FIELD FACILITATION WORKING GROUP
WORKING PAPER

CYCLE 3: STRUCTURING AND MANAGING COLLABORATION WITH LEAD FIRMS

MARCH 2009

About this Document

This technical brief is the third in a series being produced by the FIELD Facilitation Working Group, an initiative to capture and share the knowledge of FIELD LWA consortium members on effective facilitation in enterprise development, particular in the context of dealing with lead firms. The report presents the collective response of working group members to the questions outlined within. It has been made public both to inform the work of others and to provide an opportunity for open feedback. Over the coming year the Working Group, with support from USAID and AED through the FIELD Support Leader with Associates, will periodically review and refine this resource before publishing a final version in November 2009. If you have comments, please direct them to facilitationwg@actionforenterprise.org.

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# List of Acronyms

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<tr>
<th>Acronym</th>
<th>Definition</th>
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<tr>
<td>DO</td>
<td>Development Organization</td>
</tr>
<tr>
<td>FIELD</td>
<td>Financial Integration, Economic Leveraging, Broad-Based Dissemination Project</td>
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<tr>
<td>GDA</td>
<td>Global Development Alliance</td>
</tr>
<tr>
<td>LF</td>
<td>Lead Firm</td>
</tr>
<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, small and medium-scale enterprise</td>
</tr>
<tr>
<td>RFA</td>
<td>Request for Application</td>
</tr>
<tr>
<td>SOW</td>
<td>Scope of Work</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>VC</td>
<td>Value Chain</td>
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</table>
I. INTRODUCTION

This document presents the results of the third “cycle” of discussions of the FIELD Facilitation working group. The objective of this working group (see Appendix A for list of participating organizations) is to share experiences and identify best practices for facilitating value chain development projects – and more specifically how projects can best work with “lead firms” to accomplish their goals. In an effort to structure the work, a series of six “discussion cycles” has been developed that are taking place over a one-year time period (see Appendix B for a list of these cycles). Each cycle takes place over a 2-3 month period and consists of preliminary tasks, working group discussions, and a synthesis of results.

This third cycle is titled “Structuring and Managing Collaboration with Lead Firms”. It begins with a section on practical measures that development organizations (DOs) can employ to establish and maintain credibility with LFs they are collaborating with. This is followed by a section on developing and negotiating memoranda of understandings (MOUs) with Lead Firms (LFs). This includes a discussion on how to initiate MOUs, the components of successful MOUs, and guidelines for identifying and structuring cost share agreements.

II. ESTABLISHING CREDIBILITY OF THE DEVELOPMENT ORGANIZATION

This section discusses how DOs establish credibility with LFs. It is generally accepted that DO credibility is a key prerequisite for success in working with LFs, and that when approached by DOs and in discussions about potential activities, LFs often ask themselves the following kind of questions about the DO:

- Are they serious?
- Are they going to keep my secrets confidential?
- Can I trust them?
- Can they deliver?
- Do they understand business?
- Will their social goals conflict with our business goals?
- Will they be like the last project or NGO that we tried to work with?

The section provides a series of guidelines and principles on how DOs can address such concerns and questions, and how they can overcome mistrust, skepticism or uncertainty that LFs might have about collaborating with them. These guidelines and principles are presented as bullets in the following categories:

- Program Development / Establishing Collaboration
- Professionalism
- Confidentiality
- Understanding of Private Sector and Business Principles
- Track Record
- Transparency and Neutrality
- Empathy

2.1 Program Development/ Establishing Collaboration

- Invest in building your sector knowledge
- Hire the right people, with business experience, understanding, and attitudes

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1 Lead firms are defined as: 1) small, medium, and large firms that have forward or backward commercial linkages with targeted micro, small, and medium scale enterprises (MSMEs); 2) dynamic market actors that can promote greater integration of MSMEs into value chains and provide them with important products and support. By promoting relationships between LFs and targeted MSMEs DOs can promote industry competitiveness and achieve leveraged and sustainable impact for targeted MSMEs.
• Don’t over-design or over-promise – start smart and get it right. This builds trust. Then expand.
• Be prepared for some handholding in launching, initiating new activities and developing the program as the LF has different systems and ways of operating
• Sell LF’s on the benefits of investing in improved/expanded relationships with MSMEs
• Recognize that it takes time for the LF to become aware of the DOs credibility as they probably want to experience it first hand
• Make it clear that DO has limited funds to support activities and cost shares (otherwise LFs might resist investing their own funds)

