



*Strategy paper, November 2018*

# Delivering on the promise of transformational change:

What does it take for  
Dutch-supported PPPs?

**This paper<sup>1</sup> presents the main lessons from Dutch-supported public-private partnerships (PPPs) in food security and water, based on four years of research by PPPLab. It provides building blocks for making PPPs deliver on the Sustainable Development Goals (SDGs), with fundamental implications for key partners in PPPs and policymakers, both from the Netherlands and from other countries that share the SDG ambitions.**

Partnerships are expected to address complex issues in challenging places. PPPLab found that Dutch-supported PPPs do rather well when it comes to pioneering innovative approaches, aligning interests, influencing the rules of the game, leveraging actors' strengths and developing inclusive partnerships. However, the partnerships have to deal with high expectations from all sides.

What does it take for Dutch-supported PPPs to deliver on their promise of transformational change? They should: a) strategize for systemic change, b) improve partnerships' fitness to enable change, and c) rethink risk and combine resources. This implies that the Dutch PPP approach needs to be recalibrated.

#### **Colophon**

*PPPLab Food & Water is a four-year action research and joint learning initiative (2014 - 2018) to explore the relevance, effectiveness, and quality of Dutch supported public-private partnerships (PPPs). PPPLab is commissioned by the Dutch Ministry of Foreign Affairs and is driven and implemented by a consortium of the Partnerships Resource Centre, Aqua for All, the Centre for Development Innovation at Wageningen UR and SNV Netherlands Development Organization.*

*Comments and questions about this document are welcome. Please send them to: [info@ppplab.org](mailto:info@ppplab.org) For more information, please visit our website: [www.ppplab.org](http://www.ppplab.org)*

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# Dutch-supported PPPs deliver, but struggle to meet high expectations

**Global issues in food and water domains are highly complex and manifest on massive scales - hence the ambition of the Sustainable Development Goals: SDG 2 aspires to zero hunger by 2030, although there are currently 820 million hungry people, with their numbers growing; SDG 6 aspires to clean water and sanitation for all, while currently 1 in 3 people has no safe drinking water and 4.5 billion lack access to safely managed sanitation facilities.**

To this, we can add the scale of the other 15 SDGs, combined with the unpredictability of global and local forces, such as climate change and shifting geopolitics. It is clear that these issues transcend the ability of governments, companies, NGOs, and knowledge institutions alone, however willing and ambitious they are. We need smart, innovative solutions to respond to these challenges. What are PPPs supposed to do?

Those investing in multistakeholder partnerships expect them to address a wealth of intertwined issues while at the same time working toward systemic change and leveraging the strengths of governments. PPPs are also supposed to build business models that can help to unlock billions of dollars in responsible investments, getting the right products and services to those who need them.

## How the Dutch government tries to unlock PPPs' potential

The Dutch government introduced the concept of public-private partnerships (PPPs) in the early 2000s, and this evolved into a cornerstone of its *Investing in Global Prospects* as part of its foreign policy. Together with other donors, the Netherlands government is trying to unlock the trillions needed each year to achieve the SDGs, catalysing innovation and private investments.

PPPs appreciate working with the Dutch government for several reasons. Its integrated way of working, combining trade and aid policies with political and diplomatic support, serves PPPs well - especially those operating in challenging places. Through its embassies, the Dutch government has facilitated and even initiated partnerships - roles that have been reinforced by the new PPP instrument, *the SDG-Partnership*.

## Dutch-supported PPPs deliver...

From 2014, the PPPLab Food & Water has undertaken action research and joint learning to explore the relevance, effectiveness, and quality of Dutch-supported PPPs. PPPLab has worked with many PPPs funded by the Sustainable Water Fund (FDW) and the Facility for Sustainable Entrepreneurship and Food Security (FDOV). The lab found that these PPPs do rather well when it comes to pioneering innovative approaches, aligning interests, influencing the rules of the game, leveraging actors' strengths and developing inclusive partnerships. They provide inspiring examples (see boxes).



