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REVIEW OF DFID APPROACH TO SOCIAL MARKETING

ANNEX 8: THE ROLE OF THE PRIVATE SECTOR IN SOCIAL MARKETING

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ANNEX 8:

THE ROLE OF THE PRIVATE SECTOR IN SOCIAL MARKETING

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Abbreviations

AED	Academy for Educational Development
BLCF	business links challenge fund
CSR	corporate social responsibility
FMCG	fast moving consumer goods
ITN	insecticide treated bed net
MDG	Millennium Development Goals
NGO	Non governmental organisation
PS	private sector
PSD	private sector development
PSP	private sector provider
RNE	Royal Netherlands Embassy
SF	social franchising
SM	social marketing
SME	small and medium-sized enterprise
SMO	social marketing organisation
SRH	sexual and reproductive health
STI	sexually transmitted infection
US$	United States Dollar
VAT	value added tax
WHO	World Health Organisation

1. INTRODUCTION AND RECOMMENDATIONS

1.1 Introduction

The relationship between the private sector (PS) and social marketing is important because:

- Both contribute to the MDGs
- The private sector is a key (contracted) provider of goods and services to SM initiatives
- The private sector can be a strong partner to SM initiatives, providing access to its infrastructure and leveraging additional investment to address shared interests, and can help to build the mechanisms for exit and sustainability

Up to 70% of SM project budgets may be disbursed through the private sector – procured as products or services. The majority of SM products are distributed through the private sector and where SM products need clinical support this is frequently provided by the private healthcare sector. The quality, efficiency and effectiveness of these private sector providers – and the management of the relationship through approach to procurement, supervision, margins, incentives and structured relationships - significantly affect the impact and cost-effectiveness of SM interventions.

It is important to remember that you can only **fully** engage the private sector when it can see a profitable market (whether as manufacturer, service provider or distributor and whether directly contracted, encouraged by subsidy or forming a business alliance), when it is willing to invest in order to compete in that profitable market and when the enabling environment (which includes any distortions which may have been created by an SM project as well as other duties and bureaucracy) favours such an investment.

1.2 Observations and Recommendations

The following observations and recommendations should enhance the contribution that the private sector can make to social marketing interventions:

General:

1 During the project planning process the interface/relationship with the private sector should be formally considered and structured. The private sector can provide valuable feedback on the role that it can play in developing and implementing SM activities and should be widely consulted. Selection of partners should be based on some form of competition.

2 Bearing in mind the benefits to the local economy and to building local capacity, services should be subcontracted out by SMOs wherever possible.

3 SM projects should aim to develop a free market and SM project design should actively encourage private sector participation. As market development is a dynamic process, the extent to which the private sector can

contribute to the development of a free market should be constantly monitored during project implementation and adjusted accordingly.

Working with SMOs

4 There needs to be:

a) a single consistent set of rules for selecting SMOs where selection is based on merit (quality of proposal, proposed contribution to/participation in a project, experience of staff, participation of local partners etc) regardless of whether the SMO is a private company or an NGO.

b) a single comprehensive form of contract covering the appointments of SMOs

c) a consistent basis for the remuneration of SMOs.

Relationship with DFID's interest in PSD

5 Whilst the overall objective of most of DFID-funded social marketing initiatives is the achievement of health-related outcomes, the (cost) effectiveness and impact of an SM programme may be significantly influenced by the capacity and performance of the private sector. This in turn is a reflection of the general business environment and of the management and resources of the participating companies. Whilst PSD issues cannot be allowed to dominate a health-focused SM project, there will be many instances where a link with PSD activities (whether funded by DFID or other donors) could be valuable, where public health and private sector development objectives/experience may be brought together and where a private sector adviser could contribute to understanding, and building the relationship with, the private sector or lobbying governments on regulatory, fiscal or customs issues.

6 A view that emerged during the fieldwork was that involving PSD professionals would slow down, and possibly dilute, the health-focused project. That is probably because the PSD adviser has been brought in late, by which time making changes is difficult. This suggests that co-operation should start earlier, when the project is on the drawing board and when the role of SM is being considered as one of the options for achieving specific outcomes. In this way, the opportunity for co-operation with the private sector and with PSD should emerge naturally.

- Challenge funds are one way of stimulating competition, generating innovation and collaborating with the private sector.

- An SM project can provide unparalleled access to the informal distribution sector, to which DFID can add value through supporting business development and financial services.

- DFID should establish the capacity to provide advice on the SM/PSD interface to DFID staff who are planning/implementing SM projects. Building such capacity should at the same time build DFID's institutional memory.

Manufacturers

7 Manufacturers can contribute to SM initiatives through product innovation and packaging, through technical innovation, through reducing costs as a result of increased efficiency or volume and through offering access to their distribution channels. However, involving **local** manufacturers (where there is local manufacture of SM products) is not **necessarily** developmentally beneficial or cost effective. With this in mind:

a) Possible relationships with local manufacturers (where relevant) and with other elements of the private sector need to be carefully evaluated and planned on a structured basis, using people with business experience. A template is provided.

b) Any subsidy to local manufacturers should be part of a coherent and planned initiative to build up the capacity of local manufacture on a competitive basis.

c) The possibility of an SM intervention “crowding out” the private sector should be formally assessed during project planning and be subject to structured analysis in the same way that risk is assessed (covering impact and likelihood). The findings should influence the project design and provide the basis for subsequent monitoring. Conversely, the opportunity for growing the market with the private sector should be similarly analysed.

Procurement

8 Particularly where a product can vary in terms of performance (e.g. strength) and design (e.g. consumer preference) – such as with insecticide treated bed nets (ITNs) – rigorous attention must be given to product specification and to inspection procedures.

9 For an initial trial period of one year, all suppliers to SM projects should be required to have a voluntary code of social accountability that incorporates the key issues in the Social Accountability 8000 (or similar) code [1]– as a requirement under DFID’s procurement regulations. This will extend developmental benefit beyond the SM target group. If necessary DFID could provide assistance to these companies to prepare such a code.

Distribution

10 Unless there are particular reasons for using other channels (e.g. public sector or NGOs), wherever possible SM products should be distributed through self-sustaining distribution channels – which are most likely to be operated by the private sector.

11 Where such channels have weaknesses in terms of coverage or cost, effort should be focused initially on upgrading such channels through use of

[1] Social Accountability 8000 (or SA 8000) is a common auditable standard seeking to guarantee the basic rights of workers. It was established by the Council on Economic Priorities Accreditation Agency (CEPAA) in 1997 based on ILO conventions and related international human rights instruments. A code which has a similar ethos is the DFID-supported and, UK – based, Ethical Trading Initiative (ETI).

incentives or subsidies before DFID funds are used to establish a separate or parallel, donor-dependent system.

12 Bearing in mind that most transactions in the distribution chain are for cash, the amount of cash or credit available will determine the level of stock carried by a retailer and the cost/frequency of re-supply. The development of financial services at the informal/community level is a priority for DFID and offers potential for synergy with SM at the distribution level.

Public-Private Partnerships

13 The nature and extent of, and permissible options (including acceptable degrees of risk), for partnerships between SMOs and third parties need to be better defined. More focus is needed on the **business model** of social franchising (capital required, return on investment, sources of funding, business efficiency indicators, benchmarking etc).

Structure of the Annex

14 This annex now considers the role of the private sector within – and the activities of the private sector that may be influenced by – social marketing (SM) programmes. Bearing in mind that DFID-funded SM projects focus on the health sector, and are generally instituted and managed by health professionals who have limited involvement in private sector development issues, the annex starts by providing some background on the significance of the private sector in economic development in general (section 1) and to poverty in particular (section 2). From this emerges a discussion on the relationship between SM and the private sector (section 3). Those not interested in issues relating to the wider importance and role of the private sector can ignore these and move to section 3.

2. THE NATURE AND IMPORTANCE OF THE PRIVATE SECTOR IN DEVELOPING ECONOMIES

2.1 Definitions

The private sector may be defined as "formal and informal risk-taking activities that are privately managed and financed with a view to generating a financial return on investments of cash, skill and labour". It should be clearly distinguished from:

a) the **public** sector – which addresses the public good funded through taxation on personal and corporate incomes, both of which are ultimately generated by wealth created by the private sector; and
b) the **NGO** or non-governmental sector - which pursues a range of developmental agendas largely funded through public subscription or through donations from the private sector.

The distinction between the private and NGO sectors is important and is aptly illustrated by Adam Smith's observation that " people enjoy their daily bread thanks not to the benevolence of the baker but to the baker's regard to his self-interest"

The private sector is a continuum - from very small informal activities through to large multinational corporations having large numbers of individual and corporate shareholders – with a kaleidoscope of enterprises of different sizes and activities in between.

In the **developing** world, companies have tended to be either very large (generally wholly or significantly foreign owned, private monopolies built from political patronage or recently privatised state owned enterprises) or very small (operating on the verges of the informal sector and generally not registered[2]). In 1992 there were only 12,000 **registered** companies in Ghana (a country of 17 million people) whilst at the same time there were 8,000 registered companies in a single London borough. As late as 1999, a manufacturing company with annual sales of US$2 million could be found in the top 100 Ghanaian companies. The large number of small and medium sized enterprises (SMEs) which dominate the **developed** economies was largely absent – crowded out by a host of factors including unamended colonial legislation, hostile bureaucracy, corruption, the dominance of state-owned-enterprises, price controls imposed by governments and lack of access to business finance – and has only started to make a serious economic contribution within the past ten years. Further, in many developing economies business activity is dominated by long-standing family-owned and often inter-related expatriate businesses (particularly from the Chinese Diaspora, the Indian-subcontinent and the Middle East as well as from Europe) with which emerging indigenous companies have found it difficult to compete.

2.2 The importance of the private sector in economic development

Without in any way diminishing the important roles of governments or the NGO sector, it is the private sector that creates jobs and adds value by combining capital and labour to produce goods and services which people are willing to buy. A recent IFC report (IFC 2000) found that the job creation potential of the private sector ranges from 4 to 87 times that of the public sector – although the quality of some of those jobs (in terms of safety, wages etc) may be less than desirable. The private sector drives economic growth through investment and innovation and is the main source of fiscal revenue for governments through taxes on profits and on its employees. This being the case, the size, variety and health of the private sector is a key determinant of economic growth.

The private sector is diverse in terms of focus, ownership and scale – from informal operators through the formal small business sector to the large corporations. Throughout the world, development in market economies is driven by the activities of a large number of **small and medium sized** businesses (SMEs[3]), which generate employment, innovation and have a singular capacity to survive in difficult times. SMEs:

- Tend to employ more labour-intensive production processes than larger enterprises;
- In countries with a high proportion of SMEs tend to make income distribution more equal;

[2] These include *individual proprietorships like small manufacturers, shopkeepers, farmers, distributors, street vendors, minibus operators, fishermen, farmers, taxi-drivers, plumbers, masons, carpenters etc – who are generally part of the multitude of small informal and unregulated businesses.*
[3] Small and medium sized enterprises. Sometimes the term MSME is used to include the micro-enterprise sector. The size of SMEs varies greatly between economies. In developing countries businesses with less than 10 people may be defined as small and those with less than 50 people as medium, whilst in Europe a company employing less than 250 people is called small.

- Are the key to the transition from agriculture-led to industrial economies;
- Are the seedbed for entrepreneurial development, innovation and risk-taking and the transition to larger companies;
- Provide an incentive for inward investment, where foreign investors seeks reliable domestic suppliers;

In the European Union, enterprises employing less than 250 people account for 99.8% of all enterprises and 66.2% of employment (Eurostat 2001) whilst in Africa micro and small enterprises employ more than 40% of all new entrants to the labour force (Bannock 2002) whilst few grow to more than 10 or more employees.