2.2 Professionalism
• Manage collaboration by moving forward with LFs in a businesslike fashion (try to avoid managing collaboration from a bureaucratic perspective)
• Deliver what is promised
• Look at LFs as clients (keeping in mind interests of producers and donors at the same time).
• Focus on common goals (value chain growth, commercial sustainability, etc.) otherwise LFs might feel that DO objectives are unrelated to their core goals (commercial viability, growth, etc)
• Provide quick responses (within day or two) to industry related questions that LF might ask during initial discussions
• Be professional in negotiating/developing MOUs, and throughout the relationship
• In general, create and maintain a good business-like impression and reputation with the LFs

2.3 Confidentiality
• Ensure that LF secrets are kept confidential (do not share information with others unless you’d be comfortable doing so in the presence of the LF) – this may require special staff training and current confidentiality/conflict of interest statements.
• Make it clear that sensitive business information will not be shared with donors or others

2.4 Understanding of Private Sector and Business Principles
• Demonstrate understanding of the private sector including the reality (and implications) of the LF’s competitive and operating environment
• Demonstrate an understanding of business principles
• Differentiate your approach from those of other DOs that only interact with producers or that do not approach collaboration in a professional manner.
• Demonstrate your understanding of the important role that all VC actors play and your recognition of the importance of LFs as innovators, economic drivers, etc.
• Consistently explain vision for collaboration with LFs and for value chain development (focusing not just on producers but on creating benefits for everyone in the value chain).

2.5 Track Record
• Demonstrate track record with examples of concrete results working with LFs
• Demonstrate experience and track record that goes beyond “mobilizing communities”
• Build a track record of success working in value chains with LFs

2.6 Transparency / Neutrality
• Demonstrate neutrality regarding role of different market actors (do not hold bias towards small-scale producers)
• Be transparent from the beginning about the DO’s role in the industry and its own motivations and incentives
• Share information with LF whenever available
• Participate in a stakeholder forum that includes LF and other stakeholders, so that DO is not seen to be taking sides
• Act in an impartial manner by recognizing the important role that all market actors have in the value chain and not having a bias in favor of one type of market actor (or organizational structure) over another (can do this by adopting general goal of promoting value chain competitiveness).
2.7 Empathy

- Understand and appreciate the risks (reputation, financial, etc.) that LFs are undertaking in making new investments, developing more proactive relationships with producers, etc.
- Demonstrate understanding of the commercial nature of the LFs and that they must be cost conscious and disciplined in all their activities.
- Recognize the reality that some DOs (past and present) have gotten large funding and then didn’t produce tangible results (some LFs may have already become cynical because of this).
- Demonstrate empathy for the challenges facing the LF and recognition of the positive contributions it is making to the economy, small producers, etc.

III. DEVELOPING AND NEGOTIATING MOUs WITH LEAD FIRMS

Typically, a value chain analysis/program design precedes the development of MOUs with lead firms. MOU development is based on program design that has determined that: 1) working with lead firms in the value chain could result in sustainable solutions to value chain constraints, greater value chain competitiveness, and greater integration of/benefits to MSMEs, and; 2) there are opportunities, and a shared vision among market actors, for pursuing mutual benefit. Having established this, this section presents insights and guidelines from the working group on developing MOUs with LFs.

3.1 Structure and form of MOUs

MOUs with Lead Firms cannot and should not be fixed in structure or form (i.e. no “one size fits all”). Some may be at a high level, and set out only general agreements about collaboration across multiple geographies. Others may essentially be contracts, focused on a particular area with detailed mutual expectations & deliverables. In some cases MOUs with a Lead Firm may need to be sequential. An initial MOU, for example, might start out with agreements to carry out joint planning and research into the proposed activities or investments. They might also highlight the aspects of confidentiality between the DO and LF. Subsequent MOUs could then move into more detail and cover implementation activities.