### ... but struggle to meet high expectations

However, PPPs have to deal with high expectations from all sides, and in particular from donors, to deliver quickly on various policy goals. While system change usually takes over a decade, PPPs are expected to deliver short-term and easily quantifiable results. PPPs are still being held accountable to guarantee outputs based on ambitious spending targets, and are regarded as 'grantees' just like other project implementers.

In addition, the high expectations translate into a number of sometimes contradictory policy goals that are piled on the PPP instruments. For instance, PPPs are unclear whether they should prioritize public values, such as safe water for the poor, or to serve as a vehicle to help Dutch companies succeed abroad. The ambiguous hierarchy of different policy goals<sup>2</sup> creates tensions within PPPs.

Struggling to meet these expectations, few PPPs have the time to develop a strategy to engage and partner with governments. Many think about scaling and systemic change, but lack a strategy on this; and while they have government funding, most PPPs do not have a strategy for blending finance<sup>3</sup> and evolving towards a sustainable finance mix.



#### Pioneering innovative approaches and new solutions

Small is beautiful, and this is how many Dutch-funded partnerships start, by pioneering new solutions or approaches. But transitioning from pilots to maturity, gaining influence and momentum is only possible if the approach is built around a solid business case to which the private sector is committed.

The Sevia horticulture project in Tanzania managed to deliver high-quality extension at scale, because it combined high-quality private technical capacities with large-scale agricultural national extension services.

The East West Seed and Rijk Zwaan companies are particularly committed to developing and disseminating the adapted technological innovations. Because of their long-term outlook, they developed appropriate business cases. As such, SEVIA (Seeds of Expertise for the Vegetable Sector of Africa) aims to contribute to the development of the vegetable industry in Africa and to food security.

<sup>2</sup> See the IOB evaluation *Food for Thought: Review of Dutch Food Security Policy, 2012–2016*, October 2017.

<sup>3</sup> The OECD defines blended finance as the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries.

# What does it take for Dutch-supported PPPs to deliver on their promise of transformational change?

The three building blocks described below will allow PPPs to fulfil their promise better and can help sharpen the mental models needed for truly transformational and effective partnerships.

PPPs should:

## Strategize for systemic change ...

Partnerships should aim to go beyond the project-oriented approach and have a long-term vision about what they want to change, with whom, and how. Many of the researched PPPs are built around a technological innovation in agricultural or water sectors, which is being 'pushed' into the system; they thus end up having a temporary function.

... which includes:

### Applying a long-term system lens

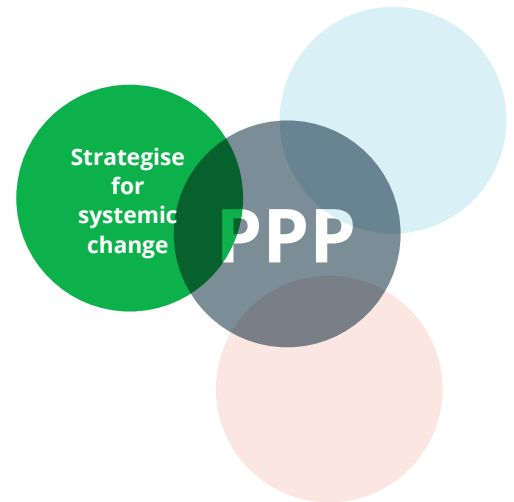
Innovation is the buzzword in the partnership community, but focusing on one individual innovation diverts attention away from the bigger picture. System change requires choosing the right momentum to engage, connecting with the right actors and networks, and embedding efforts in the context the PPP is operating in. Having applied a system lens, the foremost question for a partnership is one of commitment: are the actors and leaders willing, able, and sufficiently well positioned to actually pursue such system change? PPPs that apply a system lens from the beginning - using *the Scaling Scan*, which assesses ten ingredients needed to scale - can build something that lasts.

### Identifying scaling potential through local actors

Local forces usually drive scaling successes. These may not be engaged from the start in (Dutch-supported) PPPs, but those that are critical for getting the job done should be identified early on. Often combinations of local businesses, NGOs, and platforms, they can be brought to the table and can start driving, shaping, and co-owning the process. Embassies can play a supportive role too, as they know both the objectives and processes of the PPP, as well as the (enabling) environment for scaling.