To focus on job creation alone, however, is to grossly under-estimate the role of small firms in economic development. In the early stages of development, small firms help to develop markets through trading activities and in the process accumulate capital. They help to develop a widespread commercial culture with the necessary skills, disciplines and organisation upon which further progress can be built. In later stages these functions continue, but as larger organisations emerge, SMEs increasingly carry out specialised activities that cannot be carried out optimally on a large scale, or can be sub-contracted to them, and therefore complement large firms. People also move from large firms to small and vice-versa – which explains why at first tiny firms have played such a large role in the recent information technology boom in the West and where the flexibility, speed of reaction and openness of small firms has been so important (Bannock 2002).

It is this vital role that the SME sector has played in the growth of the developed economies that has led to the widespread donor interest in supporting SME development in the emerging economies. Private sector development in general, and SME development in particular, is now widely recognised as a means through which broader development, across social and economic spheres, can be achieved – viz:

- Private sector development … is a basic organising principle for economic activity where private ownership is an important factor, where markets and competition drive production and where private initiative and risk-taking set activities in motion (OECD 1995).
- Economic growth … is a powerful driver of sustained poverty reduction. Vigorous growth and PSD is strongly associated with poverty reduction, whilst rising levels of productivity are likely to enhance living standards (DFID 2000a)
- It is the **private** sector in rural and urban areas which must play the primary role in delivering livelihood opportunities to achieve the target …… SMEs, in particular, are an important source of job and wealth creation in developing countries …. (DFID 2000b)

However, there are many weaknesses in indigenous companies, which reflect:
- Lack of competition due to protected markets;
- Lack of training in management and technical practice;
- Excessive regulation, government interference/rent seeking resulting in poor management practices.

As a result, many indigenous companies exhibit **internal** weaknesses due to;

- Poor management
- Lack of management accounts or credible audited accounts
- An inability to present plans for financing
- Under-capitalisation and excessive gearing (over reliance on debt financing)
- Lack of technical skills in the work force
- Difficulty with obtaining premises
- Lack of delegation through dominance of the owner manager

These characteristics in part explain the lack of willingness of many financial institutions to finance local companies other than when guaranteed by physical collateral.

However, the private sector also operates within an **external** business environment (i.e. factors that are found outside of the enterprise itself), which include economic, social and cultural systems, policies, laws and other kinds of rules, public and private institutions and the effects of other enterprises. These **macro-level** factors can significantly influence the environment within which businesses develop and operate. On the issue of regulation, for example, Micklethwait and Wooldridge argue that "a small band of English politicians (including William Gladstone and Robert Lowe) pushed through laws making it possible for people to set up limited liability firms without having to go through the rigmarole of persuading parliament to give them permission; having a revolutionary effect as other countries copied Britain – the "Ltds" and "Incs" drawing in capital from around the globe, ushering in a stream of interventions that created the modern business world".

All private businesses invest capital and labour, and the extent to which they are willing to do so reflects their confidence in these **external** factors - or in the environment within which they operate, often referred to as the enabling environment. Factors that affect investor confidence – and which enhance or constrain private sector growth (both indigenous and foreign) include:

- The comparative advantage of the economy
- Market size and potential
- The perception of political stability
- Monetary stability
- Outdated and overly bureaucratic legislative frameworks which generate damaging friction in the workings of the private sector and encourage corruption
- The level of transparency of decision making - corruption at all levels affecting the cost of compliance (paying for licences) and resulting in skewed competition (e.g. from non-payment of import duties by some businesses)
- Inappropriate regulations and lack of property rights which create barriers for the transition from the informal to the formal sector and deny access to credit, causing a significant division between the informal and formal sectors;
- Low tax compliance which limits the funds available to Governments;
- Skewed access to finance
- The reliability and cost of utilities
- The cost and availability of skilled staff and management

These constraints are not felt uniformly across the whole of the private sector. The cost of regulation has been shown to bear most heavily on smaller firms and SMEs, which are more vulnerable to biases and constraints in the business environment than are larger firms (White and Chacaltana 2002). Hence measures are needed not only to support the private sector in general but the SME sector in particular.

2.3 Addressing market failure

Recognising that markets do not work freely, particularly in developing countries, for the past decade or so the donor community has been funding a range of measures to support private sector development. However, donor experience (White and Chacaltana 2002) draws a distinction between business environments that enable private sector development (PSD) as a whole and those that specifically enable SME development – since markets fail for two main reasons:

a) through failures in the government policies, laws and regulations (as noted above):
b) through adverse power relations, information asymmetries and market exclusions (e.g. where certain groups such as women or micro enterprises are excluded or competitiveness is influenced by lack of access to education).

Support for the development of the private sector therefore falls into three main categories:

a) support for the development of an enabling environment. This is a slow process taking place over a long time frame:
b) support for institutions (member-based or otherwise representative of the business sector) which lobby or provide business development services;
c) addressing the issues that **directly** affect enterprises – such as lack of premises, skills, finance, market knowledge etc.

Support for private sector development has tended to move from supporting enterprise-specific services such as business (e.g. training and consultancy) or non-business (e.g. financial) services to support for meso-level institutions that can represent or promote the SME sector to support for reforms in the business environment. The current focus of donor interest is on:

a) Supporting a stable macro-economic environment in order to create a market-oriented economy in which the private sector can operate effectively;
b) Direct policy and legal reforms affecting the private sector in general – on which two major reports are available[4].
c) Direct policy and legal reforms focusing specifically on the SME sector – removing anti-SME biases found in policies, laws and regulations.

[4] Bannock et al (2002). **Indigenous private sector development and regulation in Africa and Central Europe** (report produced for DFID); and White and Chacaltana (2002). **Enabling small enterprise development through a better business environment**: donor experiences in supporting reforms in the business environment (Committee of Donor Agencies for Small Enterprise Development, Working Group on Enabling Environment)

d) Strengthening institutions – policy, design and enforcement; ensuring that existing or reformed policies, laws and regulations are implemented.

e) Strengthening institutions – representation and advocacy; ensuring that the private sector is properly represented in policy and legislative reform dialogue and can advocate for change.

f) Supporting access to business development services and to financial services, with a strong focus on building sustainability into the service delivery organisations.

Such measures [a) – d) in particular] are time-consuming and tend to exceed the normal project cycle. The extent to which support for private sector/SME development can coincide with social marketing projects will depend upon a range of factors that are considered in section 5.

2.4 Private sector development and social marketing

SM makes extensive use of the private sector. From the point of view of the direct participation of the private sector in social marketing, it is **generally** the factors which impact most directly at the **enterprise** level which are most relevant (although not always the case, e.g. in relation to product registration or import duties) – for two reasons. The first is that the timescale for addressing institutional weaknesses is long and may well exceed the term of an SM project. The second is that the operational relationship between the SM project and the private sector tends to be mainly at the enterprise level – and initiatives that enhance the efficiency and competitiveness of SM-related enterprises (through training, market knowledge, better business management, increased liquidity through access to finance etc) are most likely to increase the capacity of these enterprises as SM partners.

2.5 The private sector and healthcare

When people are ill – finding a solution to their illness is a priority. If the solution has to be paid for, as is the case in most of the world, then finding the money becomes a priority – whether through regular payment of insurance premia or through finding the money for one-off payments. Healthcare is a priority.

In the early 1980s, the British Technology Group (in joint venture with private finance) promoted a new company (called Celltech) and provided it with the first option over the commercial exploitation of the scientific output of the **Medical** Research Council (MRC). The most exciting scientific output at the time was monoclonal antibodies, which could be used to detect viruses when there were no symptoms. Celltech flourished and is still quoted on the London Stock Exchange. A year later a second company (the Agricultural Genetics Company or AGC) was promoted with a similar business relationship with the **Agricultural** Research Council and its 45 research stations and with similar expectations. It soon became clear that the business potential of the two companies was very different. People were willing to pay a great deal of money for a single monoclonal antibody to detect whether or not they had a particular virus. People were less willing to pay for a similar product to detect whether or not an individual citrus seedling (worth about £0.20) was infected with a virus. In other words, the commercial potential for the application of **agricultural** biotechnology was far less than for **medical** biotechnology – and it was partly for this reason that around that time a number of oil and chemicals-based companies (such as Shell, ICI, BP, Monsanto etc) started buying up the seed companies and focusing on innovations where they could control the market for agricultural inputs - including hybrids, terminator genes, herbicide-linked genetic engineering etc.

Given this, it is not surprising that throughout most of the world there is such a thriving business sector engaged in the manufacturing of medical products and the delivery of medical services.

In the **developing** world, the majority of people obtain their healthcare from private sector providers (PSPs) – which include doctors, nurses, pharmacists, midwives, barefoot doctors and itinerant purveyors of medicines and related products. Most of these have some form of training whilst a few have none. Second-line participants include manufacturers and distributors of equipment, pharmaceuticals and supplies, laboratories, diagnostic centres and hospitals.

In India[5]

- 90% of hospitals are in the private sector – of which 85% have less than 25 beds
- the private sector accounts for over 80% of outpatient visits and over 50% of inpatient visits
- The private sector operates primarily in curative – rather than preventative – health; mainly respiratory problems, colds and fevers and skin ailments
- There is an estimated one million illegal practitioners who undertake more than 50% of all primary consultations
- 7-9% of annual household expenditure (<15% for the very poorest) goes on health care of which 85% goes to the private sector; with most of the spending on doctors' fees and drugs.

Reasons cited for people make greater use of PSPs include:

- Ease of geographic access, shorter waiting periods and more flexible opening hours;
- Greater availability of staff and drugs;
- Greater confidentiality;
- Perceptions of technical superiority;
- Perceptions that PSPs are more considerate, caring and sensitive;
- Both formal and informal user charges may be levied in the public sector;
- Continuity of care and long-term doctor-patient relationships.

Other reports (including Options 2000) note:

- PSP is greatest in the poorest countries where there is the least regulation;
- Paying for healthcare can lead to the sale of family assets, entering into debt and a downward spiral into poverty;
- Willingness to pay is based on perception, whilst ability to pay is income-based;
- Demand for PSPs decreases with the movement from curative to preventative care;
- Improving quality of care depends upon:
    - Increasing access to information and to the correct drugs;
    - Training and the provision of appropriate services at the proper price;
    - Regulation.

[5] Source: DFID India PowerPoint presentation on private sector healthcare in India

The Options report also suggests three broad areas of upgrading private sector healthcare provision, each considered in relation to POLICY MAKERS, PROVIDERS AND PEOPLE.

These are:

- Increasing COVERAGE of products and services with a public health benefit in a way which is affordable for target groups;
- Limit harmful practices and improve technical QUALITY of care;
- Control treatment COSTS to users of PSPs

These characteristics of quality, cost and coverage are not peculiar to the private health sector and are important to the wider involvement of the private sector in SM. Of specific interest to the SM review are those that increase the COVERAGE of providers and include social marketing, accreditation (including franchising) and contracting[6].

Of the strategies aimed at improving QUALITY, those relating to training and consumer education are the most relevant to this review[7]. Training focuses on continuing medical education and can be linked to encouraging provider networks, pre-packaged services and products for specific treatments and controlled access to subsidised supplies – sometimes called social franchising (5.4).

The strategies for controlling COSTS include the setting of PSP price levels (which has many pitfalls), financing PSPs through prospective payment mechanisms and the publishing of price information.

The private healthcare sector is but a fragment of overall private sector activity, but a vital component in the field of healthcare provision. Its relevance to SM is most obvious when application of SM services and products requires access to evidence-based medical skills – particularly with family planning services. One of the favoured tools for involving the private healthcare provider is through some form of accreditation, franchising or involvement of professional associations – addressed further in 5.4.

