

INNOVATION PARTNERSHIPS AND BUSINESS DEVELOPMENT FOR AIS

AIS Module 5 – Setting the Stage

Presentation Overview

1. Background
2. Rational
3. Overview of Business Development and Partnership Instruments
4. Contextual and Policy Issues
5. Illustrative Examples
6. Steps to Move Forward

1. Background

- Long tradition of public sector promotion of innovation in the agricultural sector, often seen as the most important driver of innovation.
- Innovation is essentially a business matter, for private enterprises innovation is critical to enter and stay in business.
- The private sector potential for agricultural development and innovation remains far from being fully used.
- Concerns to led the private sector play a more prominent role are rooted in the complexity of the agricultural development agenda. (e.g. multiple, interlinked and sometimes competing objectives – most of them having strong public goods features)

Balancing Agricultural Development Objectives



2. Rational: Business development and new partnerships needed to ...

- Take advantage of the innovation power of the private sector by maintaining a balance in agricultural development.
- Integrate and let private sector actors play a crucial role in AIS.
- Utilize the comparative advantages of the private sector by contracting public goods delivery in PPPs.

3. Overview of Business Development and Partnership Instruments

Two Groups of Instruments:

1. *Business development support*, aiming to stimulate general economic growth
2. *Public Private Partnership (PPP)*, aiming to address development issues in conjunction with private sector partners

Overview of business development and partnership instruments

		BDS	Incubators	Science parks	Clusters	TTOs	PPPs
Objective	Overall	Qualitative, innovation-led <i>economic growth and income opportunities</i>					Specific <i>public goods</i> (e.g., social, environmental, innovations with high public good content)
	Intermediate	Business startups	Business growth				Generation of innovations of public interest
		Business growth	Commercialization of new technologies				Transfer and application of technologies
				Efficiency gains (e.g., through synergies, reduced transaction costs)			
Financial support mechanisms		Often initial public funding, but service fee collection important for sustainability	Most incubators subsidized, fee collection and cost recovery difficult	Complementary public funding (e.g., infrastructure, public sector institutions)		Initial public funding replaced by service fees	Paid Contracts
				Tax breaks and other financial incentives (e.g., subsidies, public sector credit guarantees) are common		Matching grants	
				Risk capital		Competitive grants	
				Commercial financing			
		Matching grants					

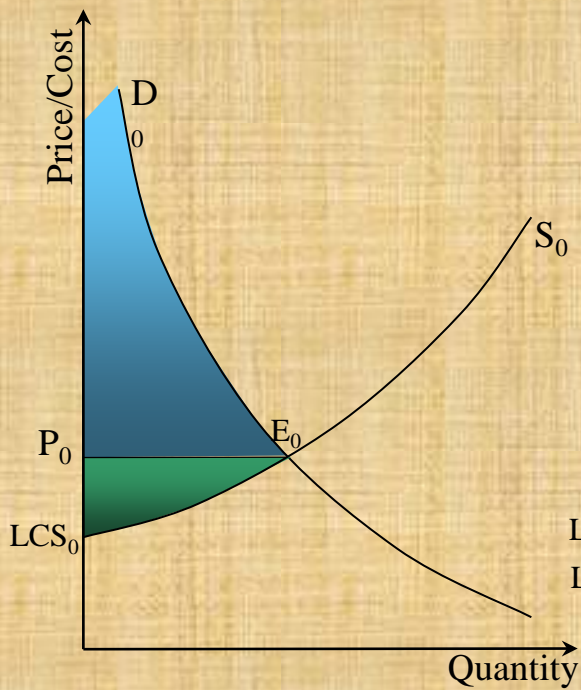
4. Contextual and Policy Issues

Promoting Innovation through Private Actors Requires:

