to the Boloven Plateau and as such is clearly designed to enable agricultural innovation.
- Risk is being born by the company rather than the project with no upfront payments to the firm. Farmers will also bear risk associated with both costs of planting material and labour/land investments.
- The company is led by an individual with direct experience of cardamom production and marketing in India.
- The companies short term risks are mitigated through a guaranteed volume market for cardamom seedlings at an agreed price.
- The company intends to play a central role in the value chain through the export of cardamom and cardamom oil from Laos.
- Longer terms company risks are mitigated through the company having a land concession through which its own production of cardamom pods can occur. This reduction in company risk also enhances the likelihood that a viable value chain for Cardamom from Laos can be built.
- The private sector is / will play key roles that traditionally could have been played by the state – these being a) supply of planting material, b) provision of farmer training and extension support, c) post-harvest processing training and support.

#### **4.3 Case study: Asparagus in Tateng District**

In Thailand Taniyama Siam work with over 1000 farmers producing high value, low chemical input, vegetables for the Japanese market. The company sought to expand production to Laos on the Boloven Plateau.

In 2007 the company received a 20 year land concession of 62 ha for vegetable production for export to Japan. Initially Okra was cultivated but the long freight time between Tateng and Japan via Bangkok resulted in poor quality product reaching Japanese stores. The company has trialed a number of other crops before finally deciding to focus on Asparagus in the last 12 months. The expansion of asparagus production is now underway with 80% of the concession expected to be planted to asparagus within the next two years. The company has yet to generate a profit but expects to do so in the next 12 months with increased asparagus production.

The company initially planned to operate an out-grower scheme as it does in Thailand but to date this has not taken place. The company report that is unlikely that any out-grower scheme will be established in the near future due to the required extremely high standards of cultivation and concern over chemical residues. The company is obliged to meet stringent Japanese and other market regulations over chemical; residues and fears a loss in such markets if contaminated product is shipped. As such the company require stringent standards to be met at all production sites. With the widespread use of herbicides and pesticides on the Boloven the company appears very reluctant to engage in out grower operations at this stage and is instead seeking to expand its concession area to enable an increase in production volumes.

Through taking a long term approach to the investment the company looks set to finally become profitable in the near future. The investment has finally demonstrated the viability of producing very high quality vegetables for top end consumer markets. However wider objectives associated with the broader cultivation of crops for these markets through out-grower operations has not eventuated.

#### **Key PPP findings:**

- Initial expectations associated with out grower schemes are likely to have led to the project being viewed as a PPP by both parties.
- The extent of public investment in the operation was limited to the initial concession area, no other public sector support for Taniyama operations was reported by the firm.
- At this stage there is little evidence that this project is operating as a public private partnership with any goals beyond that of the company moving into profit after many years of operation.
- While the company is seeking to expand operations through an expansion of the concession area rather than through an outgrower scheme, the company has not abandoned such plans for the longer term.

#### **4.4 Case study: Pig production in Sekong province**

The ADB/IFAD supported SNRMPEP project is working in Sekong and other southern provinces to encourage, among other activities, commercial scale livestock production. This is undertaken through the establishment of producer groups who are capitalized by the project with in-kind supply of required livestock, feed and other inputs. In Sekong the project has supported the establishment of a enterprise to sustainably supply piglets and chicks to these producer groups. As such the project sought to develop key actors within the value

chain – input suppliers. The opportunity to engage in this enterprise was publically advertised within Sekong and an open selection process held to identify the successful applicant who was willing to meet at least 50% of the startup costs.

Mrs. A-Phonesavanh, a private business women and livestock trader in Sekong province was selected to partner with the project to supply piglets and chicks to the target villages of the sub-project. She was provided with breeding stock and a proportion of feed requirement by the project on a loan basis. She also invested own funds in the establishment of the farm (equipment, buildings, veterinary services) providing roughly 70% of the total investment. The project provided an in-kind loan in 2012 of some 1 billion kip (\$125,000) which is repaid through a discount on piglets and chickens sold to the project for on-supply to producer groups.

