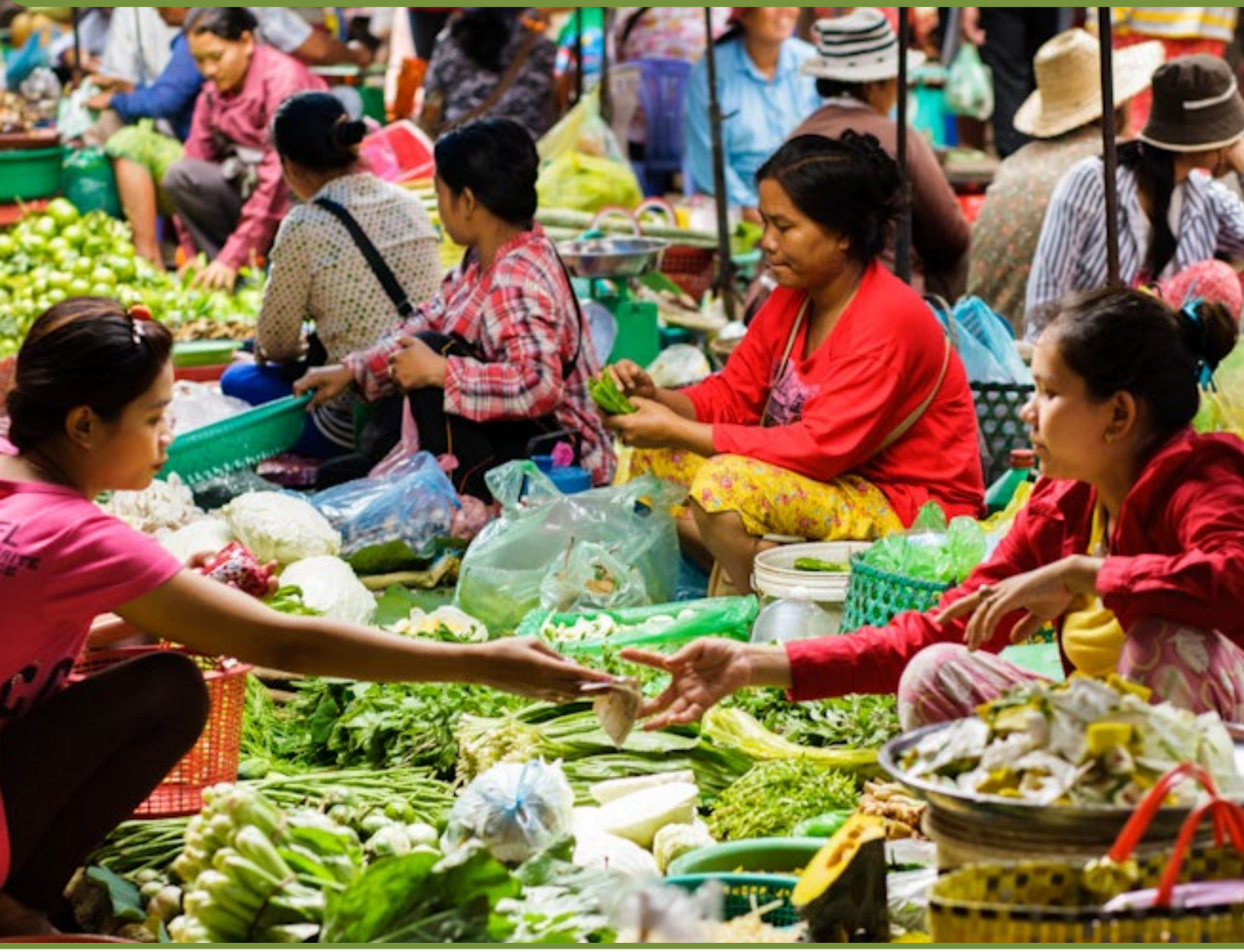
FEED THE FUTURE
The U.S. Government's Global Hunger & Food Security Initiative

Partnering for Innovation

Practitioner's Guide

Engaging the Private Sector with a Pay-for-Results Approach



USAID
FROM THE AMERICAN PEOPLE

Fintrac

January 2022

About Feed the Future Partnering for Innovation

Feed the Future Partnering for Innovation is a USAID-funded program that builds partnerships with agribusinesses to help them sell new products and services to smallholder farmers, who represent a potential market of more than 500 million customers worldwide. Businesses are provided with the investment assistance, expert guidance, and technical support they need to expand in emerging markets and create a growing and lasting customer base for their agricultural innovations.

www.PartneringforInnovation.org

DISCLAIMER

This publication was made possible with the support of the American people through the United States Agency for International Development, under the terms of Cooperative Agreement No. OAA-A-12-0051, and managed by Fintrac Inc. The opinions expressed herein are those of the authors and do not necessarily reflect the view of the United States government.

Photos: Fintrac Inc.

TABLE OF CONTENTS

INTRODUCTION

Feed the Future Partnering for Innovation (Partnering for Innovation) is a U.S. Agency for International Development (USAID) program launched in 2012 that builds partnerships with agribusinesses in emerging market to help them sell new products and services to smallholder farmers, who represent a potential market of more than 500 million customers worldwide.

For nearly a decade, Partnering for Innovation has partnered with 75 businesses in 24 countries, helping to commercialize 145 technologies and management practices.

More than 1.7 million smallholder farmers have purchased $133 million worth of these products and services to date, enabling them to boost farm production, increase incomes, reinvest in their businesses, and strengthen food security.

This guide draws on key lessons from Partnering for Innovation's decade-long collaboration with agribusinesses in emerging markets. We are sharing these lessons in this easy-to-use guide structured in seven steps. Partnering for Innovation was explicitly designed to make it easy for private sector businesses to receive and manage USAID funds to achieve mutually beneficial development goals. We do this using:

- ✓ A simplified, targeted application process
- ✓ A co-creation and co-design process to develop goals and targets
- ✓ Performance-based funding mechanisms
- ✓ Minimized reporting requirements

This guide is designed for development practitioners and others who wish to work with the private sector to achieve development goals. This can include bilateral and multilateral government donors who are fostering the resilience of the whole-market system; nongovernmental organizations that are building the capacity of private sector stakeholders; and investors who have added social impact to their portfolio return indicators.

Partnering directly with private sector businesses is an excellent way to build sustainable access to agricultural technologies and markets for smallholder farmers. Smallholder farmers need improved inputs, access to finance that suits the agricultural cycle, better ways to store their harvested goods, and access to reliable markets. Agricultural businesses have the products and services that smallholder farmers need to make farming productive and profitable, and can provide markets for farmers' goods. By taking an investment approach to engagement with private sector businesses, it is possible to achieve development goals for smallholder farmers while building the long-term capacity of individual businesses and the resilience of the market system as a whole.

For a partnership to be successful, business objectives must align with investors' development goals. Businesses also need the flexibility and ownership to create strategies that work for them. Partnering for Innovation has developed an approach to collaborate with businesses to develop formal partnership agreements that meet both business and development objectives.

WHAT HAS FEED THE FUTURE PARTNERING FOR INNOVATION LEARNED ABOUT THE PRIVATE SECTOR?

Over the past decade, Partnering for Innovation has learned key lessons on how to create private sector partnerships that deliver improved agricultural products and services to smallholder farmers and their communities:

- **Take a Portfolio Approach to Investment**
  Rather than asking if each individual investment will succeed, it is more important to look at all investments together to determine if a portfolio has a good mix of different types of businesses intervening at different points along the value chain. A portfolio should have a handful of risky, innovative investments balanced with a sizeable group of more traditional, less risky investments to offset some of the risk.