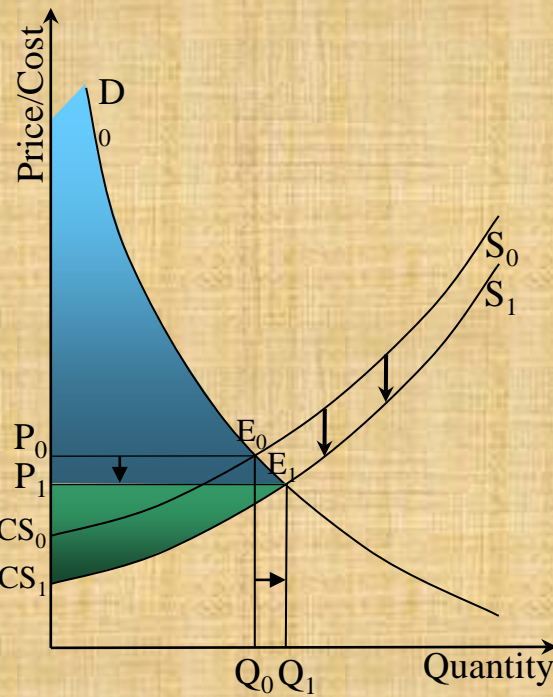
1. **Clarity of the Objectives** (e.g. food, growth and income, export earnings, resource management, etc.)
2. A good understanding of the **Country Context** (e.g. agrarian society, subsistence agriculture, emerging economies, mature economies)
3. Full awareness that:
 - a) **Direction of innovations by private sector is likely different:**
Promotion of new products, product differentiation, value adding, but less productivity increased and cost reduction
 - b) **All major stakeholders direct innovation and influence each other:**
Governments, civil society, consumer and consumer groups, private sector investors
 - c) **Public investment decisions are difficult to make:**
What private investments to be supported/subsidized, what level of support/subsidization justified