Her enterprise was also designated as a provincial project to secure reliable supply of pork to the provincial market. This designation aided her access a large (Kip 5 Bn) loan from Lao Development Bank for startup costs and working capital from a commercial bank. Furthermore her company was designated by provincial authorities as the sole legitimate supplier of pork to this market. As such she both supplies piglets to producer groups for fattening and also purchases from these groups for on-sale as meat to the Sekong market.

Progress for the company has been problematic with disease killing off a significant proportion of her initial production (value Kip 500 million) and it has taken some six months for her to recover from this set back. High interest payments on her bank loan (interest rate of 14% p.a.) are the major burden faced. SNRMPEP represents approximately 50% of her current market for piglets with the balance sold into the open market or fattened on-farm for meat sale.

Through the agreement signed with SNRMPEP she is obliged to sell a certain volume of piglets to the project per year at market price with a proportion (10%) of this value being deducted by the project as repayment for the initial investment made by the project.

This PPP has thus seen the public sector provide a) initial project loan to the enterprise, b) official designation facilitating access to commercial loans, c) technical assistance from the PAFO for veterinary services and d) status as the sole official supplier of pork to the provincial market.

This PPP may be seen as building an enterprise to supply both a special 'project market' for piglets and more long term, to guarantee pork supply for the provincial market.

**Key PPP findings:**

- Risk is being shared by the project (adequate sales of piglets to the project to enable initial loan repayment) and by the enterprise (profits sufficient to repay commercial loan).
- The enterprise was selected through a public, open advertisement of the opportunity to work with the project and a formal selection process.
- Provincial government support for the enterprise was crucial in both enabling access to a commercial loan and in securing monopoly rights over the provincial pork market. Both these benefits were key in generating sufficient enterprise confidence to engage in the activity.
- Access to permanent on-site veterinary technical assistance has been crucial in mitigating technical risks of the enterprise.

- The objective of this PPP is thus multi-faceted and may variously be seen as a) meeting a project driven need for livestock inputs, b) securing a sustainable supply of piglets for the pork value chain in Sekong province and c) securing sustainable and domestically sourced supply of pork for the provincial market.

#### **4.5 Other examples**

In addition to these four cases partial information was gathered on a number of other examples that could be viewed as PPP's through meetings with national and provincial level stakeholders.

As one element of the Lao-Hungarian Livestock and Aquaculture Development Project<sup>10</sup>, Laos received a tied aid loan from Hungary for the establishment of three feed mills, one in Vientiane and two in Luang Prabang. The objective was to increase the domestic production of quality pig and fish feed to reduce dependence on imports that currently accounts for a reported 70% of supply.

The loan was for a period of 18 years with the first eight years being a grace period. The feed mills were installed, tested and handed over to the Lao government in 2011. Since then a joint venture company has been established to operate these mills with a 30 year hire-purchase agreement signed in 2013 between the company and the Lao government. This agreement is reported to include provision for the tax free import of required feed inputs. A key issue with this PPP is clearly that private sector engagement in the scheme did not occur until after milling facilities had been procured and installed. To date no commercial production of feed has taken place.

In Ngeun District, Sayabouly the maize traders association is providing key inputs (seed, land preparation etc) to producer groups through agreement based<sup>11</sup> farming. One member of this association has applied for a government loan to enable the establishment of maize milling, drying (100 MT/day capacity) and storage facilities. This loan was substantial in size (US\$1.5 million) and is highly concessional with the loan duration being 15 years with the first five years being interest free. The annual interest rate on the loan is reported to be 2% per year. Without this concessional loan the business would be unable to establish these facilities due to the high interest rates and typically short duration of commercially available finance. In this case access to concessional government loan finance will enable the improvement of maize processing quality and facilitate higher value, off-season sale through storage. Reports of other agricultural processors accessing similar loans were heard. It appears that these loans are provided on a 'special' basis by the Bank of Laos (BoL) to further the development of key sectors. Such loan financing represents a potentially significant instrument for PPP's in Laos.