There is also the option of establishing an “umbrella” or core MOU as a more general agreement, meant to define and support the general objectives, collaboration and relationship between the LF and the DO. The actual joint activities under this sort of MOU are based on the development of a series of subsequent, task oriented “sub-agreements” to the MOU (these can be referred to as MOU amendments, SOWs, sequential contracts, etc.). This may form a more flexible platform for cooperation.

Whatever serves as the underlying MOU must include a lot of standard contractual–type language. The potential awkwardness of wading through some of these matters with the LF as you are still building a relationship is obvious – but done correctly it demonstrates the development organization’s serious approach to business and the collaboration.

3.2 Components of successful MOUs

The following table presents some of the most common components in MOU agreements between a DO and a LF. Next to each component there is a summary list of potential component contents.

<table>
<thead>
<tr>
<th>General Component</th>
<th>Description/ Specific Components</th>
</tr>
</thead>
</table>
| Purpose/Objective of MOU | • Goal, objectives, reasons for MOU*  
• Expression of willingness to work together  
• Description of activities to be undertaken together  
• Clarification on whether there will be amendments or additional agreements for specific activities  

*Can include different points including:  
• goal of developing/improving long term relationships between LF and |
<table>
<thead>
<tr>
<th>MSMEs they buy from or sell to</th>
</tr>
</thead>
<tbody>
<tr>
<td>• long-term commitment of LF</td>
</tr>
<tr>
<td>• role of DO to build capacity and support the LF, etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Representations</th>
<th>• Identification of parties</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Motivation for MOU</td>
</tr>
<tr>
<td></td>
<td>• Statement to the effect that “this written document is the entire agreement…”</td>
</tr>
<tr>
<td></td>
<td>• Authorized contact/point persons for each organization</td>
</tr>
<tr>
<td></td>
<td>• Authorization of individuals to sign</td>
</tr>
</tbody>
</table>

| Relationship among parties | • Clarification of roles and responsibilities of each party (should reflect a strategy whereby the Facilitator does not get directly engage in VC functions but supports LFs to expand/improve commercially sustainable and mutually beneficial relationships with producers) |
|                           | • Agreements on terms and conditions that will guide the collaboration between LF and MSMEs |
|                           | • Specification of extent and limits of the relationship |
|                           | • Length of agreement |
|                           | • Time frame for specific activities (emphasis on clarity) |
|                           | • Right for Facilitator to monitor activities / assess impact |
|                           | • Stipulation that LF cannot use name of project/DO w/o authorization |
|                           | • Agreement not to solicit each others’ employees |
|                           | • Description of Facilitator’s exit strategy from collaboration |

<table>
<thead>
<tr>
<th>Activities under MOU</th>
<th>• Description of activities covered under the MOU</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Description of who is responsible for what (clarification of tasks, activities, deliverables, etc that will be done by each party – could mention names)</td>
</tr>
<tr>
<td></td>
<td>• Activity milestones</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reporting</th>
<th>• Roles and responsibilities for reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Description of reporting requirements (number of reports, contents, timing, etc.)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Calendar / Timing of Activities</th>
<th>• Description of when activities will take place</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Work plan for activities</td>
</tr>
<tr>
<td></td>
<td>• Timeframe for specific activities</td>
</tr>
</tbody>
</table>

| Financing/Payments | • Detailed description of all financial expectations/obligations |
|                   | • Clarification (if using an “umbrella” MOU) that specific cost share/payment details will be elaborated in subsequent agreements. |
|                   | • Percentage of facilitator cost sharing for activities |
|                   | • Budget of projected expenditures for agreed upon activities (including cost share amounts) |
|                   | • Payment terms and method |
|                   | • Process for advances (and deduction of advances over time) |
|                   | • Preconditions/milestones to be met before payments are made |
|                   | • Stipulation that taxes are not the responsibility of DO |

<table>
<thead>
<tr>
<th>Confidentiality / Intellectual Property</th>
<th>• Statement that parties will not disclose information related to activities without consent of both parties</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Duration of confidentiality clause (if needed)</td>
</tr>
<tr>
<td></td>
<td>• Description of intellectual property rights for products developed under agreement (if needed)</td>
</tr>
</tbody>
</table>
3.3 Insights for developing and negotiating MOU’s

This section presents a series of bullet points that present general insights and suggestions for developing and negotiating MOUs with LFs.