a) Direction of innovations by private sector likely different

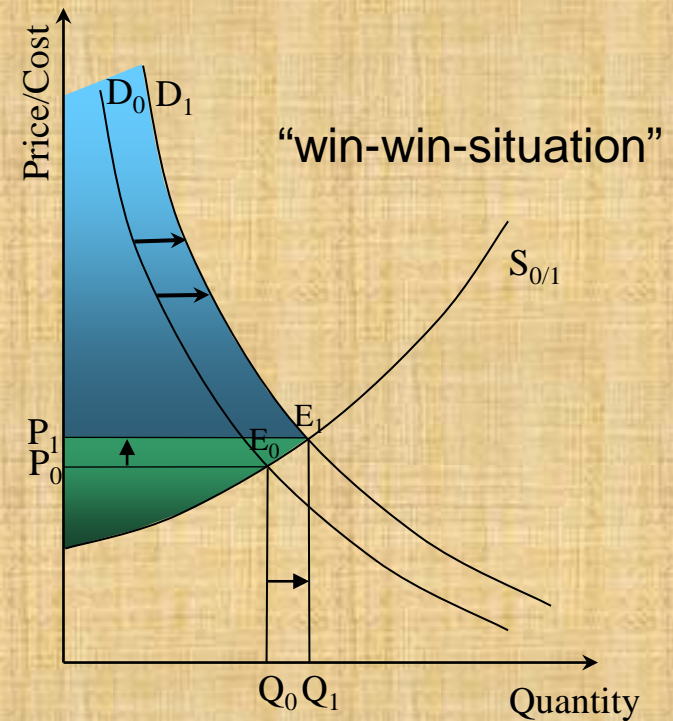
a) Baseline Situation



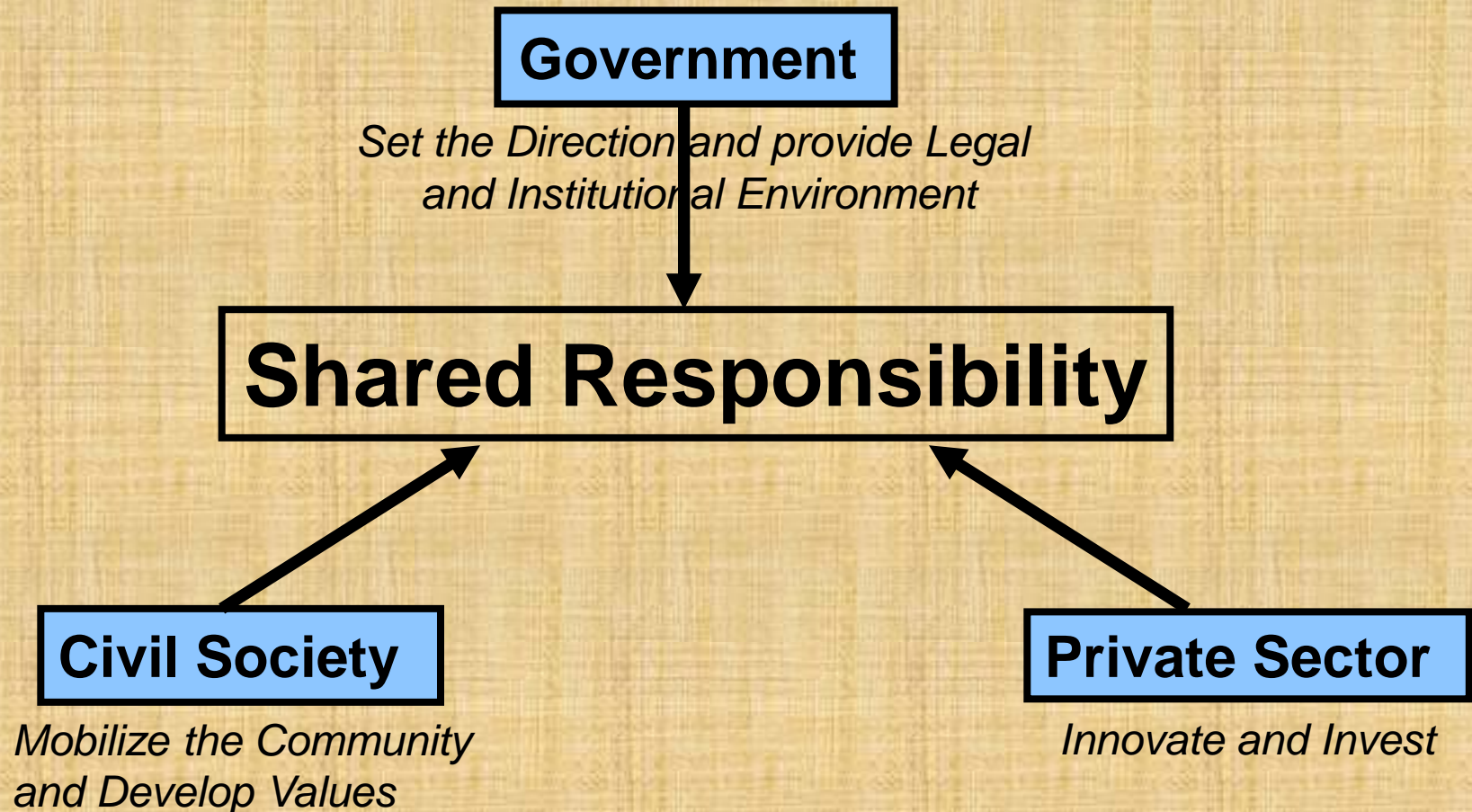
b) Innovations towards Factor Productivity/Cost Reduction



c) Innovative Products and Active Demand Expansion



b) All major stakeholders direct innovation



Source: C. Henckes 2003, adapted by Author

c) Public investment decisions are difficult to make

Do we need to pay for public goods (additionality principle)?