In support of coffee production in Dakchung district an MoU was signed between Green Hills coffee company and SNRMPEP to support seedling distribution to farmer groups and later coffee marketing. Despite some 500,000 seedlings being prepared ultimately only 50,000 were distributed for a variety of reasons. It appears that this partnership is unlikely to progress further largely because stakeholders associated with the project were insufficiently involved in reaching the initial agreement.

Through the ADB supported Small Holder Development Project (SHDP), DAEC have been working with a large number of farmer groups in promoting commercially oriented agriculture. As part of this project they have been working with producer groups supplying sweet corn to the Lao Agro-Industry Company in Vientiane province. In this example of a

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<sup>10</sup> *Hungary gives boost to Lao agriculture, Vientiane Times, 22 April 2010*

<sup>11</sup> *Because no formal contracts exist the term agreement farming is more appropriate than contract farming.*

PPP, the public sector has essentially been supporting the private sector through working with farmer groups to better meet production quality standards required by the company. DAEC staff have also played a key role in facilitating dispute resolution between farmer groups and the company associated with product quality grading and pricing in an attempt to ensure that farmers receive ‘fair’ prices for their production. In this case DAEC is thus both supporting the private sector obtain inputs of the required quality but also, in doing so, providing a ‘brokering function’ between the private sector and farmer groups in ensuring ‘fair’ payment by the company to producers. While this ‘mediation’ function between the private sector and producer groups was reported quite widely at provincial levels such a function does not, by itself, appear to warrant being described as a Public Private Partnership instead being part of the ‘normal’ regulatory function of government.

## 5. Analysis of initiatives

This analysis seeks to explore lessons learned from the case studies to assist inform the development of guidelines for agricultural PPP’s in Laos for use by the GIZ LM-RED program.

An analysis of the four cases studies against key PPP features is shown below in table 2.

**Table 2: Features of case study PPP’s**

<b>Contract Type</b>	<b>Asset Ownership</b>	<b>Operation &amp; Management</b>	<b>Capital Investment</b>	<b>Commercial Risk</b>
<b>EMRIP</b>	Private	Private	Public & Private	Private & Public
<b>Cardamom</b>	Public & Private (Concession)	Private	Private	Private
<b>Pigs</b>	Private	Private	Public & Private	Private & Public
<b>Asparagus</b>	Public & Private (Concession)	Private	Private	Private

Key findings from the cases studies are as follows:

PPP’s studied have resulted in the private sector providing services that previously would have been undertaken by the state. These include:

- The provision of extension services to farmer groups associated with crop production (EMRIP, Cardamom)
- The provision of inputs that previously have been supplied by the state (rice seed, EMRIP, Planting material Cardamom).
- The provision of input credits that previously would have been supplied by state owned financial institutions such as the Agricultural Promotion Bank (EMRIP, Maize association).

It is important to note that these services are not being financed by the public sector but have become ‘embedded’ within the business model. Under EMRIP, millers have not sought to profit from input supply and have provided inputs at normal market rates. Because they have financed such supply it is in their commercial interest to ensure that inputs are applied as productively as possible. Thus millers commercial interests have become ‘tied’ to farmers productivity with greater yields increasing millers supply volumes.

Contracts are in place between the private and public sector in all cases, in the SNRMPEP cases these MoU's include the powerful incentive of providing a guaranteed market for produce. In the Cardamom case this incentive was sufficiently strong to facilitate the establishment of a company to meet this market and it is hoped, develop an entirely new value chain.

The EMRIP model contributed to the development of miller associations that are in policy dialogue with provincial authorities. This has resulted in a number of local policy changes in support of the sector and miller operations. It is important to note that the association in Khammouane formed around EMRIP supported millers who used the same new business model. In other provinces where associations were formed through MOIC 'designation' results have been less successful<sup>12</sup>. A supportive provincial and district level policy environment for the PPP is crucial if success is to be achieved.