3. BUSINESS AND POVERTY

3.1 The general relationship between business and poverty

The ultimate aim of any intervention by DFID is to reduce the level of **poverty** experienced by an identified target group. Poor people are unable to meet their basic needs of food, clothing and access to basic social infrastructure services [such as housing, education, healthcare, clean water supplies and sanitation]. Lack of access may be because the facilities do not exist [because Governments lack the resources to build them] or because poor people lack the income to pay for such

[6] Other strategies include expanding demand among the priority target groups (through advertising and BCC) and supporting the same groups through schemes such as vouchers.

[7] The four strategies for improving quality include: enact and enforce legal restrictions and regulatory controls; provide training supports and incentives to PSPs to conform to good practice norms; enact consumer protection law and raise awareness of consumer rights; increase service user knowledge through community education campaigns.

services where they do exist (such payments being increasingly required by the international development community).

The capacity of **Governments** to build social infrastructure ultimately depends upon the financial resources available to them - generated from taxes on company profits, from taxes on trade (sales tax, VAT and customs dues) and from taxes on personal income.

The capacity of **people** to pay taxes to Government and to pay for using social infrastructure (where it exists) depends upon their personal income. Personal income is derived either from formal employment or from self-employment (such as petty trading or farming). With Governments continuing to lay off staff in order to balance their books, it is clear that the private sector will increasingly be the main source of jobs in developing countries - providing people with the personal income with which to pay for goods and services and from which Governments will deduct tax - and of income for Governments (IFC 2000 above). A healthy private sector therefore contributes **directly** to reducing poverty by creating jobs and by creating markets for primary products and **indirectly** by paying taxes and duties to Governments from which social infrastructure is financed. Figures 1 and 2 overleaf illustrate a relationship between business and poverty using a log frame-based problem analysis and set of objectives from DFID-funded support to private sector development in the Caribbean (using Guyana as an example). Business also impacts on poverty through public policy influence and social investment.

The importance of economic growth in addressing poverty is discussed in ***Making markets work for the poor*** (DFID 2000a), which notes:

'Poverty must be seen as a diverse, complex and dynamic process. It involves low human development, income and consumption and is characterised by inadequate access by the poor to assets – human, financial, social, physical and natural. The poor are also vulnerable. Their income and consumption are variable and subject to shocks, yet they possess few means of managing this risk. As a result the poor can move into and out of poverty in response to relatively small changes in economic conditions. Finally, poverty can result from – and contribute to – exclusion from social, political and economic processes. If measurable reductions in poverty are to be achieved, progress will need to be made across a range of areas:

- Growth in assets, incomes and consumption
- Empowerment of poor people, enabling to influence the structure and operations of public and private enterprise
- Greater equality of opportunity for poor people to build up their assets and generate livelihoods
- Security to counter physical and economic vulnerability that drives people into poverty or threatens the sustainability of their exit from poverty

Economic growth is a powerful driver of sustained poverty reduction. Indeed, over time it is a necessary – though not sufficient – condition for poverty reduction. Growth is driven, inter alia, by institutional change and technological advance and it both contributes to and results from the build-up of assets ………Over time, vigorous growth is strongly associated with poverty reduction, and rising levels of productivity are likely to enhance living standards. But trade-offs exist ………… increasingly therefore analysts focus on the **quality** of growth as well as on growth itself.'

Private sector-driven economic growth **alone** is not the answer to poverty – but without such growth there are few resources with which to address it.

Maxwell (2003) notes the growing international consensus on addressing poverty through the Millennium Development Goals, with poverty reduction at their heart; the international consensus on how to reduce poverty[8], a mechanism for operationalising the strategy at a country level, in PRSPs; technologies for delivering aid in support of PRSPs (e.g. MTEFs and SWAPs); and a commitment to results-based management. Whilst welcoming this congruence of goals and approaches, Maxwell cautions against a number of risks that are pertinent to the current study[9], and suggests dealing with the risks through the application of a number of principles[10] - which are pertinent to the SM framework.

Bearing in mind that three quarters of the world's poorest people live in **rural** areas, the role of agriculture is also important. DFID (2002) notes that agriculture plays four fundamental roles in poverty eradication:

- Through contributing to economic growth and the quality of that growth in terms of benefits to the poor
- As a key basis of livelihood strategies for hundreds of millions of the world's poorest people
- As a provider of locally available staple foods for the poor (also affecting nutrition levels which in turn impact on health)
- Through the sustainable management of natural resources

It also notes the seasonal nature of rural life and the increasing levels of migration (particularly for employment), the increasingly unstable societies and (by implication) the impact that this has on the incidence of HIV/AIDS and other diseases. A healthy and productive rural environment results in greater social stability and less migration, with implications for social marketing. The report also notes that *"agriculture is a predominantly private sector activity and like all economic activities subject to external influences ………. And will benefit from creating a climate that encourages private sector investment in agriculture and agricultural services."*

The strength of the agricultural economy, as well as the strength of the private sector, impacts on poverty.

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[8] best summarised in the World Bank's World Development Report 2000/1: **Attacking Poverty** with its focus on opportunity (meaning growth), empowerment and security

- [9] that targets and performance indicators will oversimplify and distort development efforts
- that a preoccupation with poverty reduction will detract from the importance of citizenship
- that the desire to maximise participation …… will obscure important trade-offs and conflicts of interest
- that a focus on public expenditure will distract attention from the importance of macro-economic policy
- that focusing on sectors where SWAPs work well will over-emphasis social sectors at the expense of growth policies and cross-cutting themes like rural development
- that commitment to partnership will degrade into a form of covert conditionality (reflecting the largely one-sided relationship of the partnership).
- [10] Practise subsidiarity
- Focus on the essentials
- Do not forget the difficult sectors and cross cutting themes
- Recognise the political nature of poverty reduction
- Build partnerships based on reciprocal accountability
- Follow a process approach

Figure 1. Private Sector Development in Belize, Guyana, Jamaica & the Windward Islands

Logical Framework – Problems Analysis

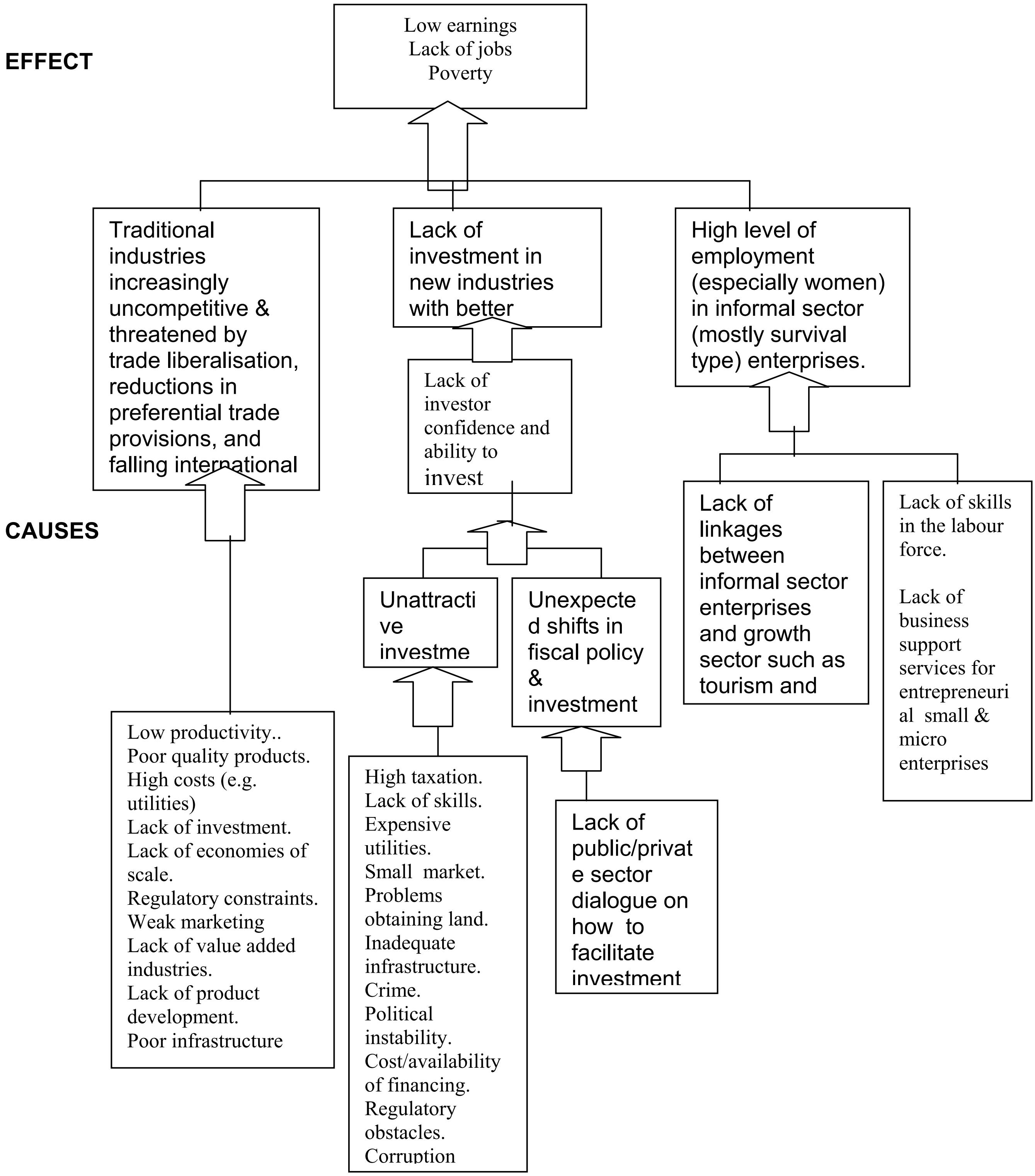
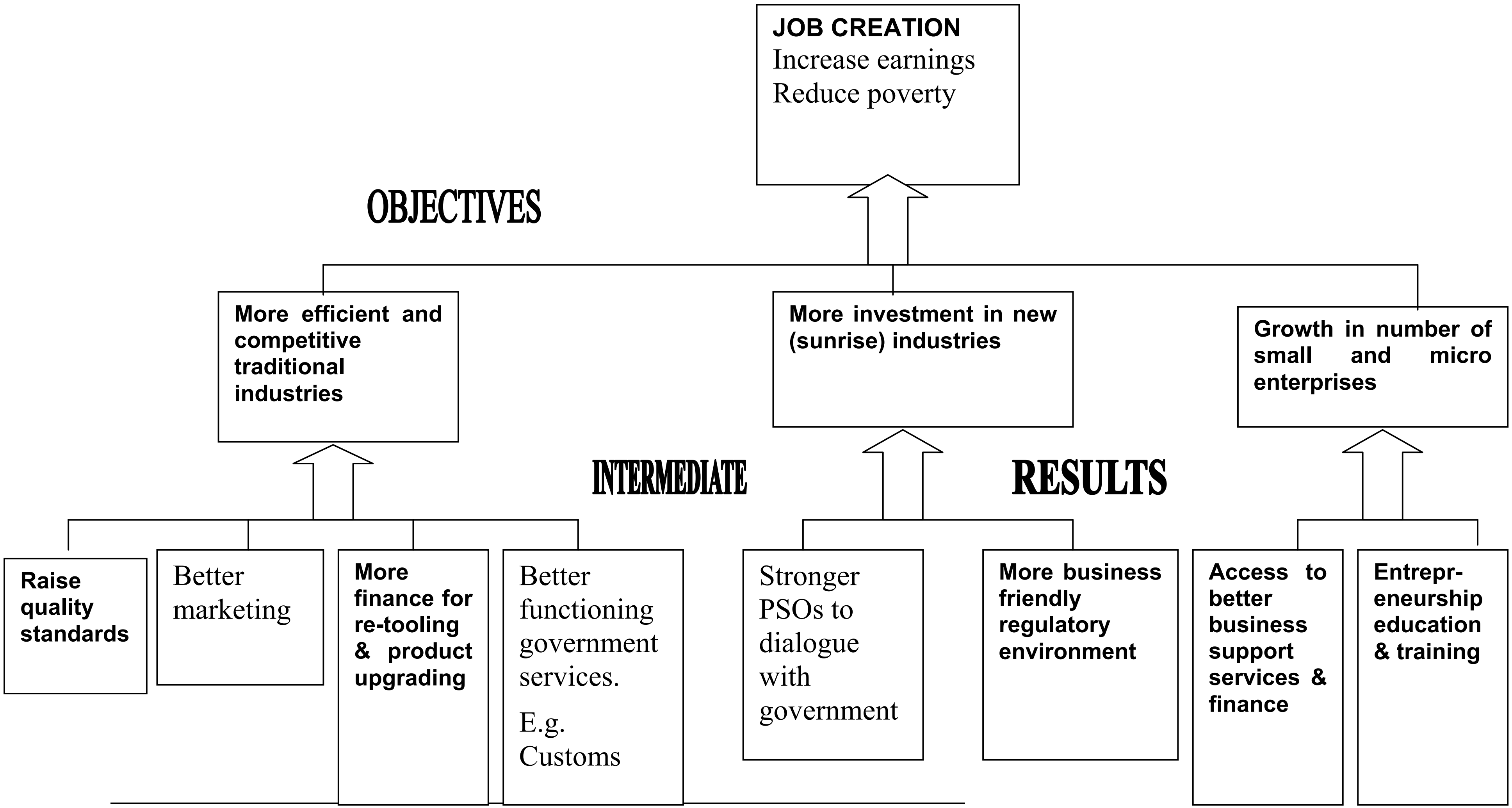