- **Select Businesses with Strong, Committed Leaders**
  Some businesses have a vocal internal champion for targeting the smallholder market, but if the key decision-makers are not fully invested in delivering products and services to this customer base, it is a warning sign that this potential partnership does not benefit the company's bottom line.

- **Negotiate Upfront for Clear Outcomes**
  Asking private sector businesses to risk selling new products to new customers in new and difficult regions in ways that benefit smallholder farmers requires transparent negotiation upfront. Negotiation should allow both the investor and the business to reach a mutually beneficial agreement on partnership opportunities, risks, incentives, and results that requires both parties to make calculated risks to achieve goals.

- **Allow for More Flexibility**
  Market systems, particularly in the agricultural sector, are unpredictable. Investment must allow private sector business to change approach and pivot activities to react to changing market demands and meet goals. A performance-based or fixed-amount investment approach allows businesses to quickly shift and adapt implementation strategies as needed to achieve goals.

- **Prepare for External Complications**
  Businesses need to able to look past the day-to-day operations and put longer-term strategies in place for managing inevitable external complications as they arise. Getting businesses to shift to such thinking can be difficult, so it is important to include long-term deliverables, such as a five-year business plan or different cash-flow scenarios, as part of an investment.

- **Focus on Long-Term Impact**
  For small- and medium-sized agribusinesses, it will likely take considerable time to build up a loyal client base and secure a share of the smallholder market. Rushing a business to deliver concrete sales and impact outcomes can result in over-extending it geographically, financially, or operationally just to meet partnership targets and puts long-term sustainability in jeopardy. An investment period of no less than two years is recommended, with the understanding that measurable results may be achieved much later, outside of the actual investment period.

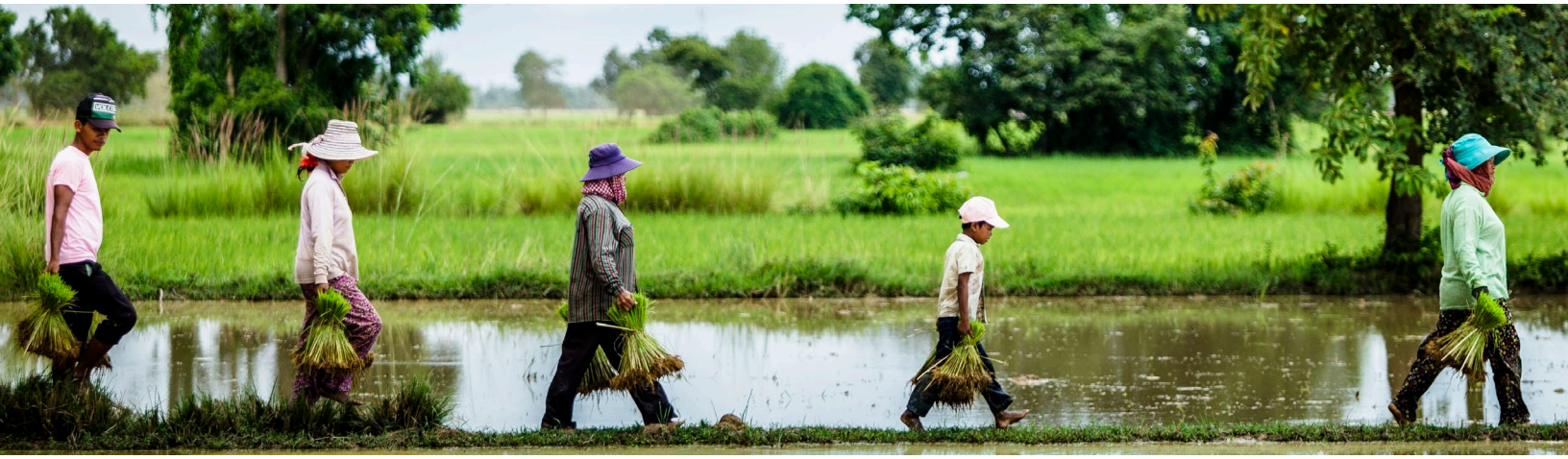
- **Limit Additional Report Requirements**
  Burdensome investor or donor reporting requirements can and do prevent some businesses from partnering with donors. Instead of requiring companies to develop new systems to track data indicators that do not contribute to their bottom line, a successful alternative approach pulls the impact information from the businesses' existing administrative, production, and sales tracking system. This approach ensures that investment funds are spent on core partnership activities where it is most needed for a product or service to succeed rather than in the development of new systems that the business will only use during the investment period.

WHY SHOULD I PARTNER WITH THE PRIVATE SECTOR?

Partnering directly with private sector businesses is a good way to build sustainable access to agricultural technology and markets for smallholder farmers, who need improved inputs, finance that suits the agricultural cycle, better ways to store harvested goods, and access to reliable markets.

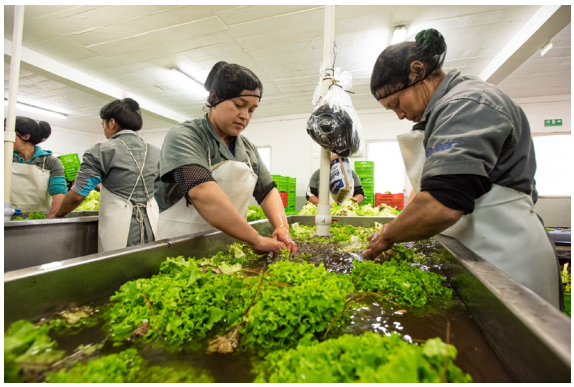
Agricultural businesses have the products and services that smallholder farmers need to make farming productive and profitable, and can provide markets for farmers' goods.

Development goals for smallholder farmers, long-term capacity of individual businesses, and resiliency of the market system can be achieved by investing in private sector businesses. Specifically, investing in ways to de-risk private sector agribusinesses to expand or enter into smallholder markets can have the following benefits:



- **Catalyze Private Sector Investment**

  Private sector businesses have funds to invest in their business growth, and private sector partnerships can leverage those resources in activities that benefit smallholder farmers. Attaching conditions to investments can ensure that development goals are being met in addition to the company's business targets.



  One important condition requires the private sector business to invest an equal or greater amount of its own funds in the partnership. These leveraged funds ensure that businesses are also risking their own resources and are incentivized to build long-term market relationships with smallholder customers.