Figure 1: Private and Public Investment Decision Making

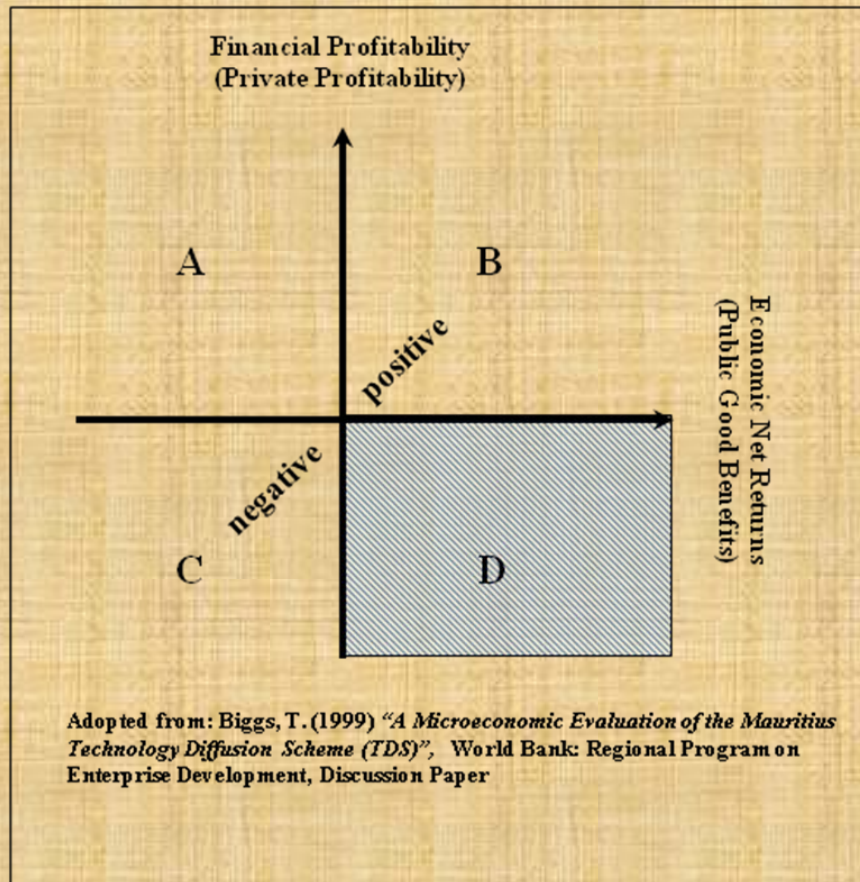
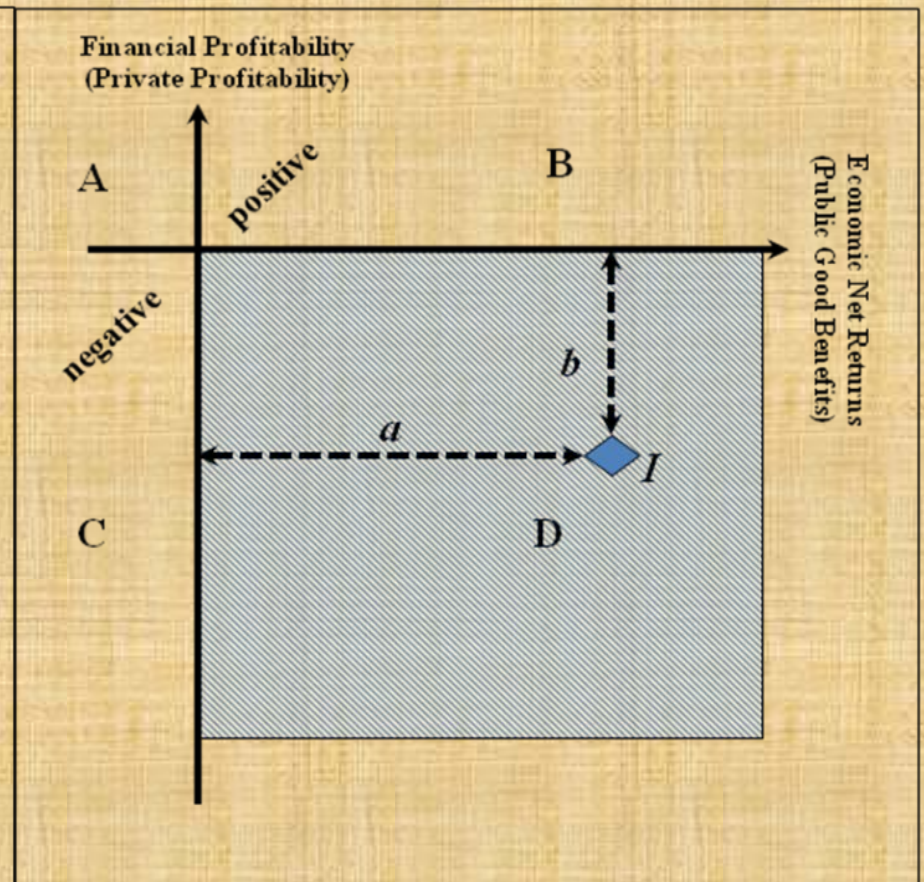


Figure 2: Appropriate Public Funds



Interrelated Policy Issues

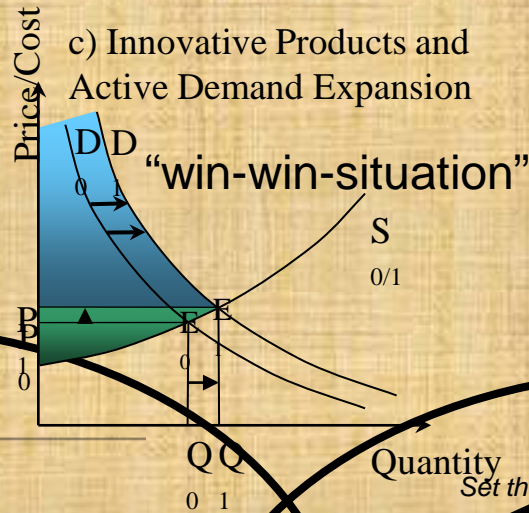
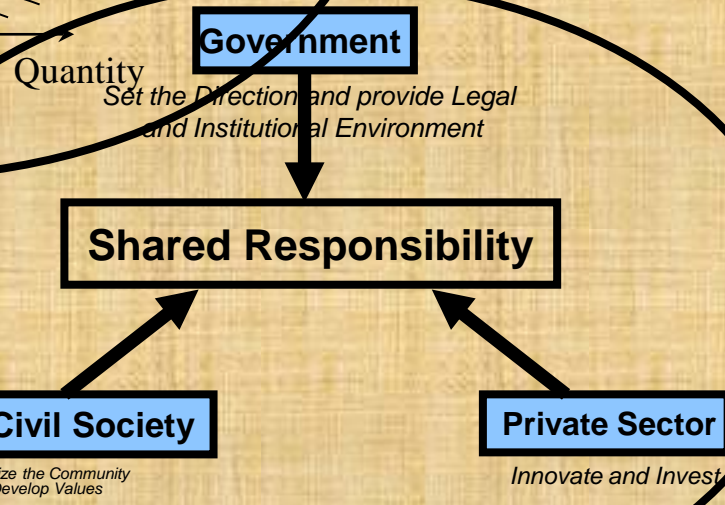
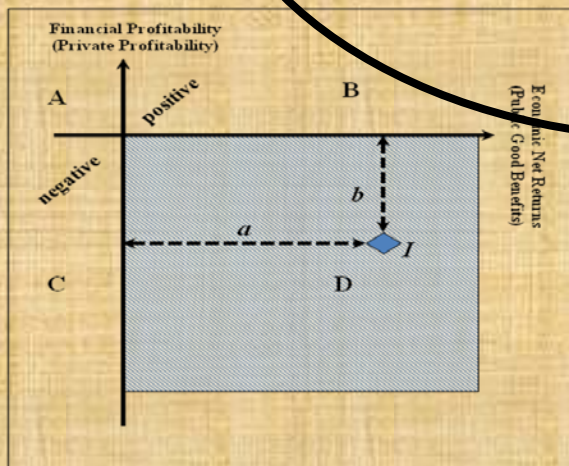