### Engaging in issues that matter locally

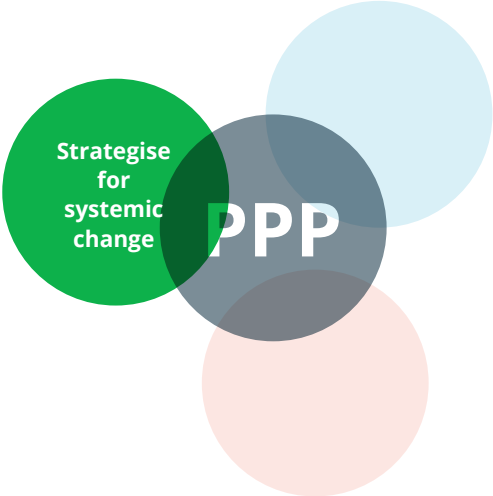
Having a good business case around an innovation is fundamental, but does it have the potential to change the system? It takes time to determine how the business case 'lands' and realistically develops in the context. Finding out which issues matter, what holds the problem in its place, and who is key to change requires a thorough context



and system analysis by the partnership - and not just once, but on a continuous basis. How did change happen in the past, and where is the potential now? This implies you should be ready to engage in issues that matter to the context, for longer periods.

**Becoming system players**

When an innovation gets traction and breaks through, a partnership might tend to protect the business case from its competitors: the proof-of-market and initial growth stages expose the PPP to competitive power. But building critical mass is exactly what transformative change requires: the crowding-in of others, creating the much needed multitude of innovations that make a system shift. The way of handling these dynamics is to develop adaptive partnerships, with a 'learn, adapt, adjust' attitude, and as such become real system players. These partnerships have a particular purpose: to contribute their share as part of the collective response that SDG issues require.



**Influencing the rules of the game**

One project that kept targeting the systemic dimensions of change is the “Increasing Water Use Efficiency in Sugarcane Growing in India” project, which addresses the overexploitation of groundwater resources, with sugar mills driving this change together with NGOs. It focuses on sugarcane growers adopting improved irrigation and farming practices to reduce water use and increase crop yields.

It took some time, but now leadership is involved on different levels (local governments, cane commissioners, and the Ministry of Agriculture) in obtaining buy-in and influence policy. With this initial ‘institutionalization’ of their innovation, the partnership can enable a drive towards a ‘critical mass’ of other, like-minded partnerships building on their innovation. See the Insights Series *‘Scaling through PPPs’* for more examples.

## Improve partnerships' fitness to enable change ...

In order to bring change to issues that matter locally, partnerships must be fit for purpose. Partnerships are often formed around a funding opportunity and have an ad hoc character. But how can the partners who are really needed to address the structural issues be found? And how does a partnership become locally embedded in a certain context?

### ... which requires considering:

#### Who to partner with

A system and context analysis clarifies who is critical for getting the job done, and how the partnership should be built around them at all necessary levels of change. Bringing together organizations, companies, and institutions may expose tensions between public goals like development impact and private goals such as profitability, which needs to be dealt with at the design phase of the project. However, a partnership proposition based on declarations, policies, and objectives on paper only is not enough. Knowing your partners' drivers is key.

#### How to partner

Partners can only be made to actually implement their commitments through the integration of mutual interests and benefits into the partnership throughout the project. This is a cumbersome process, especially with difficult partners, such as in-country governments, but the step-by-step approach of *the Working with Governments Tool* can help. This tool supports partnerships in working towards genuinely shared objectives. Ideally, a partnership is built on understanding and trust between partners, but if this does not work, clearly assigned roles and responsibilities can serve as a framework for collaboration. This can eventually transform into a new, more inclusive governance mechanism.