1. The written draft of the MOU when shared with the LF should contain absolutely no surprises. Everything should have been clearly discussed in advance.

2. One way of facilitating this is to request LFs to submit a “proposal” or “expression of interest” that describes their ideas for cost share activities with the DO. This can be in response to a small scale “request for applications” (RFA) that provides the LF with the criteria and parameters of collaboration with the DO. Negotiations and discussions then take place by carefully going through these proposals with the LFs to discuss and negotiate strategy, timing, and cost shares. This should be seen less as a competitive process than an opportunity for the LFs to put good ideas and analysis down on paper. If a DO has already identified opportunities to pursue within the value chain and with targeted LFs, then the RFA can be used to solicit different ideas from firms interested in pursuing those opportunities.

3. The identification of activities to be undertaken by the LF (with support from the DO) can also take place during meetings with LFs. This can sometimes take place even before a VC analysis.

4. It is important for activities with LFs to start modestly and build upon initial successes.

5. DO practitioners should ensure that they are aware of the needs of both producers and lead firms before entering into the negotiating phase.

6. DO should bring LFs to the table to discuss and negotiate the contents of an MOU.

| Duration/Termination Review/Renewal | • Length of agreement  
• Time frame for specific activities  
• Description of how agreement can be amended, extended or terminated  
• Process of communication in case of changes in planned activities |
|-------------------------------------|---------------------------------------------------------------|
| Restrictions/Liabilities/Force Majeure | • Limitations to the MOU’s legal interpretation  
• Disclaim warranties, no guarantees, hold harmless and indemnify...  
• Facilitator’s right to withhold payments under certain conditions  
• Insurance (i.e. not responsibility of Facilitator/project) |
| Dispute resolution/Court jurisdiction/Language/etc. | • Agreement will adhere to laws of the country  
• Will be in compliance with all relevant local laws and regulations  
• Mediation process to follow in case of dispute |
| Monitoring, Evaluation, Controls | • Rights to gather and report information on activities in agreement  
• Right to assess impact with participants  
• Inspection and Audit |
7. Discussing and negotiating proposed activities with LFs can be a helpful exercise for the LF to think more carefully about their strategies and work plan.

8. Make sure that the roles and responsibilities for each party are clearly described

9. Itemize the “outputs” or deliverables for each party

10. Ensure clear understanding of the level of resources (financial and other) required for execution of proposed activities.

11. Ensure that timelines for cost share activities (i.e. when it will start and end) are clear from the beginning.

12. It is important to reinforce the understanding that the DO will not intervene in the VC on behalf of the LF or producers (i.e. value chain transactions must be between the LF and the MSMEs they buy from/sell to)

13. When working with multiple lead firms it is sometimes important/ useful to have standardized cost share for specific activities (so that one LF is not getting more than another for the same activity)

14. Activities in the MOU can be used to encourage innovation on the part of the LF, perhaps starting small and including the possibility of expansion

### 3.4 **DO Terminology regarding LFs and MOUs**

Sometimes there are questions of what the appropriate terminology should be when referring to the collaboration between a DO and LFs. Two important considerations include:

- **Avoid referring to LFs as “partners” or “partner organizations”** - the rationale here is that LFs are not like NGO partner organizations that assist DOs to implement projects. They should not be seen as subcontractors for project implementation – rather as market actors that play a key role in the value chain - providing market access, products, finance and/or other forms of support to the MSMEs they buy from or sell to (as part of their commercial relations with them).

- **Avoid referring to MOUs as “contracts”** – the rationale here is that a contract has the connotation of hiring someone to do something for you. This could lead DO staff to think that the LF is providing a service for “their project”. The spirit of the MOU should be that the DO is providing support to the LF to develop operations and activities that otherwise would be difficult for it to do on its own (and that will result in positive impact for both the LF and the MSMEs it transacts with). Some discussions on this point among the working group included:

  - Would an MOU document be legally binding?
  - Is the relationship between a DO and LF similar to the one described in USAID GDA public/private partnerships? In those relationships USAID lays out seven principles of collaboration with private firms (see http://www.usaid.gov/our_work/global_partnerships/gda/faq.html).
  - The language used might depend on the size and sophistication of the LF
  - One could also look at the LF as having a “contract” with the DO and holding them accountable for delivering results. Example was given of DO that sometimes provides fee-based services to LFs. This raises questions, however, of conflict of interest as they might
compete with local firms instead of developing local capacity of these firms to provide services to LFs.