Figure 2. Private Sector Development Programme in Belize, Guyana, Jamaica & the Winward Islands Logical Framework – Diagram of Objectives & Intermediate Results



3.2 The private sector and poverty – mutual interests

Economic growth alone will not eliminate poverty. The needs and capabilities of the poor as consumers, workers, producers and entrepreneurs need to be addressed. Providing health services, nutrition, education, water, sanitation etc will release people's energies and encourage stronger societies and economies that can actively participate in the global economy. There is therefore mutual interest between the public and private sector in creating the wealth to build social infrastructure (funded by taxes on private investment) from which private investment will benefit in turn. *"As business looks to expanding over the next 25 years, it finds that the most rapidly growing markets are, in fact, in the developing world. By 2025, the world's population will have increased by 2 billion people, all but 3% of whom will live in developing countries. So executives perceive poverty reduction to be in their own interest"*[11].

Looking objectively and dispassionately at the poverty: business relationship:

- The most striking thing about the poor is that there are a lot of them;
- Poor people tend to pay higher unit prices for goods and services;
- As consumers the poor often have a limited choice of low-quality goods;
- Poor customers are conservative;

Successful selling to the poor does not mean simply selling a cheaper version of a product designed for the more affluent but developing products and distribution strategies to meet the specific needs of poor people – who generally lack the financial and physical security to buy goods in bulk. In India, for example, 30% of personal care products and other consumables are sold in single-serve packaging. From a business perspective, poor people are also discerning consumers whose requirements need to be met through product development and marketing. The possibility of a balance between treating poor people as consumers whilst contributing to the reduction of poverty through employment, provision of direct services and indirect contributions through taxation is one that the business community is beginning to appreciate.

The IBLF[12] argues that the private sector can address poverty through:

- Generating income and investment
- Creating jobs
- Developing human resources
- Providing appropriate products and services
- Building local business systems
- Sharing international standards and world-class business practices
- Supporting technology development and transfer
- Establishing physical and institutional infrastructure

[11] James Wolfensohn (2000).
[12] Business and Poverty (2002)

And gives some individual examples of direct action currently being taken:

- BMW using sisal from failing local farms in South Africa for its upholstery
- Freshfields (international law firm) developing a work experience placement programme in London
- Johnson and Johnson building and managing the Burns hospital in Soweto

Other companies have been established to operate strictly commercially but with social origins. The Day Chocolate Company[13] (for example) is owned by the Body Shop, Twin Trading, Christian Aid and a co-operative of 40,000 cocoa farmers in Ghana - with cocoa farmers paid a fair trade price for the cocoa that it supplies. Day organises the manufacture and marketing of this fair trade chocolate (Divine and Dubble) into the UK retail trade and now manufactures all of the Co-op's chocolate bars (now all of fair trade origin).

Cheap labour is generally recognised as not solving anything – cheap labour can be equally expensive once productivity and related issues are taken into account. Investing in people provides staff with the skills and knowledge necessary for higher productivity and earnings.

Looking to the multinationals to generate employment directly is not a solution. The world's top 200 companies produce 30% of the world's products but employ less than 1% of the world's labour[14]. It is SMEs (and the informal sector) that create the employment for the poor. However, large companies can influence this by trading with them on an equitable basis. Every job in the Coca-Cola bottling system in China generates 29 outside jobs in supply and distribution through SMEs and the informal sector. Most foreign companies also contribute directly to the health of their employees and their families through education, clinics and assisting with preventative measures (including ITNs where appropriate). However, the impact of this on the overall health of a population is small.

At the generic level there is now a robust "business case for doing good" through corporate social responsibility (CSR) – not least through building local spending power and a skilled workforce – reflected in the term "the triple bottom of line of social, environmental and economic performance". Business increasingly recognises the need to develop a) a competent, healthy and efficient workforce; b) an expanding market and customer base; and c) a stable and safe environment

It would be naïve to believe that the private sector - comprising tens of millions of enterprises that vary in their motivation from survival to exploitation - holds the answer to poverty. But as the primary source of investment and fiscal revenue it plays a fundamental role in building economic growth and at the local level (in both urban and rural areas) contributes directly to the creation of employment for people and creates outlets for the processing and marketing of primary produce. Synergy between the private sector and social marketing is therefore a prize worth pursuing.

[13] to which DFID provided a bank guarantee during the start up period
[14] Business and Poverty (2002).

4. SM'S STRENGTHS AND WEAKNESSES IN RELATION TO DFID'S BROADER AIMS OF WORKING WITH THE PRIVATE SECTOR

4.1 Background

There appear to be five main reasons why DFID is interested in the role of the private sector in SM.

a) **A contribution towards sustainability.** Since, over time, continuing large subsidies from donors or governments are not likely to be sustainable, ways must be found for SM products and services to become more available through privately funded and managed market mechanisms (even though subsidies may continue to be targeted on very specific groups at risk).

b) **Potential for financial leverage.** Linked to this, the private sector can, in certain circumstances, multiply the impact of an SM-motivated activity through investing in manufacturing, in distribution and in the capacity to deliver professional services.

c) **Opportunities for synergy.** Development of the private sector is now a priority for DFID. However, there appears to be little synergy between DFID's PSD and SM interventions nor agreement on whether such synergy is desirable or feasible.

d) **Concern about distortion.** From a PSD perspective, there is concern that the availability of subsidised products will "crowd out" the private sector through market distortion. The contrary argument is that, through its promotional activities, SM may increase the overall market within which the private sector can compete.

e) Using the private sector's comparative advantage in order to better (more cost-effectively/more innovatively) achieve the SM programme's objectives).

Given that many of the private-sector-related observations on SM are generalisations based on perception rather than hard data, and that countries vary tremendously [in their degree of development, GDP, the capacity of people to pay for goods and services, the stage of development and the robustness of the private sector], an attempt is made here to look in some detail at the cross-over points between the private sector and SM to see what lessons can be drawn from experience.

According to Philip Harvey (1999), social marketing as we know it today began in India when in 1964 Peter King recognised that the Indian Government could best promote and distribute condoms through the **commercial** rather than the medical or Governmental networks. This reflected the fact that:

- The government machine was slow, unmotivated, bureaucratic, not represented in many communities and only open to the public at specific times;
- The medical network, although having a more extensive network with longer opening hours, was not interested in (nor geared up to) selling products such as condoms;

- The commercial sector was represented at every street corner, was open all hours and was highly motivated to sell a wide range of commodities through individually small transactions.

Around the idea of using the commercial distribution network, developed the idea of making use of other private sector techniques such as:

- Market research (to better understand your target market)
- Branding (the creation and promotion of brands to increase awareness)
- Advertising (to open peoples' minds to new concepts, to promote a specific product or a specific brand)
- Targeting (in terms of focusing on specific groups)
- Setting performance targets (in terms of specific objectives to be monitored).

Nearly 40 years later, in 2003, many of these ideas no longer sound novel, since many Governments have adopted the ideas and language of the private sector – from privatisation to the setting and monitoring of targets – and engage in public private partnerships. Governments have taken up the ideas and practices of the private sector partly because of the perception that a flexible private sector is better able to deliver, but also because it has the potential to mobilise private investment into activities that benefit the public good (e.g. health, utilities and education) without increasing the public sector borrowing requirement.

The relationship between the private sector and social marketing is important because:

- Both contribute to the MDGs
- The private sector is an important (contracted) provider of goods and services to SM initiatives
- The private sector can be a strong partner with SM initiatives through providing access to its infrastructure and through leveraging in additional investment to address shared interests
- In some instances the private sector can help to build the mechanisms for exit and sustainability

Mutual interest holds the key to synergy.

SM makes use of the private sector in four main ways:

a) as a paid primary contractor (organising SM initiatives)
b) as a manufacturer
c) as a paid sub-contractor (e.g. market research, advertising, transporting);
d) as a distributor (generally covering costs through commercial margins) – mainly selling products but also providing services;

4.2 The Private sector as a paid main contractor.

As with all projects, someone needs to be in charge of a social marketing initiative. Whilst in the developed world this may be a Government department or agency, in the developing world donors almost always appoint a corporate agent to manage the project. This corporate agent may be a (for profit) company or it may be an NGO. NGOs may be appointed by DFID directly (without tender) using accountable grant agreements whilst private companies are required to tender and are employed under more comprehensive contracts. However, the distinction between NGOs and private companies is becoming less well defined. The margins generated by private SMOs are low and generally reinvested in building capacity and there is no evidence that private SMOs are necessarily or generically any more or less effective or efficient than NGOs. Professional experience and capacity of the SMO should be considered more important than its corporate status. With this in mind it is recommended that there be a single, consistent set of rules for the selection and appointment of SMOs, whether private or NGO (Annex 9).

4.3 The private sector as manufacturer.

Most DFID-funded SM involves supplying SM products as well as promoting behaviour change. An SM project can relate to the manufacturing sector in three ways:

- ***As a purchaser of product -*** where the SMO is promoting its own branded SM product and is purchasing from a manufacturer selected on the basis of competitive tendering against a defined specification. The manufacturer may be foreign or local (likely only when the product is simple [such as an ITN] or when the local market is very large [e.g. contraceptive pills in Pakistan or condoms in China] or when an international company has a local subsidiary).

- ***As a competitor.*** Competition may occur when an SM product is launched onto the market in competition with existing products – which may differ in terms of price and quality. Whilst competition is healthy, concerns arise if an SM subsidy distorts the market and competes unfairly (see 4.6).

- ***As a business partner.*** This may occur when an SMO enters into an agreement with a private company in which each makes a contribution (which may be an investment or may involve access to a specific technology) towards meeting a specific objective. This is distinct from a contracting relationship and is discussed in more detail in section 5.

The crude distinction between the manufacturer's model (a donor-supported partnership between an SMO and one or more commercial manufacturers to support marketing of their own brands and committing more effort to products with a social benefit) and the NGO model (where the donor-funded NGO purchases, rebrands and sells with subsidy an SM product is becoming obsolete. Both of these models can have monopolistic or oligopolistic tendencies which, whilst they may be relevant in particular situations for limited periods of time, can hinder the development of a sustainable market. DFID's approach to private sector development, discussed earlier, has evolved from highly targeted interventions at the business level to a holistic approach which extends from the enabling environment through to the individual business. Just as social marketing should be considered as one of a number of tools which can be used to address health needs, so the role of manufacturers (and wider elements of the private sector) should be considered as players which can be part of a team addressing a health issue using an SM approach. The best players should be selected and used in whatever sequence or relationship is most (cost) effective to best achieve programme objectives and protect each party from opportunism.