- **Create Results at Market Scale**

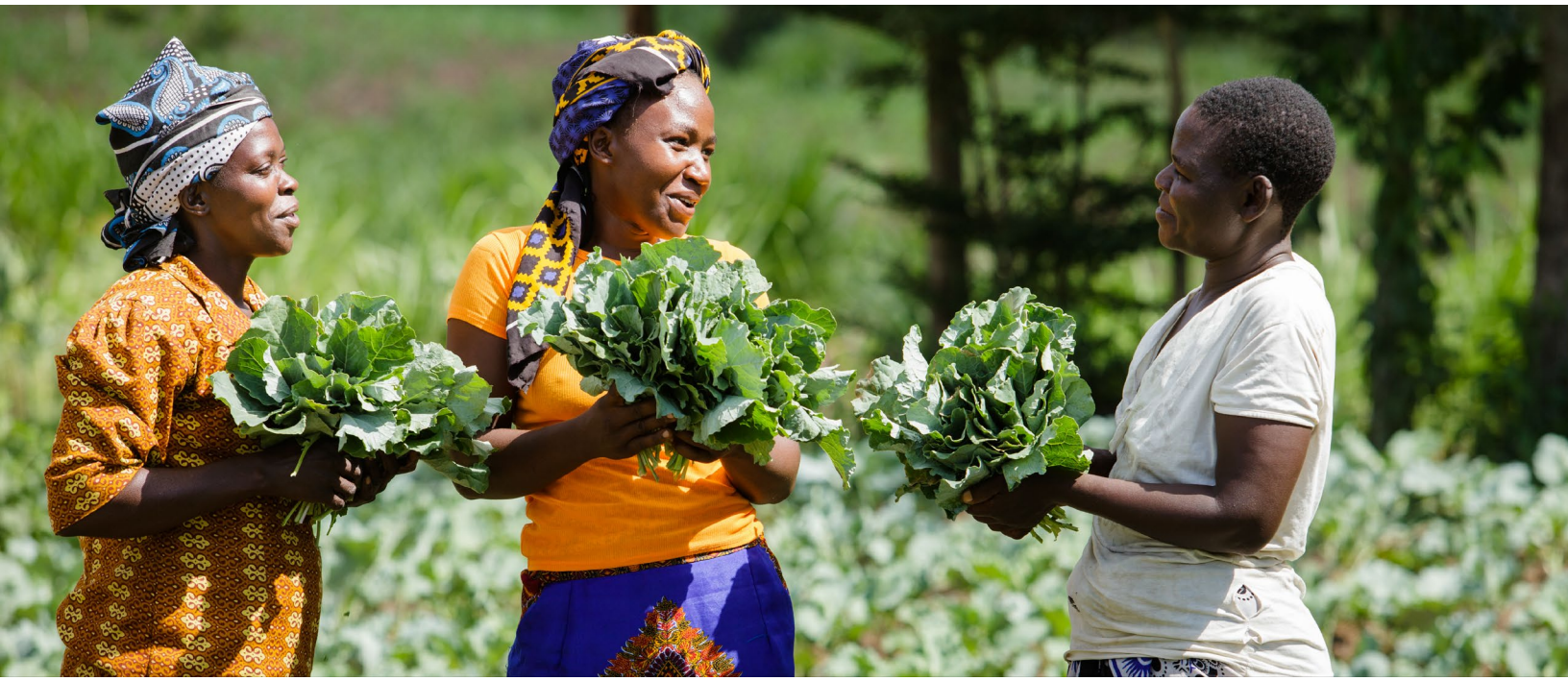
  Not only does investing in the private sector have the potential to exponentially increase the number of smallholder customers for individual businesses, it also has the potential to affect the entire market system in subtler ways. By firmly establishing successful new products in the smallholder market, businesses can demonstrate the viability of selling products designed for and targeted to smallholder customers. This approach in turn attracts or "crowds-in" new agribusinesses and service providers, resulting in a wider variety of products and services available to smallholder farmers at competitive prices and a richer, more resilient market ecosystem.

- **Address Key Market Constraints**

  Investing in private sector businesses also addresses a critical financing gap that prevents many of these businesses from targeting smallholder customers on their own. Start-up costs and risks are often too high for most businesses to establish a new product and sales force in smallholder markets, and traditional financing often is not available or accessible for small- and medium-sized businesses looking to expand into smallholder markets.

- **Generate Sustainable Results**

  Investing in private sector business sparks a sustainable cycle of profitability for both farmers and agribusinesses. Businesses have a profit incentive to build an efficient, sustainable market presence aimed at smallholder customers' needs and farmers benefit from commercial access to needed good and services. As farmers become more productive, they have more money to spend on these businesses' goods and services; in turn, businesses ultimately reach a volume of sales and increased profits needed to reach more smallholder customers without the need for continuing donor support.



WHAT NEW TERMINOLOGY DO I NEED TO KNOW?

The private sector investments discussed in this guide are different from traditional donor relationships – instead of focusing only on the recipient's potential impact on smallholder beneficiaries, these investments also focus on the impact to the company, related value chain actors, and the market system as a whole.

Investment language is used when appropriate to indicate that profitability, financial viability, and a business' bottom line are important results, just like smallholder impact and improved food security are important results.

As a market systems approach, donors or investors promote better opportunities for smallholder farmers to participate in a diverse, resilient agricultural market system, which results in the sustainable achievement of key development goals.

The following terminology facilitate use of this guide:

Term	Definition
Acceleration Services	Short-term capacity building activities that provide businesses with targeted corporate mentorship and training (e.g. marketing improvement, strategic planning, executive-team development).
De-Risking Investments	Targeted one-time seed capital to private sector businesses focusing on underserved customers and prioritizing social impact over financial return.
Expression of Interest (EOI)	Request for a short, basic concept note instead of a full proposal that clearly and concisely explains the relevance, purpose, objectives, activities, and expected results of a proposed investment activity.
Performance-Based Award	Aligns goals and expectations while leaving room for private sector partners to respond flexibly to quickly changing business environments. Expected costs of activities are negotiated upfront and paid based on results (achievement of milestones).
Private Sector Partnership	Formal relationship between a donor and private sector company for the purpose of achieving mutually beneficial development and business goals.
Request for Applications (RFA)	Request for a detailed proposal that clearly and concisely explains the relevance, purpose, objectives, activities, and expected results of a proposed investment activity. It should also outline the evaluation and scoring criteria for applications.

SEVEN STEPS FOR PARTNERING WITH THE PRIVATE SECTOR

Step 1. Design Targeted Request for Applications (RFA)

Private sector engagement necessitates that fundamental business objectives, such as sales and profitability, along with flexibility in meeting those objectives, are achievable. As such, Partnering for Innovation employs fixed price subawards in its pay-for-results approach. These subawards structure a partnership based on deliverables tied to business objectives.

The first step in using fixed price subawards is attracting a pool of potential partners through a Request for Application (RFA) that establishes clear award criteria. Steps for designing a targeted RFA are outlined below. A sample RFA template[1] can be found as Resource #1.

Resource #1
Request for Applications (RFA) Template

☐ Conduct Rapid Market Assessment to Inform RFA Goals

The RFA for a pay-for-results approach should reflect the broader market context in which potential private sector partners are navigating. Conducting a rapid market assessment will enable the gathering of information that reflects these realities and facilitates the development of a clear RFA. Design a basic qualitative desk review drawing from USAID Mission Country Development Cooperation Strategies (CDCS), implementing partner lessons learned, and recently commissioned agricultural or other sector studies, for instance, and, if possible, an in-country scoping trip to gain insights at the following four levels.

- **The Actors:** Understanding the commercial entities serving smallholder farmers and/or supplying products and services at different parts of an agriculture supply chain as well as the opportunities and constraints they face.
- **The Market System:** Understanding whether and what areas of the market system are shallow/loosely organized or deep/tightly organized.
- **The Opportunities:** Given the actors and system dynamics, what are the opportunities for smallholder farmers to better engage/access markets.
- **The Focus:** What areas of the agriculture market are best suited for interventions that will help support smallholder farmers and development goals. What types of firms (e.g. input suppliers, aggregators, etc.) can best contribute to strengthening the opportunities for better engagement across the market system?