All cases studied demonstrated significant innovation ranging from the introduction of a entirely new crop and associated value chain to significant changes in the business models being applied by millers in the rice sector.

### **5.1 Good practices**

Through a review of literature and the cases studied a number of 'good practices' are able to be identified associated with conventional PPP's. These good practices are as follows:

**Open and stringent partner selection** - In a number of cases private sector partners were selected through an open process based upon local advertising of the opportunity and the subsequent careful screening and selection of partners against agreed criteria. Such an open process has the following advantages:

- This process increases the likelihood of genuine private sector interest in being involved in the partnership from the outset.
- The process reduces (but does not eliminate) the likelihood of support being provided to 'local favorites' who might not necessarily be the most appropriate private sector partner.
- The EMRIP model shows how initial stringent selection processes can increase likelihood of success at early stages thus 'proving' a model for later, wider adoption. It is worth noting that only 6 mills in Khammouane were initially supported by EMRIP with over 40 millers in the Province now adopting elements of the EMRIP model.

In other situations however it may not be appropriate to widely advertise the opportunity with only one private sector player likely to be able to sensibly enter into a partnership. The SNRMPEP Cardamom example is illustrative here where specialized technical knowledge and existing market linkages were crucial but there are likely to be other situations where an 'open' approach to the selection of private sector partners is sub-optimal.

**Early Private Sector engagement** – close and detailed engagement with potential or prospective private sector partners in designing the PPP is crucial to ensure that the design of the PPP is adequately informed by the realities and concerns of the private sector. In the EMRIP case this was achieved through the project building upon years of prior work with millers in Khammouane by SNV. In the case of Cardamom in Paksong the feasibility study and MoU between the project and Spices Enterprise was jointly developed (confirm). The Hungarian feedmill case is an example where the private sector does not appear to have

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<sup>12</sup> Connell, J.G. 2011 EMRIP Evaluation

been adequately engaged up front and delays in the commencement of production appear to be a result.

**Support Instruments** – there is a wide range of instruments open to the public sector in support of PPP's. These instruments can be seen as reducing private sector risks or increasing market access and can include:

- Purchase contracts guaranteeing a market – volume and price
- Capital equipment grants
- Capital equipment supply on a hire-purchase contract.
- Concessional loans
- Technical assistance
- Assistance in farmer group formation and management
- Agricultural extension support
- Policy support in reducing transaction costs and increasing market access
- Tax free import status and other tax concessions available under the investment law.
- Land concessions
- Concessions over the use of public facilities (e.g. fish breeding stations).

Policy support through provincial level intervention can play a key role in facilitating the partnership. Such policies can assist the private sector secure markets (e.g. the pig case in Sekong) or reduce the transaction costs associated with commodity trade through streamlining of procedures (EMRIP). Critically the process of determining which instruments should be applied in a particular case will need to be developed in an informed manner based upon the opportunities and constraints faced by the private sector.

**Mediation with producer groups** – in a number of the cases the DAFO/PAFO played key initial roles in facilitating agreements between producer groups and the private sector. Over time in some cases (EMRIP) this role appears to have declined in significance as the relationship between producers and the private sector have matured. In others (SHDP) this role continues to be a key function in ensuring 'fair' division of benefits.

**Risk treatment** – while some level of initial risk sharing or financial incentive may be required at early stages of the PPP it appears that this should only be employed to enable proof of concept and that in the longer term risk associated with the scheme should be borne by the private sector.

## **5.2 Common challenges**

Challenges identified through the case studies related primarily to normal business challenges rather than those specifically associated with PPP's. It is however worthwhile highlighting these as there are areas where public assistance can be usefully applied to support the partnership.

Developing partnerships between the Public and Private sectors remains a new way of working within the Lao agriculture sector. There are a variety of opinions associated with such approaches with concerns being expressed by some that these approaches will not deliver the poverty reduction goals sought. In general however there was broad support by national stakeholders for PPP type approaches. From examples studied it is clear that ensuring strong local government support for such approaches and specific plans is an obvious and essential pre-requisite for success.