Hence USAID, for example, working with the Futures Group under the CSM project has begun to explore more holistic approaches to the development, and issues, of segmentation within total markets. A trial, in Northern India for OC pills, is designed to cohesively support public sector, SM sector and commercial sector players and to help each clearly identify those segments of the market that they can best serve in the most cost effective ways.

A number of ITN programmes (Mozambique, Tanzania and a range of programmes supported by the USAID Netmark project) are moving towards more holistic approaches to market development through a mix of support to manufacturers own brands and SM brands, clear total market development and targeting strategies, and clearly defined exit strategies (even if over the long term) for subsidies and SM programming.

In addition to the overall strengthening of commercial markets, there is focus on increasing competition and building local social marketing capability. Challenge funds[15] can also be used as a way of fostering competition and innovation and levering in private investment.

Given that on average between 25-50% of SM expenditure is on the purchasing or subsidising of product then the relationship with the manufacturer/supplier of that product is important. A number of issues arise when considering the relationship with a manufacturer

4.3.1 **Price versus quality.** Most SM products can be considered as commodities rather than health products, which means that there is likely to be considerable choice in sourcing. As there will always be variations in quality and price, the starting point must be ensuring a minimum **quality** in terms of **performance** (e.g. strength of condoms or of netting material which ensures that the product does its job) and **appearance** (which ensures that the product is acceptable or attractive to the target group – based on prior market research). Only when quality standards have been set should price be addressed – at which point the cheapest source of a given quality will normally be chosen, unless other issues need to be taken into account.

4.3.2 **A clear specification.** The need for a clear specification can be demonstrated from the Kenya ITN project. When placing its first order for bed nets, the nominated procurement agent (the Crown Agents) used the WHO specification for bed nets. When its inspector went to check the quality of one leading supplier, 100% of the nets failed due to wide variation in the interpretation of the specification (in particular the overall size of the net, the quality of the fabrication and the mesh size). As a result revised technical specifications were developed by PSI and the Crown Agents (in discussion with the manufacturers) in two parts[16]. These were:

a) ***Performance criteria for netting material*** - which normally include standards such as weight of material, burst strength and mesh size to which were added

[15] Challenge Funds have been established by DFID mainly within the field of private sector development to encourage private companies to extend their activities into new developmentally beneficial areas. Companies present proposals to such funds and those competitively selected generally receive funding to supplement the company's own investment. This ensures the commitment of the participating companies in a way which may not develop through simple competitive tendering. Challenge funds already exist in areas such as financial sector deepening and the development of business linkages (www.challengefunds.org) . For example, the DFID Business Linkages Challenge Fund in Ghana is supporting the franchising of 600 chemical sellers (typically one-person private business operators who have acquired a licence from the Pharmacy Council (PC) of Ghana to sell/retail Over the Counter (OTC) drugs), where the "franchising" involves improved and more cost-effective procurement and the standardisation of drugs.
[16] PSI/Crown Agents Bed Net Procurement: case study report (September 2002).

- Weight of border material, hood material and hanging loop and tie cord material
- Colour fastness to light and washing
- Reference to appropriate ISO standards for these features

b) *Design criteria for mosquito nets* – which are the programmatic elements that could be amended to suit local circumstances without compromising the performance of the net. Although design criteria were mentioned in the WHO specifications there were no detailed criteria listed. Additional features in the design criteria included:

- Pantone colour reference
- Top circumference of the netting material without ring (conical only)
- Number of gathers around the ring (conical only)
- Type of panel material (conical only)
- Number of seams
- Size of reinforcements, loops, tie cords and rings etc
- Type and size of border

In addition, the **inspection procedure** was strengthened and rewritten and allowed the inspector to visit the factory DURING and not AFTER the manufacturing process to ensure compliance. This insistence on a tight specification and high quality standards for bed nets reflects earlier experience following the Cairo Conference when demand for condoms increased exponentially and many manufacturers were providing product of variable quality.

Despite the radical improvement in the quality and consistency of the nets provided for the Kenya project, these new specifications have yet to be adopted by other ITN projects funded by DFID or by other donors. This is a key learning point (esp. given the substantial % of programme funds committed to commodities procurement) and it needs to be better highlighted in this Annex and in the main report.

It is also surprising that procurement specifications for SM products do not include a requirement to meet standards in relations to workers' right, triple bottom line reporting or the Social Accountability 8000 code (see footnote 1). PSI, MSI and Futures Group were each asked to respond to the following questions:

1. When you are contracting private companies to supply goods (e.g. condoms) or services to an SM project do you appraise their approach to social accountability - such as whether or not they adhere to one of the many codes or have a code of their own available for scrutiny?

2. Does DFID raise this issue with you under your procurement discussions/arrangements? And if so, who pays for the costs of assessing compliance?

3. If the issue is not currently raised, do you think that it should be an issue? And if so, how should the costs of assessing compliance be covered?

4. Is this issue raised by any of the other donors with which you work - and if so what is their policy?

In reply, none of the three SMOs raised the issue of social accountability when procuring (1), nor had they been asked to do so by DFID (2) or by any other donor (3). Regarding whether or not this should be raised (4), SMOs were concerned that this might affect their competitiveness or the unit cost of product and that the broader issue should be raised by the donor, which should carry any additional costs that might arise. This assumes that a responsible attitude to employees by a company will necessarily increase cost – which need not be the case.

It is recommended that for a trial period of (say) one year all suppliers to DFID-funded SM projects are required to have a voluntary code defining their policy towards social accountability. This would extend the developmental benefit beyond the SM target group itself. DFID could provide advice to suppliers on this through (for example) the Ethical Trading Initiative or similar organisations. At the end of the trial period any costs or implications related to applying SA principles would emerge.

4.3.3 **Locally manufactured versus imported products.** The option to purchase a locally manufactured product rather than an imported product arises only when such a product is manufactured locally and is broadly competitive in terms of quality and price. It is likely that SM products will be produced locally only when one or a combination of the following is true:

- the local market is large enough (e.g. China, India or Pakistan) to justify local or foreign investment in its manufacture; or the minimum efficient scale is small enough to make local manufacturing economic
- the market is protected
- The product is simple enough (e.g. ITNs) NOT to require levels of expertise or infrastructure found only in the developed economies;
- A local entrepreneur has the vision, experience and technical/financial resources to invest in the manufacturing process;
- The local business environment (including infrastructure, technical [e.g. product registration and environmental controls] regulations and fiscal environment (in particular duty on inputs or competing finished products) is favourable;
- A favourable business environment encourages foreign direct investment.

Given the recognised importance of the private sector in generating economic growth, should priority be given to locally manufactured products in DFID–funded SM projects where local manufacture already exists or could be developed? Whilst there is a clear case for preferring a locally manufactured product when quality and price are equal, it is rarely as simple as this and there are usually options to be considered.

When such an issue arises in a specific project it may be helpful to have some guidance, following a sequence of steps to follow to work through the issues and implications. A guide to approaching this is shown in Appendix 1 – using experience from the Tanzania and Kenya ITN projects. It covers the following main issues

- Specification
- Extent of local manufacturing capacity
- Quality
- Volume
- Prices and internal efficiencies
- Prices and the external business environment

- Costs and investments
- Sourcing investment
- DFID country policy and practice
- Decision time

Where project funds are spent to encourage local manufacture, such investment needs to be linked to meeting targets on quality, volume and price.

Some lessons can be learned from the Tanzania ITN project, which has a particularly high level of private sector manufacturing participation. What factors made this possible or encouraged the current position? These include:

- Sound preliminary technical research undertaken by the London School of Hygiene and Tropical Medicine
- Early awareness of the contribution of the private sector reflected in an adjustment to project design during implementation
- A culture of using nets in urban areas in Tanzania
- Malaria being endemic throughout the country
- A firm commitment by Government in 1997 (following the Roll Back Malaria campaign) leading to a clear policy of which ITNs was part
- A reduction in the level of import duty on polyester yarn
- An extensive rural distribution system including shifting/rotating markets
- Close collaboration between DFID's health (MBA trained) and enterprise advisors at country level
- Withdrawal of the SM ITN once it became clear that the private sector could manufacture and market ITNs competitively
- The willingness of local polyester textile companies to significantly expand their production of nets and compete with each other, resulting in a significant fall in factory prices
- Close collaboration between the SMO and the manufacturers, with interventions focused on short term constraints

In Kenya the position was less clear. A scoping study found that the net manufacturing industry was fragmented and uncompetitive on price and quality – as a result of which it was decided that priority should be given by the project to purchasing internationally (from Tanzania and Thailand) but that an opportunity should be given to the local manufacturers. In practice, as noted above, the quality of ALL the nets was sub-standard and delivery was late. The cost of purchasing locally is shown in table 1 below.

Table 1. Estimate of Excess Expenditure for Procuring Locally in 2002 (U.S. $)

Blue/White Nets	**Kenya**	**International**	**Excess cost**
Average price	3.33	2.50	
Number of Kenyan nets purchased in 2002	113,000	113,000	
Total cost	376,290	282,500	93,970

Ideally, if given adequate time, the exercise presented above could have been completed during project planning so that a clear policy on whether or not to promote local manufacturing could be developed, as a result of which the excess cost incurred by the project could be linked on a structured basis to related investments being made by the local manufacturers.

Manufacturers may also lever in additional investment and generate new employment (e.g. US$4-5 million and 500 jobs for bed net production in Tanzania or US$150,000 for contraceptive pill manufacture in Pakistan).

4.4 The private sector as a subcontractor providing services to SM.

Social marketing requires a range of support services, including:

- Packaging
- Warehousing
- Transport
- Research (on markets and on impact)
- Management information system
- Promotional materials
- Management and use of mass media
- Communication and education

The extent to which such privately owned services (to acceptable standards of quality and reliability) are available within a country depends upon a range of factors to do with the local business environment, the degree of liberalisation which has taken place, the size and maturity of the market as well as the vision and commitment of both local and foreign entrepreneurs. Whereas warehousing is rarely a problem, finding good quality packaging and reliable transport at a reasonable price can be more difficult. At least one good quality market research firm is likely to be found wherever international brands of FMCG are being distributed, although the absence of competition may affect the quality of the research. Finding good quality research to monitor impact is likely to depend upon the historic donor spend in the health sector. The presence of high quality advertising companies depends almost solely upon the size of the consumer market and the maturity of the mass media market. The extent to which local private sector capacity in general is available was addressed whilst reviewing the Tanzania ITN project – observations from which are boxed overleaf.

Ideally, an SMO can go out to tender in each of these areas and select on the basis of quality and price – although this will depend upon the maturity of the commercial sector. In the area of advertising, mass media, communication and education the creativity of the individual firms will be a significant additional factor. SMOs appear to go out to tender at the start of a project and identify a general pool of contractors. Individual contracts may then be awarded for the entire project requirement (e.g. for transport) or may be split based on capacity (e.g. strengths in particular areas) or creativity. Contracts based on creativity are more likely to evolve into longer-term partnerships. Contracts may later be awarded within the selected pool as needs change.

The key issue that arises in relation to the role of subcontractors is not the business relationship (which generally appears to be competitive when there are sufficient companies to compete) but the extent to which SMOs are **willing** to sub-contract rather than to provide such services in-house. Given that subcontracting pushes funds into the local economy and helps to build up local business capacity, sub-contracting should be encouraged where it is possible to do so. With that in mind, it is recommended that SMOs managing DFID's SM contracts should be required to subcontract the provision of services to third parties unless there is a sound reason for not doing so.