☐ Determine Funding Goals

Identifying funding goals is an important step – one that is often done intuitively rather explicitly. This allows you to convert the findings of the rapid market assessment into goals a program or investment portfolio can work to achieve. To ensure RFAs are targeted and well-

[1] Feed the Future Partnering for Innovation is a USAID-funded program and therefore the process and tools outlined here follow USAID policies and regulations. This general process may be useful to follow even if funding comes from a different source.

planned, it is important to organize a meeting, either structured as a formal bidder's conference or as an informal discussion, for stakeholders[2] to discuss the concrete goals of a funding round, determine the intended impact of the funding, review rapid market assessment findings, and identify any underlying assumptions, as follows:

- **Define Success:** What does success look like for the funding round and how does it support the achievement of USAID's agricultural goals? What role will potential sub-awardees play in strengthening an agriculture sector?
- **Draw on the Rapid Market Assessment:** What are the strengths, weaknesses, opportunities and constraints within the country/sector? What are the opportunities and challenges for smallholder farmers?
- **Prioritize Roles:** What interventions can each stakeholder most responsibly facilitate?
- **Leverage:** What is the required ratio of leveraged funds relative to program funding?

☐ Develop Evaluation Criteria

Evaluation criteria published in the RFA are the only criteria subaward reviewers may use to evaluate applications. Over the last decade, Partnering for Innovation has found the following criteria to be key elements of successful applications:

- **Business Case:** Evaluates how the proposed partnership will meet its business goals and objectives. The answers yield insight into the potential partner's market and customer knowledge.
- **Commercial Viability:** Evaluates the potential for growth of the product or service in the smallholder market, and indicates how the product or service will grow its market share over time.
- **Smallholder Impact:** Evaluates how the proposed product or service addresses smallholder farmer challenges and/or how it strengthens market opportunities for smallholder farmers.
- **Capacity and Partnerships:** Evaluates the partner's business and management qualifications, particularly on leadership, as well as what and how partners will fill technical knowledge gaps.
- **Leverage:** Evaluates if the potential partner meets the required leverage (in-kind and capital investments such as equipment, infrastructure, or land) listed in the RFA.

☐ Publish RFA

Post the RFA publicly on all appropriate websites, listservs, social media, regional and national print newspapers, and relevant trade publications. Applicants will invariably have questions once they read the RFA. To maintain a fair and transparent RFA process, all applicants must have access to the same information. Allow potential applicants to ask questions, but rather than responding

[2] Key stakeholders could include a program's chief of party or director, a funding counterpart (such as a USAID contract or agreement officer representative), private sector experts or investors, and even members of the targeted beneficiary group, such as livestock farmers, agro-dealers, or youth.

directly let them know that all questions will be answered at once, e.g. "all questions will be compiled and answered publicly on the date specified in the RFA." Collect, compile, and group similar questions once the deadline for submitting questions specified in the RFA has passed. Then, provide answers to all questions as clearly and succinctly as possible, even if the answers seem obvious or repetitive.

Post the Q&A document on the appropriate public website, and if possible, update any other outlets where the RFA was originally posted. A sample Question and Answer Document can be found as Resource #2.

Resource #2
Question and Answer Document

☐ Conduct Initial Eligibility Check

As the deadline for applications approaches, prepare to conduct an initial eligibility check. This requires all applications to be organized and treated equally. Save and store each application using a pre-determined naming convention and, after the application deadline, conduct an initial eligibility check. The check confirms that potential partners submitted all required information, including budget, cost notes, organizational information, and financial documentation and meet application requirements related to geographic priorities, business type, etc. Disqualify all applicants who fail to submit the requisite materials or meet application requirements – there are no exceptions because it creates unfair and unequal terms.

Step 1. Summary

- ☐ Conduct Rapid Market Assessment to Inform RFA Goals
- ☐ Determine Funding Goals
- ☐ Develop Evaluation Criteria
- ☐ Publish RFA
- ☐ Conduct Initial Eligibility Check

Step 2. Evaluate Applications

The second step is to convene a qualified committee of reviewers, known as a technical evaluation committee (TEC), to evaluate the applications.

☐ Invite TEC Reviewers

Reviewers should include a mix of commercial business owners, experienced investors, donor representatives, and experts in the targeted sector. A non-voting TEC Chair facilitates the entire process and ensures all applications are reviewed equally and fairly (the individual most suited for this position is the one who will eventually be responsible for subaward management).

☐ Identify Potential Conflicts of Interest

Ask each TEC member to complete a conflict of interest disclosure. An individual has a conflict of interest if that person, his/her spouse, partner, child, friend, or relative works for, is negotiating for, or has a financial interest (including as a board member) in any organization under consideration. Undisclosed conflicts of interest can result in cancelled subawards.

No TEC member may comment on (either through scoring or verbal discussion) any applicant with whom s/he may have a conflict of interest. A sample Conflict of Interest/Non-Disclosure Agreement can be found as Resource #3.

Resource #3
Conflict of Interest / Non-Disclosure Agreement

☐ Coordinate Individual Review of Applications

The TEC Chair organizes and sends the applications (minus the budget and cost notes), reviewer instructions, scoring criteria from the RFA, and a formatted scoresheet to the TEC members. The TEC Chair is responsible for reminding members of all expected practices (not discussing applications during the individual review process; using the RFA evaluation criteria; and considering scoring based on individual merits – not against others in the pool).

No reviewer should have more than 60 applications to score. If necessary, divide the committee into two teams for each to score half of the applications. The TEC Chair then ranks the applications, and each member reads and scores any application from the other group that qualifies.

Sample TEC Instructions and a Formatted Scoresheet can be found as Resources #4 and #5, respectively.

Resource #4
Technical Evaluation Committee (TEC) Instructions

Resource #5
Formatted Scoresheet

☐ Determine Initial Overall Ranking of Applications

TEC members submit their individual scoresheets for each criterion of every application. The TEC Chair then sorts each individual scoresheet into the top applications for discussion, first by the most heavily weighted category and then by each subsequent category in order of importance. While all applications will be discussed during the TEC meeting and the results of the TEC meeting, not individual scores, will decide final rankings, this process enables the TEC Chair to identify individual opinions of TEC members to facilitate discussion and debate during the TEC meeting.

☐ Convene TEC Meeting

The goal of the TEC meeting, which can take one to three days, is to discuss the merits and weaknesses of each application in order to rank them and prioritize which will be funded. The TEC assigns a final consensus score to each application during and based on discussions at the TEC meeting. A consensus score reflects the TEC's group decision-making process – it is not an average or mean of individual scores. Instead, the group comes to an agreement on a score during the TEC meeting based on a robust discussion of each application and debate on its strengths and weaknesses. The consensus scores are then used to determine the final application rankings. It is therefore important that the TEC Chair facilitates discussion regarding the strengths, weaknesses, and questions TEC members identified during their individual reviews. The TEC Chair must not share his/her opinion on an applicant or offer a vote on any of the criteria scores.

Partnering for Innovation recommends use of the following agenda by the TEC Chair to facilitate this process:

- Discuss the applications in alphabetical order.
- Prior to discussion, ask each member, on a rotating basis, to summarize each application as follows: key proposed activities, lead organization, proposed strategic partnerships, and expected impact for both the business and smallholder farmers.
- Proceed through each criterion, covering the applicant's strengths and weaknesses towards a decision-making point.
- State the unanimous consensus adjectival score for each criterion for final agreement.
- Once the TEC members discuss all criteria for a given application, begin the next application.