3.5 **Guidelines on cost shares with LFs**

Collaboration between DOs and LFs often includes a cost share component where the DO helps to offset some of the costs and mitigate the risks that the LF faces in making new investments (that will benefit producers they buy from or sell to). Seen another way, cost shares can provide incentives for the LF to move forward with an initiative that otherwise they might not be willing or able to do. This section presents some of the working group’s discussions of this topic. It begins with some general statements and principles about which cost shares are typically justifiable and which ones are more difficult to justify. This is followed by a table that lists illustrative activities categorized as typically justifiable, non-justifiable, or context dependent.

In general, there are no cost sharing mechanisms that are always good, under all circumstances. Some, however, will generally be more attractive, and carry within them less potential for problems. Judgment, prudence, transparency and negotiation are always called for when identifying and implementing cost share agreements. The purpose of subsidy (cost share) is to mitigate risk and build capacity, thereby supporting innovation and change. There are limited hard and fast rules. Nonetheless, general rules of thumb might include:

**Justifiable Cost Shares:**
- LF capacity building activities
- Initial training and demonstration activities conducted by LF for MSMEs they buy from/sell to
- Activities to link LFs to new markets, buyers, equipment/input suppliers, etc
- Market research and feasibility studies
- Technical assistance for R&D and new product development

**Difficult to Justify** (due to risks of creating dependency, distorting markets, slowing ownership, etc.)
- Recurring operational or working capital costs of LF
- Physical assets
- LF personnel

**Additional Points:**
- When providing subsidies the development organization should think carefully about the potential consequences (from viewpoints of sustainability, level playing field, impact on other market actors, support market development, competition, etc.) and adopt a “do no harm” policy
- DO support to a LF can be contingent upon a demonstrated commitment by the LF in, for example, hiring staff, making specific investments, undertaking initial activities, etc.. In this manner, LFs “self-select” for collaboration with the DO, which can greatly enhance the chances of success and sustainability of impacts. Such cost shares can then be considered as “smart subsidies” as their chance of leading to sustainable impact are increased.*
- In negotiating both MOUs and related cost share agreements DOs should resist offering (or accepting) to “organize producers” on behalf of the LFs as this can foster dependencies and hinder the development of sustainable relationships between LFs and producers.
- Cost share and smart subsidy can also depend on how strong the lead firm is – some may require greater capacity building before they are able to make needed investments with producers
- In developing agreements, DOs should also be cognizant of risk management from the perspective of producers that are interacting with targeted LFs. For example, with new or unique products for which a LF is the sole buyer producers may experience higher risk in expanding their production and sales commitments. In such cases, DO cost-share activities may include measures to mitigate producers’ risk (such as providing cost-share support for new types of seeds that LFs
distribute to farmers for a pilot season). DOs need to be careful however not to create dependencies or detract from the goal of sustainability.

*Smart subsidies can be defined as those that encourage LFs to do something they probably would not be doing on their own, at least not right away because they see it as too risky. DO value is in buying down that risk to a reasonable level with a reasonable degree of subsidy without doing the work for them or creating dependency on the DO to drive the process.*