OBSERVATIONS ON THE NATURE, CAPITALISATION AND CONTRIBUTION OF SMARTNET[17]'s BUSINESS PARTNERS IN TANZANIA

With one exception, all of SMARTNET's business partners are Tanzanian registered companies although a number have a significant level of expatriate ownership or management. Some of these companies – such as the privately owned TV companies - are typical of those which have established themselves in Tanzania since the early 1990s, following the start of liberalisation, privatisation, the upgrading of the banking system [mainly through the introduction of foreign shareholding] and the development of venture capital and leasing companies.

The TV companies have generally evolved through publishing newspapers (with modest start-up capital of US$20-30,000) then moving into radio before establishing television – where capitalisation is likely to be several million US$. To establish a film production company used to cost around US$150,000 – now down to US$50,000 for a basic unit. Direct marketing field rigs cost in the range of US$50,000 – 150,000. Thus considerable capital investment was needed by individual third parties before SMARTNET could identify and contract the business partners that make it effective – and such investments were only made following liberalisation. SMARTNET in turn is also assisting in the development of these local companies through its contractual spend PSI is one of the top ten purchasers of advertising in Tanzania and for many of these partner companies is a major source of income. A crude estimate suggests that SMARTNET's direct contracts to its business partners, and the additional business created for the net manufacturers through SMARTNET's promotional activities, has created at least 700[18] jobs of which the majority are likely to be permanent and additional investment of US$4-5 million, primarily in manufacturing.

4.5 The private sector as distributor.

Phil Harvey's argument for SM was that the government machine was slow and only open to the public at specific times, that the medical network was not interested in (nor geared up to) selling products such as condoms and that the commercial sector was represented at every street corner, was open all hours and was highly motivated to sell a wide range of commodities through individually small transactions. Thus, once demand is established at an affordable price, distribution is the key.

One of the ironies of SM is that, whilst the concept of quick and easy distribution through the private distribution network works well in practice in densely populated (particularly urban areas) in countries such as India and Bangladesh, it is less applicable in countries where poor people are sparsely distributed in rural areas, where the roads are poor and people's capacity to purchase is limited. This has led to SMOs setting up their own distribution systems – alone or in association with either private distributors, government or NGOs – which in character are somewhere between a spontaneous private distribution system and the now much criticised

[17] SMARTNET is the brand name for the Social Marketing of Insecticide Treated Mosquito Nets in Tanzania project
[18] Made up of 620 new jobs in net manufacturing for the domestic market and 80 other jobs in market development and distribution.

parastatals of old. The danger of establishing another system of distribution is that it may damage such private distribution systems as already exist and create problems of sustainability – the system collapsing once external funding is withdrawn.

Within the range of SM products currently funded by DFID, only a small number of family planning products require clinically-based medicine and need to be sold through the medical network. Whilst other products might benefit from association with the medical network – in terms of endorsement of their value – most SM products are **commodities** with no particular requirement for specialised medical knowledge or storage capacity (e.g. refrigerator) on the part of the wholesaler or retailer.

4.5.1 Strengths and weaknesses of commodity distribution systems.

Whether in the formal or informal sector, distribution is one of the most popular forms of private business activity in the developing world. In the **manufacturing** sector, significant amounts of capital have to be committed over the medium to long term to machine tools and other equipment with capacity to manufacture a limited range of products. In contrast, the distribution sector needs sufficient short-term working capital only to purchase and then distribute/sell goods at a profit. A common cause of business failure is when successful traders invest their earnings into manufacturing operations and fail to realise the long lapse time between investment and income experienced in manufacturing as compared with the quick turnover associated with trading.

Petty traders can add value to their businesses at little cost through splitting packs of products into single items that are sold at a small premium. Well-established distributors may secure credit from a manufacturer and then sell for cash – reducing the need for working capital. It is therefore not surprising that the distribution sector is so popular and so pervasive. The availability of so many FMCG even in the smallest village – from branded soft drinks and body-care products through to matches, batteries and padlocks – is well known. This might lead to the belief that all that was needed was for SM products to be popped into the distribution chain. The reality is different.

The structure of the distribution chain varies considerably between countries and products but in essence extends from the manufacturer/importer to one or more main distributors to one or more levels of wholesalers through to retailers. A few large manufacturers, primarily those producing FMCGs, have their own distribution system (e.g. Coca Cola in much of Africa) but such systems rarely exist through choice but because of lack of confidence in the local distribution system. They can afford to do this because of the significant volumes of, and high margins on, those products. Given that there are few instances where such companies are willing to use their networks to distribute SM products, attention should be focused on the normal trading system.

What constrains the distribution sector and what products are likely to be most popular amongst distributors?

4.5.1.1 **Type of product**: In terms of product type, hundreds of condoms can be carried on the back of a bicycle and are impulse purchases. In contrast, an ITN is bulky (takes up more room on a bike or in a stall) and is a considered purchase – with people willing to travel considerable distance to purchase once a decision to purchase is made. The interest of traders in the different products will vary.

4.5.1.2 **Commercial margins:** Regarding margins, once an SM project starts to influence the trading system through direct participation or sale of subsidised products it will alter the natural commercial margins, which are the driving force behind the coverage and the level of competition in the distribution system. In the Nigeria ITN project, the four net manufacturers were not interested in bundling their nets with IT kits and selling them through local distributors – the margin on the nets (which was their only margin) was too small. At this point, it could be tempting to interfere in the market. In practice, it is the three IT manufacturers (international agricultural chemical companies working through their local subsidiaries and agents), which are now purchasing the nets, bundling them with IT kits and distributing them. The higher margin on the IT kits drove the decision.

In Kenya, SM nets were initially distributed through a large number of distributors and wholesalers, with high margins to generate interest. The high margins available encouraged the wholesalers to retail the nets themselves and maximise their own margins rather than distribute them to retailers. This experience led PSI to reduce both price and margins.

4.5.1.3 **Competition between wholesalers and retailers.** Because the initial entry cost to the distribution business at the petty trading level is so low, and because no long term commitment of capital is needed to add value, it attracts people who are simply trying to survive and for whom any margin – no matter how small – is better than none. For example, the retail margin on an ITN in Tanzania can be as low as US$0.10c (on a net wholesaling for US$3 plus) – although this could rise to US$0.30c on the few occasions when there is no competition. A retailer paying out US$30 in cash for 10 nets may only make US$1 net income. Such competition keeps both margins and prices down and limits the build-up of capital to grow the business. Competition is also strong between wholesalers. For convenience, retailers generally like to purchase all their requirements from a single wholesaler. The wholesalers know that if their price for the first product is uncompetitive, the retailer will move the total purchase elsewhere. If margins are low, volume becomes important.

4.5.1.4 **Credit.** Payment terms are generally cash. Lack of cash significantly limits the capacity of retailers to obtain stock. Some wholesalers will offer short term credit (maximum of one week) to retailers with a proven payment record – but give just enough assistance so that the retailer can continue to purchase product and not enough that they could become future competition. Lack of credit is particularly acute amongst petty traders – witness the high proportion of micro finance that is lent to petty traders at high interest rates. One of the constraints within SM distribution is the limited liquidity of retailers to purchase product – a weakness that may result in SMOs entering directly into, or interfering with, the distribution chain. However, focusing on the issue/sources of credit, which is a key area of activity supported by DFID, might yield results.

4.5.1.5 **Lack of physical facilities**. Other constraints, which exist particularly at the retail level, include poor access to secure storage for their goods when their stalls are not manned. In one project the SMO has funded the construction of a large number of heavily branded kiosks for use by retailers in rural areas and which has resulted in significant increases in sales. Such interventions should be introduced on a competitive basis with near commercial rents for use of these facilities.

4.5.1.6 **Transport.** Whilst transport is a highly competitive business in the developed world, a combination of a lack of capital (to purchase vehicles) and badly maintained roads/vehicles means that hired transport can be both expensive and unreliable. Larger distributors may be able to purchase their own vehicles, although they are reluctant to do so since capital tied up in vehicles could yield a much higher return if turned over through buying and selling within the business. As a result, a great deal of produce is distributed through the local bus network, with the inherent dangers of theft and damage. Targeted short term subsidies can significantly increase the effectiveness of the existing distribution system.

One of the original inspirations for SM was the extent and spontaneity of the private distribution system in India. However in sparsely populated rural areas, where the majority of the world's poor live, such distributions systems are weaker – sometimes resulting in SMO-inspired donor-subsidised parallel distribution systems which are vulnerable to subsidy withdrawal. The nature and viability of the distribution system depends upon the product type[19], the volume, the commercial margins, competition within and between wholesalers and retailers, access to credit and to secure buildings and upon the cost and availability of transport. There are many instances where interference could be possible. Clearly there are dangers of leakage when subsidised products are involved and in many rural areas the private sector distribution system may provide poor coverage, be too weak financially to carry stock or the margins too small to generate trading interest. In such cases, there may be justification for enhancing the normal distribution system (not replacing it) – with a view always to the private sector fulfilling its natural role once the volumes and margins are adequate. As far as possible such interventions should aim to enhance the existing distribution systems (both private and, where appropriate, public) that will continue long after the SM project is finished, rather than establishing parallel initiatives.

4.6 Market distortions and crowding out

Phrases found in the many definitions of SM include "improvement of personal welfare, motivation of healthy behaviour, advancement of social causes and public health benefits". All of these objectives are generally perceived as being for the public good. The difficulties arise when attempts are made to define personal welfare, healthy behaviour and social causes; and when measures taken by public bodies impact on individuals, budgets or the commercial market or when such measures move from the generic to the specific.

Where particular behaviour is known to be damaging to health (e.g. smoking linked to cancer or unprotected sex linked to STIs and/or unwanted pregnancies) the value of increasing awareness of the link through advertising and other forms of communication is generally welcomed; although the format of the communication – such as the use of shock tactics or public discussion about sexual matters – may be contentious. The intervention is seen to have merit.

However, increasing awareness may not be enough. Public bodies may decide that they wish to discourage the use of certain products (e.g. cigarettes) through taxation or encourage the use of other products (e.g. tobacco substitutes) through subsidy – the first affecting personal income and the second involving the use of public funds.

[19] Condoms are more portable than bed nets, whilst IUDs need medical supervision. Condoms are an impulse purchase, IUDs are a considered purchase whilst for the poor bed nets border on a capital investment.

Further steps may involve the targeting of subsidies on specific groups (from which leakage may occur) or the introduction of generic products to compete with commercial brands, distorting the market unfairly. Where the commercial distribution sector is weak, public bodies may encourage NGOs and community groups to engage in the distribution of subsidised products – in so doing creating networks that may collapse once the subsidies are withdrawn. Hence, what started off as being in the public good can easily become contentious.

In general, market prices lie somewhere between the cost of goods (including the cost of promotion and distribution) and what the market will bear. What the market will bear becomes more important with SM products, which have a strong element of public good, and where the aim is to benefit the whole community. Where what people are willing or able to pay is below the costs of goods, a subsidy may be justified – the dangers of which have already been mentioned.

Identifying what the market is willing to pay is difficult when a product is first introduced – in part because consumers may be unaware of the product and its value and because the distribution chain may be imperfectly understood. Best estimates can be made by comparing the relative price with other goods in a similar price bracket, through focus groups or through surveys.

Crowding out (or cannibalisation as it is sometimes called) of the private sector as a result of social marketing can occur when a subsidy or an SM project causes unfair competition, resulting in a reduction of sales of privately manufactured/distributed products of a similar nature which are already in the market. Genuine crowding out occurs when existing products of equivalent quality are already competitively priced – their sales falling because the subsidised product undercuts them on price. Crowding out is less easy to define when existing products are not competitively priced, enjoy oligopoly status or high margins or exhibit poor or inconsistent quality. In such instances, as was the case in Tanzania, the introduction of a subsidised product can significantly increase the overall market, increase local production, reduce prices and improve quality through competition.