After the TEC Chair facilitates the first application's score, determine time allotments for each subsequent application. To ensure consistent, transparent, and fair review, do not skip any criteria or applications, even if their scores seem obvious. Applicants have the right to request feedback on unsuccessful proposals and may even protest a TEC's decision. Therefore, designate a dedicated note taker during the TEC meeting (this person should not weigh in on the scoring process).

☐ Document Discussion in TEC Memo

The TEC Chair should note key discussion points and final consensus scores for each criterion on a flipchart to facilitate the scoring process, and the designated note-taker should capture the key discussion points and final scores.

Resource #6
Technical Evaluation Committee (TEC) Memo

These notes result in a detailed, comprehensive memo documenting how scores were determined, concerns among TEC members, and any other feedback. This information may be required if there is a protest, or during any eventual partnership negotiations. A sample TEC Memo can be found as Resource #6.

☐ Determine Final Rankings of Applications

Compile the consensus scores in a spreadsheet and determine the overall rankings by custom-sorting the scoresheet as before. Generally, applicants with a "marginal" or "unsatisfactory" score in any category are eliminated from further consideration. Again, each application is sorted first by the most heavily weighted category and then by each subsequent category in order of importance. Once sorted, discuss the shortlist with stakeholders to ensure an appropriate mix of partners according to funding goals. For example, the fourth- or fifth-ranked applicant may receive preference if it is the only applicant focusing on a target geographic area or you may eliminate the third-ranked applicant if it covers the same value chain as the first- or second-ranked applicant.

☐ Inform Applicants of TEC Results

Inform the top-ranked candidates via email that they are "selected to proceed with partnership negotiation." Do not convey "approved" or "funded" as that decision depends on due diligence and negotiation. Wait to inform lower-ranked applicants of their status because top-ranked applicants may not move to negotiation, thus providing an opportunity for lower-ranked applicants to be considered. Ultimately, all applicants should receive written feedback on the strengths and weaknesses of their applications as this step helps rejected candidates improve and refine future proposals.

Step 2. Summary

- ☐ Invite TEC Reviewers
- ☐ Identify Potential Conflicts of Interest
- ☐ Coordinate Individual Review of Applications
- ☐ Determine Initial Overall Review of Applications
- ☐ Convene TEC Meeting
- ☐ Document Discussion in TEC Memo
- ☐ Determine Final Rankings of Applications
- ☐ Inform Applicants of TEC Results

Step 3. Conduct Due Diligence

The purpose of due diligence is to determine whether or not the company you selected for a potential partnership has the operational, financial, and administrative systems to manage grant funds effectively.

☐ Draft Technical Questions

Review the full proposal and supporting documentation for each business shortlisted by the TEC and draft technical follow-up questions based on the TEC Memo. Before sending the questions, send the full application to the funder or regional representative for feedback. These entities may have helpful country context and/or may be familiar with the applicants and able to provide valuable insights or potential references for the due diligence process.

☐ Confirm Intent to Negotiate

With additional information and questions in hand, schedule a phone call or an in-person meeting with each proposed partner to communicate your intent to negotiate a subaward agreement with them. During the phone call, provide an overview of the grant opportunity, describe the negotiation process, identify the key partnership decision-makers, discuss technical feedback questions, and review next steps. Even at this stage, it is important to convey that the final agreement is milestone-based, meaning that payments are made only if/when negotiated milestones and verification documentation are approved. Be sure to document all discussions and share call notes with the proposed partner after the call. Immediately following the phone call or initial meeting, email a formal intent to negotiate.

☐ Start Pre-Award Survey

Start a pre-award survey for each potential partner. The pre-award survey includes requesting and compiling copies of all management, administrative, financial, and technical documentation required to ensure a potential partner has the necessary inputs to carry out the proposed work successfully. The pre-award survey also includes questions to clarify the application, business model, level of leadership involvement, acceleration needs, and other information helpful for achieving entry or expansion into smallholder farmer markets. These questions help to refine potential partners' business model and approach if they are not ultimately selected. A sample Pre-Award Survey can be found as Resource #7,

Resource #7
Pre-Award Survey

☐ Conduct Reference Checks

As part of the pre-award survey, interview at least three business references, or other companies or investors, that have partnered or done business with the proposed partner. If the proposed partner has received any other major investments or past donor funding, contact those organizations to check past performance and to ensure there is no overlap with the proposed subaward. Conduct these approximately 30-minute calls/meetings before or during a site visit, if possible, so that any issues may be addressed directly with the potential partner.

☐ Conduct Site Visit

The site visit is a critical hands-on way to confirm the commercial viability of the proposed partner's technology or business proposition, and to ensure its eligibility for investment. Prepare for a site visit by reviewing the required pre-award survey documentation, proposed partner application, technical feedback letter, reference check feedback, and any other collected documentation. Consider with whom it is necessary to meet to answer technical, organizational, and past performance questions, and request that the company schedule meetings with other key partners and business references prior to your departure. Additionally, review the rapid market assessment and country-level agricultural cycles[3] in preparation for the site visit, as well as political calendars to avoid travelling when partners will be on holiday.

During the site visit, be sure to meet with the key decision-makers at the proposed partner, strategic partners,[4] product retailers, and other important value chain stakeholders to discuss the implementation of the proposed activities. Also visit any factory, processing plant, or other operations involved in proposed activities. Plan to see the company's product or service in action and talk to farmers or other end-users about their relationship with the company, the quality of services or products the company provides, and the impact of those services or products on their production. It may also be valuable to meet with the company's business references or other donors without potential partner representatives present.

☐ Send Formal Follow-Up Questions

Following the site visit, document your findings in a formal site visit memo and provide the proposed partner with a formal technical feedback letter via email. This letter should include any questions that were raised during due diligence or the site visit. The proposed partner is expected to respond to these questions by a deadline that is communicated explicitly in the email. In addition, the proposed partner should be made aware that these responses are considered part of their technical application, and any further discussion about these questions and their responses must be documented formally.

☐ Conduct Budget Review

Budget review and cost verification ensure that the investor is paying accurate, allowable, reasonable, and realistic prices for the proposed partner activities. While the final subaward will be fixed price and milestone-based, the budget review and cost verification process establish a total price for the proposed activity, which goes on to form the basis for milestone payments. This process often occurs concurrently with due diligence and negotiation, so once the TEC shortlists a proposed partner for potential funding, the process of budget review and cost verification should commence. However, note that budget line items may change as activities are negotiated such that the final budget may look completely different from what was originally proposed. Use the following steps to ensure that the proposed partner has budgeted reasonable and realistic costs for implementing investment activities:

---

[3] Alignment between the subaward and crop cycles strengthens uptake of commercial products and services. Countries may have one crop harvest per year, making it important to consider a three- to five-year partnership to gain market traction.

[4] It is especially important to meet with key decision-makers at any potential financing partners, such as local banks or microfinance institutions. In Partnering for Innovation's experience, these financing relationships have been a critical factor in a company's success or failure, and making sure the appropriate financer is on-board can save time later on.

- **Gather and Confirm Documentation:** Ensure all needed documentation for the proposed partner's cost proposal is obtained. This includes an exhaustive list of specific expenditures and related cost notes and rationale for all costs over the life of the project. It should also include the projected unit price and quantities needed for each line item, along with a written description for each line item stating how the prices and quantities were determined and why the expenditure is critical for the success of the investment. Request any missing information until the budget and cost notes are complete. The final budget is a spreadsheet and associated budget narrative that provides a detailed justification for each expenditure funded under the proposed activity. A sample Partner Budget Template and Cost Notes Template be found as Resources #8 and #9, respectively.