#### What if circumstances change

In any context, partnerships should be prepared for circumstances to change, which might require the partnership to invite new partners or part with previous partners. Dutch-supported PPPs have developed *a range of practices* to deal with changing realities and absorbing setbacks; *Agrico East Africa*, for example, chose to engage higher decision-making levels when the project was delayed. An important asset for partnerships is in-house experience and prior networks in the country context to mitigate risk and challenges.



#### Alignment of interests

Many Dutch-supported PPPs know that declaring common goals is no guarantee of implementation. Wienco, a Dutch-Ghanaian company, started mapping land ownership together with local chiefs in northern Ghana well before designing the project.

The Dutch embassy initiated and facilitated the contact with the formal government bodies that had key roles in the water sector. The partnership carefully aligned and integrated the actual interests and benefits of each partner, each of whom was crucial in addressing the problems of inefficient water use, unemployment, and food insecurity in the region. Their investment into aligning of interest paid off, with the partnership now ready for scaling.

More information can be found in *the Ghana case study* on the Integrated Water Management and Knowledge Transfer in Sisili Kulpawn Basin, led by IWAD Ghana Ltd.

### And how to work on locally embedding the partnership

Local embedding helps build impact. If partners begin working in unfamiliar places, they need time to find the right local partners and build commitment and trust. This requires stamina. The lack of local embedding and networks comes to the surface when there are, for example, problems with public authorities. Although partnerships can resort to the embassy for help, as the exploration '*Understanding the role of Dutch Embassies and the challenges they face*' highlights, they will need to eventually handle this kind of issue themselves. This might slow down the project, but the time invested in carefully built constituencies, from grassroots organizations up to national government, will pay back, because they will eventually help to drive the agenda and stand for the change to happen.





## Rethink risk and blend finance ...

One of the biggest problems for partnerships is long-term finance. However many PPPs are locked in the projectized, grant-money way of thinking and avoid risks as much as possible, in order not to antagonize the institutional donor. However PPPs that are on track to becoming transformational are subject to a number of potential risks, but also unexpected setbacks and reversals.

### ... which implies:

#### Mitigate risk

Risk is perceived differently by public and private sectors, which results in misunderstandings and gaps in funding. Commercial investors have a pinpoint focus on a specific type of risk: no repayment, no return. This is their main entry requirement for financing a PPP, even if only partly. The entry requirements for commercial financiers should thus be the exit criteria for a grant-funded PPP project. But Dutch-supported PPPs do not give the exit criteria for their project - for example, the customer repayment rate - much thought. PPPs end up not mitigating the type of risk that is important to commercial investors, and fail to obtain follow-up financing in time, as explained in the *Financing PPPs Exploration*. It is therefore crucial to develop a formula that brings together both the public and private perceptions of risk, to support effective risk mitigation planning by PPPs.

#### Blended value proposition

While it is important to keep the investor's perspective in mind, development partnerships distinguish themselves by their blended value proposition. *The PPP Canvas* is a useful tool for exploring a PPP's business model, including the value that is being delivered. The private sector may insist on the potential of their business case and its profitability, but by not designing services and products together locally, the risk is that these services and products will not serve low-income populations, jeopardizing the development impact of PPPs. Finding the right balance between public and private interests is crucial.

#### Plan financial graduation

The thinking on financial graduation should start early, in tune with the scaling strategy, allowing for a slower fading in and fading out of grant money. A plethora of options is available for the different stages of such a plan, as reflected in *the Finance Strategy Tool*, for partnerships at any stage. One way to plan financial graduation is to get a potential finance partner engaged in the partnership from the beginning, or at least well before the end of the initial project.



#### Getting private partners on board

How did the partnership led by *Aqua for All* get private partners to invest in a fragile state like Mali? By meeting their requirements to obtain a ten-year concession from the Malian government for the maintenance of rural water points.

The Uduma PPP in Mali implements an innovative operations and maintenance system for 1,400 manual water pumps in 300 communities, with a user payment system. After an initial investment with some donor support, it will enable sustainable operations and maintenance with highly improved service delivery levels for users based on viable business cases for the company, the mechanics, and the caretakers.