Investment in the upgrading of capital equipment was widely reported to be problematic with loan terms commercially available ill-suited to such investment. Where commercial loans

were accessed, as in the pig production case in Sekong, meeting loan interest payments was viewed as the most pressing concern.

## **6. Conclusions**

Public private partnerships are a new modality in Laos with a policy framework specifically designed for such partnerships currently under development by MPI. Such a framework will, when developed, provide an essential framework for MAF as it implements PPP's foreseen within the ADS. MAF is represented in the MPI project developing these guidelines.

There is currently no accepted definition or guidance within MAF on PPP's and a number of stakeholders from within MAF saw the development of such as being required. This is complicated by the fact that internationally many different definitions are used sometimes varying quite considerably on key features e.g. on the allocation of risk. The extent to which MAF should proceed ahead of MPI in developing PPP's is unclear but it appears important that any definition developed by MAF clearly differentiate between PPP's and the 'normal' sets of incentives provided to the private sector in support of their agricultural enterprises.

The term public-private partnership is an umbrella term covering a range of different types of contracting models. As such guidelines to be developed for LM-RED should focus on partnerships designed to develop agricultural value chains along the lines employed in the case studies.

Within the Lao agriculture sector there are a small number of initiatives, apparently largely project financed, that share a number of the features of public private partnerships and that have been described as such within this report. These initiatives provide useful lessons for the development of PPP's more generally although in some cases, key private sector incentives are project driven – i.e. the supply of goods to a project generated and guaranteed market.

The cases studied have shown that partnerships with the private sector have the potential to deliver inputs (seed, fertilizer etc) and services (extension) to producers that previously would have been provided by the public sector. In some cases this has dramatically increased farmer yields (EMRIP) and in others appears to have established a firm foundation for the introduction of an entirely new crop and value chain (Cardamom). The cases have also shown that success is far from guaranteed but that the prospects for such are enhanced through early and close engagement with the private sector in the design of the partnership.

There are a wide range of instruments that are available to the public sector in support of PPP's and the cases studied have shown the application of a number of these. While access to finance, in particular for capital investment, is a key constraint faced by the national private sector there are a range of non-financial instruments available to the public sector upon which viable PPP's may be able to be built. What is clearly required is investment in the process through which PPP's can be designed and implemented.

## **Annex 1: Guidelines for the development of public private partnerships in agriculture**

### **A. Definition**

A PPP is a cooperative venture between the public (including donor) and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.

Public-private partnerships span a spectrum of models that progressively engage the expertise and/or capital of the private sector. At one end, there is straight contracting out as an alternative to traditionally delivered public services. At the other end, there are arrangements that are publicly administered but within a framework that allows for private finance, design, building, operation and possibly temporary ownership of an asset.

In the Lao agricultural sector PPP's are designed to facilitate the development of value chains and farmer incomes through developing a triple partnership between the public sector, private sector and primary producers. This involves facilitating the private sector to engage in new ways with primary producers and other actors in the value chain to improve services within the value chain and increase the quality and/or quantity of goods produced.

PPP's are formally established with a signed agreement (MoU) in place specifying the contributions, roles and expectations of all parties. Risk associated with the activity should be primarily borne by the private sector but the public sector can use available instruments to reduce these risks. It is important that the public sector monitor implementation and ensure an equitable division of benefits between different value chain actors.

PPP's can be used to support the development of the domestic private sector but consideration needs also to be given to partnering with non-local firms and also international firms. The exact type of partner to be sought will depend upon the situation.

### **B. Principles**

The principals outlined below build upon these used by GIZ in technical cooperation projects.