Figure 2: Appropriate Public Funds



Stakeholder interaction is stimulating and influencing innovation:

- Private sector led innovation needs long-term stability and a conducive social and political environment:
 - Legal framework and law enforcement
 - Predictable access to capital, production resources and markets
- Well functioning Governments successfully direct private sector innovation:
 - Through well designed and enforced laws and regulations (e.g. environment and natural resource use, labor standards, food safety, etc.)
 - Protection of intellectual property rights
 - Supportive investment (infrastructure, human capacity building, public institutions and services)
- In mature and transparent societies civil society groups and individuals direct private sector innovation:
 - By their willingness to pay for social or environmental properties of products
 - By boycotting products and companies not following standards defined by the values developed in a society
 - By mechanisms, which allow them to actively influencing policies and regulations

5. Illustrative Examples

Two cases from the World Bank supported China Agricultural Technology Transfer Project:

1. The Wei Pig Genetic Resources Conservation
2. The Duck Manure Treatment

The Wei Pig Genetic Resources Conservation



The Wei Pig



Issue:

- Near extinction of indigenous breeds in China
- Genetic resource protection previously seen as government responsibility (public good)
- Government breeding centre inefficient and dependent on annual public funds

Project Solution:

- Private pig breeding company offered development of a business line based on this indigenous species for special high-end consumers, but initial production and marketing risks too high for private investor
- Project support based on a contract detailing the minimum stock combined with farmer out-grower scheme.
- Out-grower scheme involves small and poor farmers focusing on women headed households in a resource poor mountainous area.
- Company set up a breeding centre under near nature conditions including a visitor centre to receive consumers.
- Special environmental properties (protection of an indigenous and rare species, near nature production system) and social properties (working with small and poor farmers) were integrated in the marketing concept and priced into the product sales price.

The Duck Manure Treatment



The Duck Manure Treatment



Issue:

- Waste from large scale duck production by contract farmers threatens environment
- Technical treatment solutions exist, but are not field-tested on large scale
- Government hesitates to introduce mandatory treatment afraid of harming local industry

Project Solution:

- Large private duck production company using contract production for some 25 million ducks per year offered to establish a manure treatment facility to field-test technical and financial viability.
- Project partially supports the investment based on a contract detailing waste recollection arrangements, quantities as well as access to all relevant technical and financial information.
- Company field-tested the treatment technology and gained business experience in buying, processing and selling the waste as processed fertilizer.
- The experiences are used by the provincial Government to decide on the introduction of waste treatment regulations.

6. Steps to Move Forward

- **Changing attitude:**
 - Overcome shyness to work with businesses, including small, medium, large and multinational companies
 - Accept 'profit oriented' partners as development partners
- **Learning to interact with private partners:**
 - Understanding private sector decision making
 - Identification of win-win situations
 - Developing interaction and negotiating skills
- **Developing/improving cooperation instruments:**
 - Defining outcomes
 - Selection mechanisms
 - Contracting
 - Monitoring and delivery control
 - Safeguarding the interests of vulnerable groups

Thank You
for
Your Feedback
and a
Lively Discussion