**TABLE: ILLUSTRATIVE ACTIVITIES FOR COST SHARE DISCUSSION**

<table>
<thead>
<tr>
<th>Justifiable Cost Share?</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YES</strong></td>
<td></td>
</tr>
<tr>
<td>1. Training of trainers for LF staff to deliver effective training/TA to producers they buy from/sell to</td>
<td>Especially technical/production training</td>
</tr>
<tr>
<td>2. Training (organized by LFs) of producers buying from / selling to LFs</td>
<td>To get things going</td>
</tr>
<tr>
<td>3. Demonstration plots / Field days (used by LF to demonstrate good practice to producers)</td>
<td>LF would ideally pay 100% but not always feasible</td>
</tr>
<tr>
<td>4. Shared loan guarantee to promote access/ reduce rates of commercial loans to LFs</td>
<td>Strong conditions would need to be in place. Percentage cost share should be low. Selection of beneficiaries needs to be transparent</td>
</tr>
<tr>
<td>5. Visit to foreign country (to find buyers, meet with equipment suppliers, participate in conference, observe competitors, etc)</td>
<td>LF should have plan and strategy to contribute to learning activities resulting from tour with wider dissemination to other LFs.</td>
</tr>
<tr>
<td>6. Buyer visits (bring in new buyers to meet w/LFs)</td>
<td>DO can pay most of it.</td>
</tr>
<tr>
<td>7. Trade show participation</td>
<td>Cost share should be “transitioned” out over time.</td>
</tr>
<tr>
<td>8. New product/service development (includes market and feasibility analysis, business plans, research &amp; develop., testing new seeds, sample develop, etc)</td>
<td>Cost-share percentage should be low</td>
</tr>
<tr>
<td>9. Short/medium term technical consultants (new product development, production technologies, etc)</td>
<td>Cost-share percentage should be low</td>
</tr>
<tr>
<td>10. Certification services (organic certification, HACCP, ISO, etc.)</td>
<td>It may be appropriate when there is a significant barrier to entering a new higher value market that will incorporate small landholders.</td>
</tr>
<tr>
<td><strong>NO</strong></td>
<td></td>
</tr>
<tr>
<td>11. Seed multiplication (for eventual distribution/sale to producers linked to LF)</td>
<td>Hard to justify cost share as it results in asset that could be sold by LF; also it could distort markets. Technical support for this, however, is fine.</td>
</tr>
<tr>
<td>12. Hand tools/basic equipment for distribution to producers</td>
<td></td>
</tr>
<tr>
<td>13. Recurring lead firm operational / working capital costs</td>
<td>Will promote dependency</td>
</tr>
<tr>
<td>14. Lead firm staff/personnel</td>
<td>Will promote dependency</td>
</tr>
<tr>
<td><strong>EQUALLY DIVIDED / MIXED RESPONSES</strong></td>
<td><strong>Details</strong></td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>15. Capital equipment (tractors, equipment, sheds, computers, etc)</td>
<td>Depends on type of investment and the ownership No - if they are for the LF, not the DO Yes - but with strong conditions such as agreement to act as model firm for other LFs Tricky arena - one wants to avoid distorting effects but also help build a ladder up...</td>
</tr>
<tr>
<td>16. Marketing campaigns (to promote sales of LF products/services)</td>
<td>Yes - and for market studies too No - if seen as unfair competition</td>
</tr>
<tr>
<td>Comments:</td>
<td></td>
</tr>
<tr>
<td>• Should be for products that will have an traceable impact on producers</td>
<td></td>
</tr>
<tr>
<td>• Need to be careful about determining the appropriate cost share and who will take responsibility (in general is better if LFs take responsibility but there could be exceptions, e.g. if many LFs are involved and it is a general marketing campaign)</td>
<td></td>
</tr>
<tr>
<td>• Might make sense for a LF association to take responsibility (would avoid favoring one LF over another and have greater indirect benefits)</td>
<td></td>
</tr>
<tr>
<td>17. Institutional capacity building (MIS systems, ICT skills/website development, quality management systems, etc)</td>
<td>Some Yes and some No Comments:</td>
</tr>
<tr>
<td>• depends on causal impact on MSME producers – DOs need to make the case on how this will directly or indirectly affect MSMEs</td>
<td></td>
</tr>
<tr>
<td>• need to choose LFs wisely and work with as many as possible to mitigate risks (of some dropping out or not applying the new systems)</td>
<td></td>
</tr>
<tr>
<td>• Only if DO has great confidence in LF</td>
<td></td>
</tr>
<tr>
<td>• May require bringing in high level management consultants (costs for this might be mitigated by using volunteers)</td>
<td></td>
</tr>
<tr>
<td>Capital Raising (to address investment needs of LFs who are often constrained by lack of access to low-cost capital)</td>
<td>Yes, if it can lead to impact on MSMEs the LFs buy from or sell to Comments:</td>
</tr>
<tr>
<td>• LFs are often ready to take risks, borrow and invest if interest rates are low enough</td>
<td></td>
</tr>
<tr>
<td>• DO can help them to find equity partners, negotiate with banks, etc. (LF bears the risk)</td>
<td></td>
</tr>
<tr>
<td>• In some cases DO can assist LFs to apply for funding (DCA, commercial loans, etc)</td>
<td></td>
</tr>
<tr>
<td>• LFs sometimes do not understand the concept of equity contributions (DO can help with this)</td>
<td></td>
</tr>
</tbody>
</table>