- 1. Public Good:** The objective of the partnership should be to contribute to public good, and in particular farmer incomes, rather than simply commercial profits for the private sector.
- 2. Complementarity:** The public, private and primary producer contributions must complement each other such that all partners achieve their objectives at a lower cost, more effectively and more quickly as a result of their cooperation.
- 3. Subsidiarity:** The partnership should enable activities to be undertaken that would not normally be undertaken by the private sector without the support of the public sector and that the measure is not required by law. This is important, it indicates that PPP's should facilitate the private sector to engage in activities beyond normal business practises. This may involve working in new ways with farmers.
- 4. Benefit sharing:** In developing a value chain, this point needs to be carefully considered and how the benefits from the upgrading process will accrue to different actors.

Specifically, how will the partnership ensure that benefits are equitably and transparently shared between producers and the private sector?

5. **Fair competition:** The possibility of PPP cooperation and the individual PPP measures must be made public and brought to the attention of as many firms as possible. The process of selecting the private partners must be transparent, and the decisions must be objectively clear.
6. **Contribution of the private sector:** The firm must make a substantial financial, human-resource and/or in-kind contribution to the partnership. The resources that the private sector brings to a development partnership may take many different forms. Costs that are part of an original investment cannot be considered as part of a PPP measure.
7. **Risk sharing:** Careful assessment of commercial risks associated with the partnership needs to be undertaken and measures to mitigate and allocate risk amongst the partners developed. To ensure sustainability risk should in the longer term be borne entirely by the private sector and primary producers. In the short term however the public sector can reduce risks through the application of a range of different instruments. As a general rule primary producer risks should not be increased as a result of the PPP.

## **C. Process**

LM-RED has limited financial resources able to devote to undertaking PPP's. At this stage it is recommended that these resources be applied to the development of detailed PPP designs (feasibility studies) that can then be more fully financed within the anticipated follow on project. Using this time to build credible relationships with the private sector and producer groups for these PPP's is a justified and valuable process.

### **1. Establish objective:**

The first step in the process is to establish a broad objective for the PPP within the target area, this might for example relate to increasing commercial rice production. At this stage the objective can be reasonably broad but at later stages a higher degree of definition of the objective is suggested.

### **2. Pre-Feasibility:**

The objective at this stage is to determine the broad approach to the PPP to be adopted. A range of different approaches could be considered. Initial consultations with the private sector and producer groups at this stage are essential to ascertain their interest in partnership and identify key issues that they expect to be faced. Genuine interest from the private sector and producer groups in forming a partnership is a pre-requisite for proceeding further. Facilitating cross-visits to example sites (e.g. EMRIP) could be undertaken with the private sector and farmer representatives at this stage.

At this stage the overall concept for the PPP needs to be developed and described. This should include initial thinking on the instruments that could be applied by the Public sector to the partnership. An analysis of the risks likely to be faced by different parties within the partnership needs to be considered and measures developed to mitigate such risks where required.

It is critical that all GoL line agencies and local authorities likely to be involved in the partnership (for example by ensuring some of the instruments to be applied), not just DAFO

and PAFO, are engaged in the development of the pre-feasibility study and in undertaking consultations with the private sector.

Based on this pre-feasibility study a decision needs to be taken to proceed or not. This approval to proceed process should include all provincial level departments that are likely to have a stake in the partnership given the instruments that are expected to be required.

### **3. Feasibility study:**

Based on approvals to proceed, a detailed feasibility study will need to be undertaken. This study will encompass the following areas:

- Technical proposal outlining the scope of the partnership and what actions will be undertaken by which partner.
- Detailed risk analysis undertaken and measures to mitigate risks of different parties developed.
- Economic analysis to demonstrate that the proposed partnership will be profitable to the private sector but that benefits will also accrue to producers.

The feasibility study should be undertaken in close consultation with a number of different private sector players so that the study is as accurate as possible and reflects the realities faced by business. Similarly the involvement of producer groups in the development of the feasibility study is required.