As is evident from its project scoping mission (and from subsequent procurement experience), Kenyan manufacturers of nets produce small volumes of nets of inconsistent quality at internationally uncompetitive prices. The introduction of the Supanet appears to have had the following effect on Kenyan (commercial) net manufacturers.

a) A decline in commercial prices and margins. However, the dramatic falls in price experienced in Tanzania is unlikely to occur in Kenya without significant levels of investment by individual manufacturers (indicative investments of not less than US$0.5 million) and the removal of the 20% import duty on yarn.
b) A decline in commercial sales (figures are 30% are quoted by the manufacturers but there is no firm evidence), which have now significantly recovered following PSI supplying them with Power Tab for bundling.

The (seemingly short term) negative impact on local commercial sales is probably as much due to regional and international competition following the project-inspired increase in demand for nets, plus their inherent uncompetitiveness due to the 20% duty on imported yarn, as to the subsidy introduced by the project.

A paper on the effects of prices on condom demand in Indonesia (Molyneaux and Nadjib) found the SM condoms essentially replaced commercial ones and there was little significant increase in the overall market size.

In South Africa, commercial condom manufacturers complain that their market share is being adversely affected by both free and SM condoms, but provide no data to justify this. A summary of the findings from the case studies is shown overleaf.

Clearly there are instances of SM products crowding out commercial products – sometimes justifiably because the commercial product is over-priced or of poor quality. In some instances, as in Tanzania, the SM product has significantly increased the size of the market and reduced the price of the locally manufactured product. When crowding out became significant the SM product was withdrawn on a structured basis in an alliance with local (competing) manufacturers (see Figure 3 below).

PSI argues that in Côte d'Ivoire CSM increased a small market of 100,000 high-priced condoms sold in packs of 12 exclusively through pharmacies to 2001-2002 total sales of 3-5 million in attractive packs of 3 at significantly reduced prices. In Morocco, PSI has licensed its Biosel brand ORS to a commercial firm and in Benin is negotiating a no-fee license with an international ITN manufacturer to scale up distribution in urban areas whilst focusing on SM distribution in rural areas.

The **evidence** on both crowding out and crowding in from a manufacturing perspective is sparse and inconclusive. However, there clearly are instances where crowding out has occurred and the commercial market has been distorted and instances where SM has grown the market. What is important is:

- to be aware that both of these negative and positive outcomes can occur and to actively consider their likelihood during the planning stage;
- that crowding out may result in commercial manufacturers becoming more efficient and rejoining the market – particularly when the SM product grows the market (as in Tanzania);
- that structured relationships can be established with commercial manufacturers that provide them with the opportunity to grow and develop with the market (e.g. FGE focus on quality of condoms in China).

Distortions may also occur in the **distribution** sector – with artificial SM-promoted distribution (push) channels negatively affecting the private distribution chain.

Whilst there are general criticisms of distortion and crowding out – the case studies show that generalisations can rarely be applied in SM due to variations in the range of services, products and in the characteristics of different countries and communities. In order to assist a DFID health officer in the field trying to cope with the possibility of crowding out in the planning and/or implementation of an SM project, an attempt has been made below to produce a simple table identifying areas where subsidy (which is the basis of market distortion in this case) might be applied, the grounds on which it is normally justified, the possible distortions that might arise

TABLE 3. OCCURRENCE OF CROWDING IN AND CROWDING OUT IN THE CASE STUDY PROJECTS

	China condoms	Kenya ITNs	Moz Condoms	Moz ITNs	Nigeria condoms	Nigeria ITNs	P/stan Private Sector	Pakistan Condoms	Tanz ITNs	S.Af condom	SADC
CROWDING OUT											
Has the project significantly crowded out manufacturers and suppliers of commercial product and damaged the commercial market?	No	No	No	No	No	No	Yes	Yes	No	Yes	N/a
Has the project temporarily but reversibly crowded out manufacturers and suppliers of commercial product?	No	Yes	No	No	No	No	N/a	N/a	Yes	N/a	N/a
CROWDING IN											
Has the project significantly increased the	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/a

	China condoms	Kenya ITNs	Moz Condoms	Moz ITNs	Nigeria condoms	Nigeria ITNs	P/stan Private Sector	Pakistan Condoms	Tanz ITNs	S.Af condom	SADC
overall market for the product?											
Have commercial manufacturers & suppliers maintained or increased their market share?	Maintain	Maintain	No local mnfrs	No local mnfrs	Increased	Yes	No	No	Yes	No	N/a

and the steps which might be taken to address it. It has already been described as simplistic – but is a step in the right direction. Hopefully this can be criticised, improved and refined as a joint exercise with other interested parties.

Finally, the graph used by SMARTNET in Tanzania to demonstrate its structured approach to the transition from an SM product to a commercial product will serve as a useful example from the field of how this relationship can be considered, planned and managed.

Figure 3. NMCP National Scale ITN Strategy in Tanzania

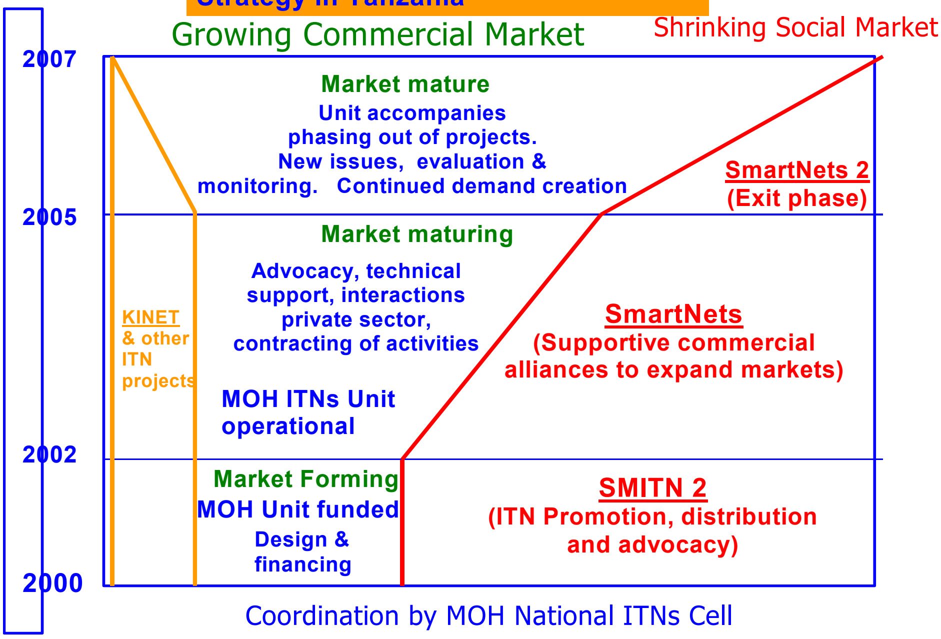


TABLE 4. IMPLICATIONS OF SOCIAL MARKETING INTERVENTIONS AND HOW POSSIBLE DISTORTIONS MIGHT BE ADDRESSED

SM Activity involving the use of public funds	Justification	Possible distortion or related concerns	Steps which might be taken
Increasing public awareness through advertising and other forms of communication	To raise awareness of behaviour which may be damaging to individuals or to the wider public	Unlikely provided that the relevant contracts are subject to competitive tender	Unlikely any will be needed
Providing a blanket subsidy on all products of a specific type which, when used, reduce exposure to or incidence of the targeted concern	• To encourage people to use or evaluate the product • To make the product more accessible to people with limited income	• People fail to value a free or subsidised product • Demand falls when subsidy removed • Subsidy benefits people who have adequate income • Pressure on manufacturers to become more efficient reduced	• Mark with real price and indicate subsidy is temporary • Make subsidised product available only in specific outlets/zones or provide vouchers to target population
Providing a subsidy on particular brands	As above - but used where specific products have particular characteristics or appeal to specific groups or manufacturers are willing to offer a deal on packaging or price	• As above. • Other manufacturers claim they are being disadvantaged.	As above. Also ensure **all** manufacturers have the opportunity to participate if they can offer something which will make the product more attractive to the target group.
Provide a subsidy on product price only to those in a specific target group – for example through use of vouchers or focused outlets	• Those on higher incomes can purchase commercial product • Majority of the most vulnerable found in specific target groups	Leakage of product will occur.	• Package/number SM product distinctively • Penalise unapproved outlets which handle the product
Establish a new subsidised SM brand to compete in the market	• Quality produced not in the market • Manufacturers show little interest in meeting price/quality standards needed for target market.	Subsidy allows SM product to undercut commercial products, which must generate a return on investment and which will be needed when SM product is withdrawn	• Involve commercial manufacturers in planning of SM product introduction; • Agree that the aim is build a new market then withdraw;

SM Activity involving the use of public funds	**Justification**	**Possible distortion or related concerns**	**Steps which might be taken**
	needed for target market. • New SM product will create a market which commercial products will fill later		• Agree time frames for market devt, product withdrawal and related monitoring mechanisms • Require manufacturers to innovate in return for benefit of larger market.
Provide a direct or indirect subsidy to **local** manufacturers to supply SM product (as against buying internationally at lowest price)	• Local manufacturing brings social & economic benefits • local market initially too small to offer economies of scale • Price or investment subsidy will provide time to become competitive	• Subsidy protects existing inefficiencies • Money spent on bringing local manufacturers to international standards reduces availability of SM products to the target group	• Objectively evaluate the investment needed to meet SM quality/price requirements • Ensure that any agreement involving price subsidy is closely linked to phased reduction in price
SMO establishes own transport and distribution network for SM products	• Commercial distribution system lacks penetration into target market, is commercially weak or is unwilling to handle the SM product • Danger of subsidised products leaking into the commercial market	New distribution system will be: • expensive to establish and operate • unsustainable once donor support is withdrawn	• Avoid if at all possible • Involve the commercial distribution chain in the planning process, demonstrate benefits of building up new market and identify ways in which SMO can facilitate the phased transfer to commercial distribution
Provide a HANDLING subsidy to commercial distributors (e.g. building rural kiosks, transport subsidies, higher margins)	Commercial distribution system is too weak in target areas	• Commercial distribution will decline once subsidies withdrawn • Unfair competition with any existing distribution chain	• Put time limits on subsidies and withdraw them once new market established • Charge proper rental on any capital assets provided (e.g. rural kiosks) • Avoid monopoly relationship with distributors whilst new market is developed

SM Activity involving the use of public funds	Justification	Possible distortion or related concerns	Steps which might be taken
Provide a HANDLING subsidy to NGOs or public health clinics (over and above normal distribution margin)	• Commercial distribution system is too weak in target areas • NGOs and clinics have a client base amongst target population	Distribution capacity of NGOs and clinics will decline or cease once handling subsidy removed	• Avoid if possible • Offer enhanced trading margin if distribution costs are high, to be phased downwards over time
Provide a capital grant to PSPs willing to distribute SM products that require evidence-based medical skills – possibly on franchised basis	• Adds value to existing public investment in medical training & private investment in clinics • Builds on relationship between PSPs & their fee paying clients	• Grants distort the commercial & financial market; are not appreciated • Grants do not encourage good business practice	Establish a more business-like relationship with those meeting specific standards, with facilities provided on loan basis linked to performance-based fees and accreditation withdrawn if standards not met

5. POTENTIAL FOR DEVELOPING PUBLIC-PRIVATE PARTNERSHIPS

5.1 The meaning of the term

The term "public-private partnership" has become devalued through over-use and now covers almost any relationship that involves general co-operation between the public and private sectors. The terms PUBLIC and PRIVATE were defined in the first paragraph of section 2. The term PARTNER implies sharing. In commercial terms a PARTNERSHIP is "an association of two or more persons for the carrying on of a business, of which they share the expenses, the profit and the loss". It implies the sharing of a common goal and of the risks and rewards associated with achieving that goal. It is different from the normal contractual relationship where one party awards a contract to another to deliver a service. A partnership implies a degree of **equality** between the parties. Partnerships are business relationships and are established because those involved can see mutual benefit and in which both share the risk.