### 3.6 Structuring cost-share agreements to ensure sustainability
This section reflects on how cost shares can be structured to reduce the risks of creating dependencies and increase the chances of sustainability. Principles and guidelines are presented according to categories of: 1) timing and duration of cost shares; 2) cost share percentages, and; 3) specific activities.

### Timing and Duration of Cost Shares
- Only use cost share at beginning to get things going.
- Cost share should be "transitioned" out over time and should have a limited duration.
- Carry out cost share to get activity going and get LF excited – but only provide cost share for the first few trainings, etc.
- Should be for a limited time, to establish needed systems and capacity
- The activity timeframe should extend through the time when all subsidies will be withdrawn.
- Ensure strategy in place for promoting LF ownership (capacity building of LF staff, etc.)

### Cost Share Percentages
- Keep the cost-share percentage as low as possible to encourage LF ownership (while still providing incentives and helping to mitigate risks)
- Put cost shares into context that shows a time when subsidies will be removed (e.g. year 1 = 100% subsidy, by year 3 = 50%, by year 5 = 0%, and year 5 must be within time frame of MOU). Each year would be described in separate agreement, thus LFs know that success means: sustainability = no subsidy!

### Specific Activities
- Find firms from support markets (third party providers of products and services) that can take on responsibility for certain education activities (i.e. input suppliers that can support demo plots, etc.)
- If possible, link LFs to other VC actors (seed companies, etc.) that can provide needed inputs or services on a sustainable basis
- Assist LF to look at leasing opportunities or alternative financing mechanisms that might be cheaper or offer more flexibility than traditional loans
- Build in conditions for LFs that benefit from study tours, etc. to share that information and promote wider dissemination with other LFs.
Appendices

Appendix A: Working Group Membership and Structure

The FIELD Facilitation Working Group draws on the collective experience of a number of leading organizations working in this area including: ACDI/VOCA, AED, Action for Enterprise (AFE), CARE, MEDA, Save the Children, TechnoServe, and WOCCU. The group is chaired and facilitated by AFE with support from AED through the USAID FIELD LWA.

Working Group members include:
• Frank Lusby, Action for Enterprise (Facilitator)
• Eric Derks of Action for Enterprise (Facilitator)
• Mike Field, ACDI/VOCA
• Bob Fries, ACDI/VOCA
• Christian Pennotti, AED
• Farouk Jiwa, CARE
• Ann Gordon, MEDA
• Jay Banjade, Save the Children
• Steve Londner, TechnoServe
Appendix B: Cycle Topics for FIELD Facilitation Working Group Y1

CYCLE 1 (June ‘08)
• Definitions and terms
  o Key principles of Facilitation
  o Lead Firms
  o Sustainability

CYCLE 2 (Sept ‘08)
• Methods for identifying/selecting lead firms/market actors to work with
  o Identification within value chain context
  o Selection criteria / factors that lead to success
  o How many to work with

CYCLE 3 (Nov ‘08)
• Structuring and managing collaboration
  o Types of agreements / smart subsidies
  o Ensuring commitment
  o Establishing credibility and trust / balancing interests

CYCLE 4 (Feb ‘09)
• Types of interventions / capacity building activities
  o [TBD] Links to fin institutions, staff training/TA, buyer visits, demo plots, QM initiatives, exploration/learning visits, links to input supply companies, trade shows, etc.

CYCLE 5 (April ‘09)
• Addressing weak/nonexistent functions in VC
  o Strategies for addressing weak/nonexistent functions in VC
  o Options/best practices (improve existing lead firms, create new, indigenous organizations, co-investments, etc.)

CYCLE 6 (June ‘09)
• Ensuring sustainability / exit strategies
  o Building exit strategies into project design
  o Factors/ principles for ensuring sustainability
  o What happens after project activities