This stage of the study will also define the instruments or incentives that would be used by the government as their part of the partnership. This is likely to require negotiation with different branches of government in obtaining approvals for these instruments to be applied. The type and nature of these instruments will vary in each case but could include:

- Purchase contracts guaranteeing a market – volume and price
- Capital equipment grants
- Capital equipment supply on a hire-purchase contract.
- Asset rental or management
- Concessional loans
- Technical assistance
- Assistance in farmer group formation and management
- Agricultural extension support
- Policy support in reducing transaction costs and increasing market access
- Tax free import status and other tax concessions available under the investment law.
- Land concessions
- Concessions over the use of public facilities (e.g. fish breeding stations).

The feasibility study should also outlined the expected contribution of the private sector to the planned partnership. The resources and contributions that the private sector brings to the partnership may take many different forms, including consultancy and training services, know-how and technology transfer, infrastructure and the procurement of equipment.

During the process of developing the feasibility study a decision will need to made as to how the incentives for the private sector will be structured and the extent to which they will, or will not, be conditional upon the performance of the company. In some cases incentives to be provided by the government could be withdrawn or reduced if the private sector is not fulfilling their part of the agreement. This conditionality to government assistance will need to be included within the draft contract for the PPP.

The feasibility study needs to be an accurate and realistic assessment of the feasibility of the proposed partnership and include clear evidence of private sector interest in participating in such a partnership.

#### **4. Selection of private sector partners:**

The transparent and open selection of private sector partners is normally a good practice. This will help ensure that only companies with a genuine interest in the partnership put themselves forwards and that the best of these can be selected. It is important that an open process is used to enable open and free competition. Such an 'open' process should increase the prospects for success and maximize value for money.

To enable as many firms as possible to be aware of the PPP opportunity advertising the opportunity widely is suggested. Firms from outside the immediate area or foreign firms could also be considered as potential partners.

Interested firms should be required to formally apply to join the partnership and their paper based applications supplemented by interviews.

Selection criteria will need to be developed, these should include both objective factors such as current company presence, size, functions etc. as well as less tangible factors associated with the vision of the business leader and a demonstrated history of positive engagement in the sector as a whole.

A cross-sectoral selection committee should be established to make the final decisions over which firms should be included in the partnership.

#### **5. Formal Agreement:**

A formal agreement or contract between the public and private sectors should be signed covering the partnership. Depending upon the nature of the partnership and the incentives to be provided by the public sector, this contract should include the detailing of performance measures against which the private sectors performance of its obligations can be assessed. Where performance falls below minimum thresholds the option to withdraw or reduce public sector provided incentives can be included.

#### **6. Monitoring:**

Implementation of the partnership needs to be monitored to assess results obtained and to ensure that all parties to the agreement undertake their responsibilities as agreed in the contract. Participatory methods for monitoring through involvement of producer groups, companies and the state sectors have been successfully used in Laos (EMRIP).

## **Annex 2: Terms of Reference**

### **Developing Guidelines for Public Private Partnerships in Agriculture in Lao PDR**

#### **Background**

The Land Management and Rural Economic Development Program (LM-RED) is developing promotion concepts for selected agricultural products in three target provinces (Luang Namtha, Sayaboury, and Attapeu). Public Private Partnerships (PPP) are seen by the program as an efficient tool to achieve the goals that are set in these promotion concepts as they provide leverage to existing resources by teaming up with the private sector. A major obstacle in setting up such partnerships is the lack of a comprehensive description or guidelines that provide the framework for designing these interventions.

#### **Objective of the Study**

In order to develop comprehensive guidelines for designing public private partnerships in agriculture, a study shall be conducted focusing on the following areas:

- Providing an overview of the existing regulatory framework for PPPs in Lao PDR
- Providing an overview of ongoing initiatives to develop a regulatory framework for PPPs in Lao PDR
- Compilation of good practices with regard to implemented PPPs in agriculture in Lao PDR
- Summary of common challenges in the course of designing PPPs in agriculture
- Comparison of different models/cases of existing PPPs in agriculture, and a discussion of factors that determine their success / failure
- Analysis of roles and responsibilities of different stakeholders in PPPs in agriculture, and their impact on the success of these PPPs.