Resource #8
Partner Budget Template

Resource #9
Cost Notes Template

- **Confirm Prices Quoted for Budgeted Line Items:** With all costs documented and justified, evaluate the proposed partner's submitted budget to ensure that both investment funds and leveraged line items are reasonable, allowable,[5] and allocable.[6] To determine if individual line items are reasonable, conduct market research or ask for documentation from proposed partners to confirm that the prices quoted are realistic market prices for the items or services being purchased. If you discover that the proposed partner has budgeted unrealistically low prices for specific line items, then these amounts should be corrected, even though the correction may increase the overall budget total. Likewise, if you discover that the proposed partner has budgeted unrealistically high prices for items, then you should also correct these amounts. Partners may not simply add additional line items to make up the difference and reach the budget ceiling.
- **Document Price Verification Information:** All price verification documentation is collected and filed as supporting documentation for the proposed partner's budget. The chart below lists common cost categories along with the corresponding documentation required. If costs can be verified based on partner budgets previously negotiated within the past year or on the experience of other related projects currently operating in the country, then additional supporting documentation is not required. This situation is most likely to apply to standard operating costs such as ground transportation, office leases, telecommunications, travel, and vehicle fuel.

[5] Allowable costs are costs that are permitted under a funder's regulations; for example, since Partnering for Innovation investment funds come from USAID, program partners may not use their investment funds to pay for alcohol, fundraising, or any other cost prohibited under USAID regulations.
[6] Allocable costs are costs that are directly related to the investment's funding objectives; for example, if a partner's funding goal is to provide innovative products or services to smallholders, then they cannot use their investment funds to pay for swimming pools, business expenses in other countries, or any other cost unrelated to the funded activity.

Cost Category	Verification Documentation
Labor	Employee or consultant contracts, paystubs
Travel, Transportation, Per Diem	Airfares, in-country taxi receipts, hotel quotes
Equipment	Quotes received by candidates; quotes from manufacturers of comparable items
Other Direct Costs (e.g. office space, communications, office supplies)	Invoices, lease agreements, telecommunication contracts
Indirect Costs (including fringe, overhead, general & administrative expenses [G&A])	Audited financials, Negotiated Indirect Cost Rate Agreements (NICRA) letters, invoices for all expenses included in the overhead rate

- **Confirm Allowability of Budgeted Line Items:** Check relevant regulations related to allowable expenditures to ensure compliance with proposed partners' budget. For example, as a USAID-funded program, Partnering for Innovation must adhere to relevant Automated Directives Systems (ADS) and Code of Federal Regulations (CFR)[7] guidelines, meaning that proposed costs such as vehicle purchase or construction of new facilities must be managed more carefully to ensure compliance. Commonly regulated items include vehicle purchase, construction activities, restricted goods like pesticides and fertilizers, and unallowable costs such as alcohol or fundraising.
- **Evaluate Necessity of Budgeted Line Items:** Once budget prices are determined to be reasonable and individual expenditures allowable, review the entire budget to ensure each line item is required for the overall success of the activity. Use understanding of the country context, technical specifications, and expected milestones to evaluate whether the proposed partner has included all necessary expenditures or if any expenses critical to successful implementation have been overlooked. Cut any excessive or non-essential costs. Any doubt about the necessity or applicability of an expense must be negotiated with the proposed partner and potentially removed from the budget.

Step 3. Summary

- ☐ Draft Technical Questions
- ☐ Confirm Intent to Negotiate
- ☐ Start Pre-Award Survey
- ☐ Conduct Reference Checks
- ☐ Conduct Site Visit
- ☐ Send Formal Follow-Up Questions
- ☐ Conduct Budget Review

[7] Useful ADS regulations include ADS 303 Grants & Cooperative Agreements to NGOs, ADS 310 Source and Nationality Requirements, and ADS 312 Eligibility of Commodities. Useful CFR regulations may include 2 CFR 226 or 2 CFR 200.

Step 4. Negotiate

Begin negotiating partnership activities in conjunction with the budget review and cost verification. These actions occur simultaneously because the budget and partnership milestones are closely linked.

The main purpose of negotiations is to develop milestones, associated means of verification (MOV), and leveraged funds. Part of this process includes ensuring that fixed price agreements – where the expected cost of activities are negotiated upfront and then paid based on results – foster viability and good business strategies that help the company become more successful.

☐ Review Activities, Targets, and Leverage

Transfer the potential partner's planned activities from their original proposal (including their responses to the TEC's feedback) into a simple table. Evaluate each proposed activity and the entire set of proposed activities based on country context, market conditions, technology specifications, and smallholder farmer profile.

Are the proposed activities adequately described and necessary (not excessive) for successfully reaching the partnership goals? Does the proposed leverage meet the requirement stated in the RFA?

Pay-for-Results Subaward Terms

Milestones are clear, periodic targets that demonstrate the partner is progressing toward agreed-upon deliverables. Payment is made based on achievement of each goal.

Means of Verification (MOV) are specific targets that indicate achievement of each milestone. They provide clarity and specificity for achieving intended goals.

Leveraged Funds are the funds, in-kind contributions, and property contributed by the potential partner that are necessary and reasonable to accomplish intended goals.

☐ Draft Preliminary Milestones

Milestones are the goals or deliverables the proposed partner will achieve under their partnership. They should be based on concrete business achievements that help the proposed partner expand in the target market and provide crucial outcomes that contribute to the overall impact and sustainability of partnership activities. Milestones are specific, measurable, and verifiable, and are based on common business metrics, such as total dollar value of product sold, total volume of commodities purchased or sold, number of trainings or demonstrations, or concrete deliverables such as a marketing strategy, business plan, or website, depending on the scope of the partnership.

Depending on the scope and value of an agreement, a milestone plan can include approximately 10 to 12 milestones; it is possible to include more milestones if necessary, but at that point the milestone schedule becomes more difficult to manage. Additional guidance on drafting milestones can be found as Resource #10.