### Get an in-country finance partner on board

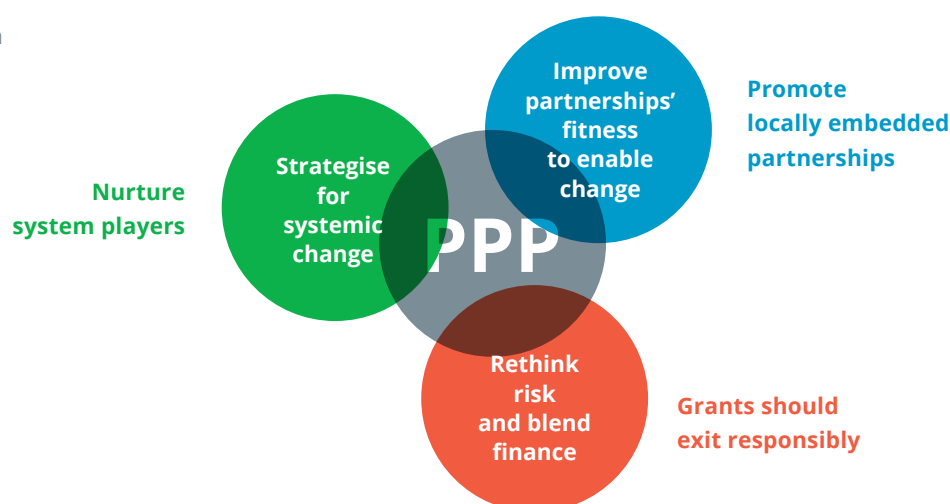
Most partnerships do not seriously consider local government as assuming the role of financier. In India for example, scaling of access to sanitation through private sector construction has been driven by a general policy on subsidies for specific social programmes. When the moment arises, finding a good match with such a policy is not enough; rather, partnerships that invested in local networks - including potential financiers, such as pension funds and semipublic institutions - have a greater chance of obtaining in-country finance. An example of this is *the Waste Foundation*, which focuses on sustainable sanitation and solid waste systems.



# What does this mean for the Dutch PPP approach?

Taking into account the lessons from Dutch-supported PPPs and their challenges, the Dutch PPP approach is in need of recalibration. There are some fundamental implications for the Dutch government on how to support PPPs best and unleash their transformational potential.

**Recalibrating the Dutch PPP approach implies:**



## **Nurture system players**

In order for PPPs to become system players, the policy agenda should be limited to fewer countries, regions, and sectors. Currently however, PPP instruments are fragmented over more than 30 different contexts. PPPs are best served by focused support, so efforts can be concentrated in specific sectors and on issues that matter to the context, in order to effectuate change. Within those, it is important to be very selective and strategically pick those that can potentially change the system. PPPs that effectively contribute to the collective response required for achieving the SDGs should be selected. The exploration '*Shaping successful scaling processes with public-private engagement*' provides more background on this.

## **Grants should exit responsibly**

Getting partnerships on the path towards sustainable commercial finance is key for their scaling and success. This may include matching and linking them to investors, market finance, or other sustainable sources, such as user payments and in-country (government) finance. The Dutch government is making headway in this, but it tends to employ a hands-off approach to a PPP the moment risk comes into play. All those financing a PPP should make a joint effort to keep the business case around the intervention sound and healthy. Development partners should have an exit strategy for their intervention before starting it. If they want their return on investment, they should have an interest in sustaining the result. Instead of acting as a traditional grant maker for PPPs, development partners should take responsibility for future investments into the partnership.

## **Promote locally embedded partnerships**

PPPs that could help change the system should be locally embedded - and the sooner the better. Embassies can broker initial contacts, but PPPs themselves should take full responsibility for adequate and strong local embedding. This is important to avoid parallel institutions created by PPPs that end as soon as the projects finish and the development partners pull out. The PPPs that are best at facilitating local actors to assume leadership should be prioritized. Furthermore, partnerships need to be able to quickly adapt to changing circumstances. Adaptive approaches need to be based on a different set of metrics for measuring progress: focus on impact pathways instead of activities, and defining markers for change instead of quantifiable, short-term outputs.



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