Based on the results, the consultant shall prepare draft guidelines for PPPs in agriculture, including a comprehensive definition of PPPs in agriculture.

#### **Activities**

- Introductory meeting with LM-RED (GIZ and the MAF-Department of Agriculture), the Chair (MAF-Department of Agricultural Extension and Cooperatives) and the Secretariat (LEAP) of the Sub-Sector Working Group Agribusiness (SSWG-AB)
- Literature/desk study
- Discussion with relevant development partners and Government representatives
- Field visits to ongoing / already implemented PPPs in agriculture
- Presentation of findings and conclusions at a SSWG-AB meeting
- De-briefing

#### **Deliverables**

The consultant shall provide the following deliverables (all in English language):

1. A report (max. 20 pages) on the information obtained, following the draft outline below:
  - I. Summary
  - II. Introduction
  - III. Regulatory Framework
  - IV. Analysis of existing initiatives
  - V. Conclusions and recommendations
2. Draft Guidelines for Public Private Partnerships in Agriculture in Lao PDR
3. Presentation with findings and conclusions for SSWG-AB (max. 30 minutes)

### **Annex 3: Definitions of PPP's**

Public private partnerships (PPPs) are arrangements between government and private sector entities for the purpose of providing public infrastructure, community facilities and related services. Such partnerships are characterized by the sharing of investment, risk, responsibility and reward between the partners. The reasons for establishing such partnerships vary but generally involve the financing, design, construction, operation and maintenance of public infrastructure and services.

*Source: Canadian Public Private Partnership: A Guide for Local Government*

There is no overarching definition for public-private partnerships. PPP is an umbrella notion covering a wide range of economic activity and is in constant evolution.

*Source: Speech by Commissioner Frits Bolkenstein, DG Internal Market*

A Public Private Partnership is a partnership between the public sector and the private sector for the purpose of delivering a project or a service traditionally provided by the public sector. PPPs come in a variety of different forms, but at the heart of every successful project is the concept that better value for money may be achieved through the exploitation of private sector competencies and the allocation of risk to the party best able to manage it.

*Source: A Policy Framework for PPPs, Department of the Environment and Local Government, Ireland*

A Public Private Partnership (PPP) is a partnership between the public and private sector for the purpose of delivering a project or service traditionally provided by the public sector. Public Private Partnership recognises that both the public sector and the private sector have certain advantages relative to the other in the performance of specific tasks. By allowing each sector to do what it does best, public services and infrastructure can be provided in the most economically efficient manner.

*Source: Ministry of Finance, Czech Republic*

Public private partnerships (PPPs) are a generic term for the relationships formed between the private sector and public bodies often with the aim of introducing private sector resources and/or expertise in order to help provide and deliver public sector assets and services. The term PPP is used to describe a wide variety of working arrangements from loose, informal and strategic partnerships to design build finance and operate (DBFO) type service contracts and formal joint venture companies.

*Source: 4Ps, UK local government procurement agency*

PPP brings together, for mutual benefit, a public body and a private company in a long-term joint venture for the delivery of high quality public services. Drawing on the best of the public and private sectors, PPPs provide additional resources for investment in public sectors and the efficient management of the investment. PPPs cover a wide range of different types of contractual and collaborative partnerships, including; the Private Finance Initiative (PFI); the introduction of private sector ownership into state-owned businesses; the sale of Government services into wider markets.

*Source: Balfour Beatty plc*

The main distinction between PPPs and alternative privatisation schemes is that the public sector plays a key role as purchaser of services. While in the case of pure privatisation (e.g., of public utilities), the clients of the private operator are private users, in the case of

infrastructure building realised through PPPs, the government normally pays for the services to be supplied or has an influence in their specification. What instead distinguishes PPPs from the traditional public procurement model is the origin of the funds to accomplish the project. Instead of relying on government borrowing, most PPPs are financed through bonds issued by the private operator.

*Source: Public finances in EMU, DG Economic and Financial Affairs*