Resource #10

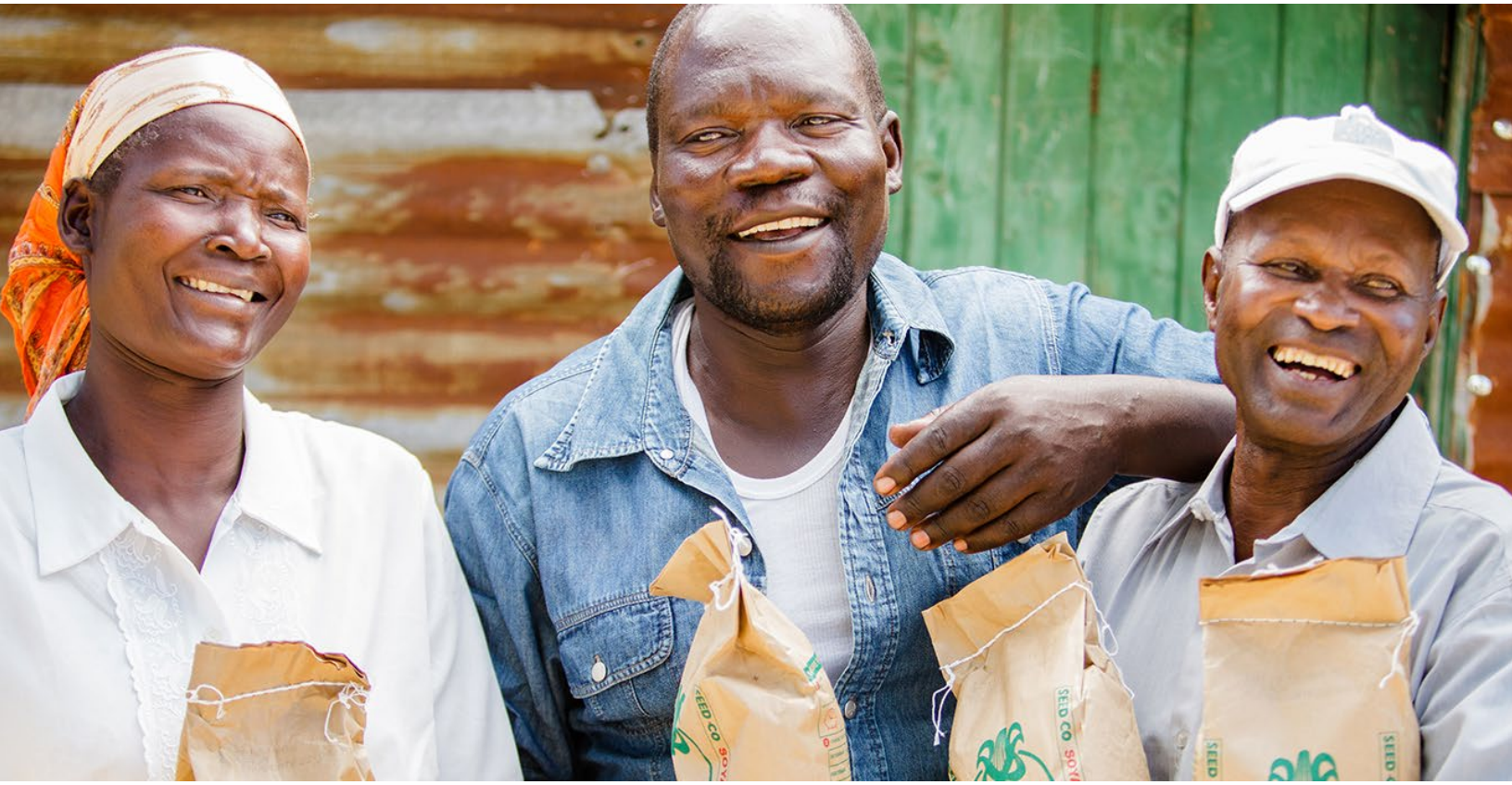
Milestone and Means of Verification Guidelines

☐ Determine Milestone Payment Schedule

Determine the milestone payment schedule once the proposed milestones and total partnership budget are finalized. It is important to balance the financial or cash-flow needs of the proposed partner and incentivize their ability to meet future milestones and overall targets. In addition, avoid front-loading the payment schedule or paying too much of the total budget for the first milestones; rather, structure the schedule to incentivize the partner to see the project through to completion by creating "stretch" milestones of higher payments at the end while allowing for enough cash-flow at the beginning to make key purchases and achieve targets.

Step 4. Summary

- ☐ Review Activities, Targets, and Leverage
- ☐ Draft Preliminary Milestones
- ☐ Determine Milestone Payment Schedule



Step 5. Develop Final Partnership Agreement

Once partnership activities, specific milestones, and milestone payment amounts are set with the proposed partner, the next step is to draft a partnership agreement. A Partnership Subaward Template can be found as Resource #11.

Resource #11
Partnership Subaward Template

The following steps will facilitate the development of a clear document that explicitly identifies the expectations for partner activities, milestones/deliverables, and associated payments. Note that the Scope of Work (SOW) provides guidance to the partner, but does not contractually require the partner to deliver results for payment – all required deliverables are explicitly stated in the milestone means of verification.

☐ Draft Proposed Scope of Work

Draft a proposed SOW based on the proposed partner's application, due diligence documentation, budget review, and negotiations. The SOW should clearly describe the proposed activities, implementation approach, responsible parties for each major task, and expected farmer impact. Share the completed proposed SOW with the proposed partner for review to ensure understanding and agreement.

☐ Draft Full Milestone-Based Agreement

Based on the negotiated budget, milestones, and SOW, draft an agreement clearly stating the proposed partner's activities, milestones, and associated payments. Developing the required means of verification (MOV) for each milestone is a key part of this process. MOVs are clear, specific targets indicating achievement for each milestone. They are used to determine whether or not a milestone has been completed, and serves as a checklist for partners when submitting achieved-milestone documentation for payment. Importantly, MOV record-keeping and reporting should not be unnecessarily burdensome for the partner and not require any special knowledge not explicitly included in the MOV. Specific budget information or receipts for line items should not be required after budgets are negotiated and approved.

Once necessary internal or donor/investor approvals are secured, send the partnership agreement to the partner for signature. Send the partner the fully executed award for record-keeping once the funding company/organization has signed it. The partnership is now officially underway!

Step 5. Summary

- ☐ Draft Proposed Scope of Work
- ☐ Develop Full Milestone-Based Agreement

Step 6. Provide Hands-on Partnership Management

In addition to targeted applications, upfront negotiations, and performance-based agreements, strategic relationship management is essential for successful partnerships. A proactive approach that builds trust, facilitates open dialogue, and fosters collaboration is a core responsibility of the funder. This entails going beyond simply ensuring compliance with the partnership agreement. The following steps provide guidance on working closely and constructively with partners to optimize outcomes, address unforeseen challenges, and support overall partnership activities and impact.

☐ Host Partner Kick-Off Call

The kick-off call is an opportunity to walk new partners through the goals, phases, roles, and timelines of the partnership. A welcome packet should be provided before the kick-off call, covering topics such as roles and responsibilities, partner expectations, partnership mechanics, required reporting, and communications protocols. By the end of the call, the partner should understand how their agreement works, how to submit milestones, when to contact the partnership management team, and what to do if they might not achieve a milestone by the deadline. A sample Partner Guide to Working with Partnering for Innovation can be found as Resource #12.

Resource #12
Partner Guide to Working with Partnering for Innovation

☐ Coordinate Monthly Partner Check-Ins

Hosting a monthly phone call with the partner's technical lead or project manager is essential step for fostering effective communication and as a routine way to discuss milestones as well as to troubleshoot any challenges. It is important take notes during the call, share them with the partner, and file them in the partner's file for future reference. Assessing the health of the partnership on a quarterly basis is also useful to proactively troubleshoot any issues, suggest acceleration activities, and make needed adjustments.

☐ Address Partner Challenges

Despite the best efforts, partners may have difficulty achieving their milestones for a variety of reasons. In some cases, these challenges may be beyond the partner's control, such as extreme weather, government policy, or shipping delays. In these cases, modifying the partner agreement may be considered (see Modify Agreements as Needed in this section for further discussion). In other cases, the challenges may be an issue of management capacity or technical expertise, and it may be worthwhile to consider whether internal partner or funder resources, such as staff or consultant-provided technical assistance, could affect the partner's ability to achieve milestones. In addition, consider if there are other local partners, distributors, financers, or donor-funded programs that could contribute to the success of the partner's activities.

☐ Provide Acceleration Services

In addition to providing partners with technical assistance to address specific problems, it may also be worthwhile for partners to receive customized expertise from local consultants and

technical experts to address any "pain points" that are holding back commercial progress of the business. For example, this can include conducting a market analysis to develop a long-term growth strategy or assessing investor-readiness to attract future financing. This support is often coordinated through annual partner site visits that provide an opportunity to work with the partner in person to develop a technical SOW and list of qualifications for the proposed consultant. These consultants are identified based on their hands-on expertise strengthening the performance, commercial viability, and sustainability of businesses targeting smallholder farmers. Partners interested in these acceleration services are prioritized according to potential impact of the provided services, their subaward end date (partnerships that are coming to an end are given higher priority), and the internal resources available.

☐ Conduct Annual Monitoring Visits

If possible, visit partners in the field at least once a year to see partnership products and services in action. The timing and agenda for these visits will depend on partner availability, product seasonality, and coordination with other partner site visits, conferences, or local events. Once in the field, plan to meet with partner contacts, senior management, sub-partners, retailers of partner products or services, and farmers impacted by the partner activity. In addition, meet with other local development practitioners or key actors in the field to identify potential market outlets for the funded products, or other potential alliances. Finally, it may be useful to coordinate with the partnership donor to organize local partnership meetings, where partners have the opportunity to meet with local donor staff, develop business relationships with other partners, share best business practices, and improve their management systems. After a trip to the field, schedule a meeting to debrief the partnership donor representative on the highlights and takeaways from the visit.

☐ Review and Approve Submitted Milestones

During the partnership implementation period, partners achieve milestones and submit completed milestone documentation for payment. Review and approve the milestone documentation to ensure that it fully meets the means of verification, and that the milestone deliverable confirms the success of the partner's overall implementation approach. In addition, ask questions about upcoming milestones during regular monthly check-ins and informal communications to ensure partners are aware of deadlines and other requirements, and to head off any issues that may arise with achieving milestones.

Once a milestone is completed, the partner may submit the means of verification documentation for approval. The partnership manager should be the first person to review the submitted documentation and ask clarifying questions or request missing documentation. For deliverables such as work plans, marketing strategies, or business growth plans, it is important to work with partners to obtain the highest quality product possible by providing iterative feedback.

☐ Modify Agreements as Needed

Private sector businesses operate in uncertain environments, which means that partners may sometimes have difficulty achieving their milestones. In cases where these challenges are beyond the partner's control, consider modifying the partner's agreement to allow them more time or a different strategic approach given their altered circumstances.

Modifications, however, should not be taken lightly. One of biggest strengths of a performance-based partnership that pays only upon delivery of results is that it significantly reduces risk to investors providing funds for new, untested products and markets—if partners do not meet expectations, then they are not paid. Therefore, a strong case must be made before considering changing a partner's activities, outcomes, or milestone deadlines to ensure that the partner is still capable of meeting investment goals given the obstacles they are facing.

Reason for Modification Request	Modification Warranted
Partner's challenges are **internal** (i.e. weak management capacity; failure to train enough staff to implement activities, etc.)	No[8]
Partner's challenges are **external, but insurmountable** (i.e. rising inflation rates result in unaffordable costs for importing inputs for sale locally; new national microfinance restrictions prevent credit access to purchase partner's product, etc.)	No
Partner's challenges are **external, but can be sufficiently overcome** with more time or strategy pivot (i.e. global pandemic; civil unrest; climate change impacts, etc.	Yes

If a modification is justified, ensure that there is sufficient time to renegotiate the partnership terms and submit the modification for all required approvals before any modified milestones are due. Partners should request modifications no fewer than 30 days in advance of a milestone deadline to allow enough time to consider the request, draft an agreement modification, and secure approvals and signatures. Justification for modification should include the reasons for the request, how the partner plans to adjust activities to ensure targets are still met, and the consequences for partnership impact if not modified.

Renegotiate project activities and milestone adjustments to ensure that the partner still achieves the original investment goals. Target impact numbers including sales goals and other business-oriented priorities are not reduced except in extreme situations; and the total value of a partner's award should be reassessed and possibly reduced to better reflect the cost of the new, restructured activities. Once the partner confirms agreement with the proposed changes, draft a

[8] Sometimes in these cases, Partnering for Innovation has taken the resulting missed milestone funds and invested them in the company in the form of business acceleration services, such as corporate management, strategic planning, or talent-recruiting support. This approach should be considered in cases where the partner has made a good faith effort to address the underlying internal issues, but needs additional expertise to truly overcome its management challenges.

modification that clearly states the changes to the partner's proposed activities, deliverables, outcomes, or associated payments, and replaces the modified sections of the partner's agreement. A sample Award Modification Template can be found as Resource #13.

Resource #13
Award Modification Template

Step 6. Summary

- ☐ Host Partner Kick-Off Call
- ☐ Coordinate Monthly Partner Check-Ins
- ☐ Address Partner Challenges
- ☐ Provide Acceleration Services
- ☐ Conduct Annual Monitoring Visits
- ☐ Review and Approve Submitted Milestones
- ☐ Modify Agreements as Needed

Step 7. Close Out Partnerships

Because performance-based partnerships are fixed-price agreements that make payments based on partners achievement of specific milestones, they close out automatically either when the final milestone payment is made or when the contract expires. Final actions should be taken to formally confirm that an agreement has ended and to ensure that all appropriate payments are made and materials are collected from the partner before the official funding relationship ends.

☐ Conduct an Exit Interview

Resource #14
Partner Exit Interview Questionnaire

As the final act under a partnership, schedule an exit interview with the partner to assess the impact of the partnership. Be sure to discuss the partner's business growth and market success, lessons learned in partnership management from the partner's perspective, and future support or acceleration services that could help the partner expand its market reach even further. The exit interview results should be reviewed for lessons learned. A sample Partner Exit Interview Questionnaire can be found as Resource #14.

☐ Confirm Partnership Closure

Resource #15
Close-Out Confirmation Template

To officially close out the partnership, send the partner a confirmation[9] that either the final milestone payment has been made, the deadline for the final milestone has passed, or the agreement end date has passed. In addition, this confirmation should include a list and total of all paid milestones and all unpaid milestones.

The partner should at least confirm receipt of this confirmation, and, preferably, confirm the investment amount that has been paid while relinquishing rights to any unpaid milestones. A sample Close-Out Confirmation Template can be found as Resource #15.

Step 7. Summary

- ☐ Conduct an Exit Interview
- ☐ Confirm Partnership Closure

[9] If a milestone or agreement end-date passes, or the partner fails to meet any of the conditions of your agreement, then the partnership agreement automatically precludes payment and may close; however, it is still a good idea to obtain a close-out confirmation and have the partner formally validate the information both to limit corporate liability and ensure all final partner expectations are met.

ANNEX

Resource #1: Request for Applications (RFA) Template

Resource #2: Question and Answer Document

Resource #3: Conflict of Interest/Non-Disclosure Agreement

Resource #4: Technical Evaluation Committee (TEC) Instructions

Resource #5: Formatted Scoresheet

Resource #6: Technical Evaluation Committee (TEC) Memo

Resource #7: Pre-Award Survey

Resource #8: Partner Budget Template

Resource #9: Cost Notes Template

Resource #10: Milestones and Means of Verification Guidelines

Resource #11: Partnership Subaward Template

Resource #12: Partner Guide to Working with Partnering for Innovation

Resource #13: Award Modification Template

Resource #14: Partner Exit Interview Questionnaire

Resource #15: Close-Out Confirmation Template