It can be argued that SMOs take risks to their reputation when establishing business relationships with private companies. Given the wide use of the term partnership, the term partnership will be used in this annex on the understanding that it implies risk and the nature and level of that risk should be defined and quantified.

5.2 Partnership possibilities in social marketing.

Are genuine partnerships likely to arise in terms of social marketing – where partnership is defined as sharing a common objective and sharing in both the risks and the rewards - and if so under what circumstances? Genuine partnerships in SM are currently rare, since neither the donor nor the SMO has either the mandate or the resources to share the commercial risks of failure. In practice, arrangements with the private sector are probably best described as alliances rather than partnerships. There are exceptions, such as PSI's partnership with a Tanzanian company to manufacture Watergard, where PSI is using its own discretionary funds rather than those of a donor.

- A paid main contractor (organising SM initiatives) is not a partner if simply paid a fee to deliver a contract. If the SMO invests some of its own time, money, technology or product on a **risk** basis alongside the donor or government with a view to generating a return then it has entered into a partnership. If the SMO takes no risk then the term alliance is more appropriate.
- a manufacturer simply supplying its products to an SMO (acting on behalf of a donor or government) having won a competitive tender is not a partner. However, a manufacturer that enters into a formal agreement with a government or donor to invest in developing a new product to address identified need in return for specific undertakings or investments on a risk basis, with a view to a future return, becomes a partner.
- A paid sub-contractor (e.g. market research, advertising, transporting) is not a partner unless both parties enter into a specific agreement to invest in the development of new or novel techniques, products or capacities of value to the government, the donor or the SM project and its clientele;

- A distributor is not a partner unless it enters into a specific agreement to invest in new capacity to store or deliver produce matched by similar commitments from the SMO, donor or Government.

Stressing the difference between a partnership and an alliance may appear pedantic – but it is justified on the grounds that the term public-private partnership has come to mean almost any relationship between the public and private sectors, whilst in business terms it implies a sharing of risk. Because the term partnership is used so widely, it is used in the text that follows – whilst stressing that specific relationships must considered in terms of their risk sharing implications.

In Tanzania, three net manufacturers have agreed with PSI to bundle all nets with IT kits, to invest in establishing new agents/distributors in more remote areas, to develop new products (e.g. a shamba net) and to provide information on sales of different products in different areas in return for receiving subsidised IT kits and a targeted transport subsidy for a limited period. This is formally an alliance rather than a partnership, In China, Futures Group is working with its local condom supplier, where the latter has agreed to invest in improving the quality of its condom in return for Futures guaranteeing a minimum order and providing some technical assistance. Again this is an alliance.

In Pakistan, Futures Group had an arrangement with Wyeth for the supply of Nordette oral contraceptives. Following Wyeth's decision to discontinue its investment in local production, an alternative supply was needed. Zafa Pharmaceutical Laboratories, a local manufacturer, was approached and, even though it had limited experience in hormonal production, agreed to produce a low cost, high quality oral contraceptive. This required a new, dedicated plant. As part of its agreement, Zafa committed the investment of US$150,000.

Companies vary greatly in the extent to which they wish to become partners. Many companies simply wish to make or sell product and generate net income from this. Others can be highly motivated by the opportunity to enter into a partnership in which they can commit/risk their professional and financial resources with a view to achieving a professional and financial goal and an enhanced (either financial or intellectual) return on the capital invested. Donors and governments in developing countries have generally not been good at developing such arrangements – sometimes sinking back into the traditional competitive contract bid (group together those of roughly equal quality then choose the cheapest) or being taken in by lavish presentations from large corporations. In contrast, the challenge fund concept has had some success in building constructive alliances.

Some general characteristics of successful partnerships (using the term in its general sense to include true partnerships as well as alliances) are noted below.

- Partnerships work best when the partners look **outward** together at opportunities rather than **inward** at what each can gain from the other.
- Partnerships are heavily dependent upon people and personalities, which change over time.
- Partnerships need to be constantly nurtured if misunderstanding and jealousies are to be avoided. They require investment of both time and money.
- Partnerships must be strong enough to withstand shocks, to deal with disputes (e.g. over sharing of benefits) or even the loss of the partner.

- The best partnerships are between equals. That does not mean in terms of size, image or income but rather in terms of what each can bring to the partnership and the confidence which each has in the other.

- Where equality is not possible (e.g. due to information asymmetries, an uncertain environment making complete contracting impossible or where one party must employ assets specific to the transaction) then incentive alignment will be important. In the commercial world, this is accomplished through equity swaps joint ventures or vertical integration. In the SM context, incentives can be aligned via defining brand ownership rights and specific detailing of performance criteria.

- A high degree of trust can reduce transaction costs when conflicts occur, and allow the parties to remain more flexible to necessary changes and adaptations the programme will require over time. This emphasises the need for parties deal with the right people in the organisations (the decisions makers) and to communicate clearly, consistently and fairly to each other, so as to gain a reputation as a fair and valued business partner.

Deal making expertise is extremely important, and often under-rated. Before entering into a contractual relationship with a private sector partner, it is good to have a comprehensive planning process and to spend some time working on the details of the contract up-front. This planning process can be used as an incubation period to test strategies (as in Case Study 7), or as is more often the case, as a time to spell out key issues and terms in advance of signing a longer term contract. Drawing together key issues already mentioned in the paper, key issues are:

- Align incentives to motivate both partners toward the same goal
- Partnerships must make good business and strategy sense for (provide benefit to) both the company and the not-for-profit entity to be sustainable over time – keep in mind that perception of the value of the benefit to each party can change over time (cash may be important to a start up commercial partner, while developing a new technology/other capacities/entering new markets may be more important later in the company's life cycle)
- Set clear expectations around product specifications and targeted volume
- Set clear expectations around timelines and goals – who will be in charge of meeting project deadlines and setting direction? – what are the clear ramifications of not meeting deadlines/goals? Who will control decisions as project gets underway?
- Determine issues around confidentiality and control over technology
- Determine who will set pricing and at what level? How will project income be used?
- If considerable investment is required from the company, then the company must have a long-term, not year to year contract

Deals/contracts should be flexible to take into account the fact that there can be different roles for different partners. For example, from Case Study #4, the partner in this case is a chemical firm with much higher profit margins than a distributor. This type of a partner (one who is more financially sound) can be expected to invest more $ up-front, have a longer timeframe for realising a return on the partnership and share more of the risks. This, however, does not mean that an established company is always the best partner, as they may not be able to react as quickly or serve specific program needs.

Bearing these points in mind, it is generally better to have a **few** well nurtured, productive and mutually beneficial partnerships than **many** which absorb time and money, yield relatively little and can be hugely distracting when they go wrong.

When planning specific partnership, the following points should be borne in mind:

- The parties to the partnership should be considered as equals in the context of the partnership
- The goals of the partnership – what they are and how they are to be measured - should be clear
- The commitments of each party – what each is committing at what time and in what circumstances - should be clear;
- What happens when things go wrong – due to circumstances either within or outside the control of the partners – should be clear
- Ownership of assets should be defined and agreed
- The potential benefits for each party should be clearly defined and the basis on which such benefits are shared should be clear
- The dates for reviewing progress should be agreed in advance

5.3 Building public private partnerships.

The best partnerships evolve over time rather than occur spontaneously. Thus the actual partnerships or alliances that may develop during a social marketing initiative may not necessarily be evident at the time of planning or when competitive tenders are submitted. At this point, however, the potential for partnership and the principles and acceptable levels of risk can be considered and defined.

Whilst from a donor or Government's point of view it may feel more comforting to have contracts finalised when the project begins, experience suggests that flexibility in achieving objectives is preferable. It may therefore be more productive for the donor or Government to indicate that it wishes a project to be delivered on a partnership basis – in which the government/donor will enter into a partnership agreement with a project contractor (which would currently normally be an SMO) in which the contractor undertakes to invest in an agreed way (e.g. products, technology, deferred earnings etc) linked to performance-based income or the contractor may be expected to establish partnership agreements with other parties that will mobilise their resources into the project on a risk/performance basis. The areas or sectors where such partnerships are anticipated, and the broad terms of such partnerships, would be identified and agreed in advance. Examples could be found in the field of manufacturing and product development. The project could also include funds to be available on a "challenge" basis in which interested parties submit proposals for achieving specific objectives, in which funds are allocated against innovative ideas or performance-based targets. Some useful questions raised in a Challenge Fund application are included at the end of this Appendix 2.

Whether we are talking about contracts between two commercial entities, donors & SMOs or SMOs & the private sector, the idea is to leverage each sector's strength/comparative advantage. This usually involves an element of cost – trying to get an effective product or service at low cost and without high transaction costs. The latter costs can be significant and are heightened in uncertain environments where information is asymmetric and investments must be made specific to the transaction. Where transaction costs are high, commercial firms will seek to reduce them by aligning the incentives of the parties – for example, through joint ventures, vertical integration or equity swaps.

These same parameters should be considered when a public or NGO partner proposes on what basis he would like to engage with the private sector 'partner'. In fairly stable environments (prices stable) where the public sector/NGO 'partner' has good information, and where no specific assets are involved, a simple market-based contractual relationship may suffice – for example, when contracting for media or distribution services where several competitors exist in reaching the target market. In situations characterised by uncertainty, asymmetric information between the parties and/or the need for transaction specific investments (sometimes the case when contracting for SM commodity supply), the public sector/NGO 'partner' should look for an agreement that aligns the incentives of the party with whom it is contracting. The allocation of brand ownership rights is important in this, as are the performance target specifications and the informal ways (e.g. communication) in which the contracting parties interact.

Information on the general approach of the British Government to public-private partnerships can be found on www.partnershipsuk.org.uk and www.ogc.gov.uk (Office of Government Commerce) although of limited direct relevance to SM.

5.4 Other business mechanisms - franchising

A number of other business mechanisms are relevant to SM – probably the most prominent of which is franchising[20]. A FRANCHISE is a privilege granted or sold to use a name or to sell products or services – or a combination of all three. The franchisor is the granter or seller of the privilege whilst the franchisee is the recipient or purchaser. Franchising is often promoted as a relatively safe way for:

- People to get into business **for** themselves but not **by** themselves;
- Companies to expand effectively without incurring the high overheads normally associated with establishing a branch network – or to convert an existing branch network into a marketing machine.

It depends upon having franchisees that are able to raise the required level of capital and have the required educational or other skills needed. In developing countries, it is less easy to find suitable franchisees due to the shortage of capital and of suitable skills whilst weak demand can reduce the viability of franchised businesses.

Commercial franchising is based on agreements that define technology, operating systems, use and maintenance of specific equipment, capital investment required, customer service ethic etc. These are monitored and sanctions are applied when conditions are not fulfilled.

The term franchising has been modified and applied to social marketing under the term social franchising - by recruiting private sector for-profit medical practitioners, pharmacies or paramedics as franchisees, generally for the delivery of sexual and reproductive health (SRH) products and services. SRH services are formed into "franchisable" packages of care – with training and delivery protocols defining minimum standards.

[20] A common definition of franchising is "an arrangement whereby a manufacturer or marketer of a product or service (the franchisor) grants exclusive rights to local independent entrepreneurs (franchisees) to conduct business in a prescribed manner in a certain place over a specified period".

Social franchising builds on some of the characteristics of the public health service (i.e. availability of trained medical personnel and facilities) and some characteristics of the commercial distribution network (private funds already invested in facilities for the commercial exchange of goods and services and with an existing customer base). Its goal is to use the commercial relationship of a franchise network to benefit provider members, and then to leverage those benefits into socially beneficial services. Social franchising was promoted by USAID in the early 1990s, recruiting and training private doctors to deliver specific SRH services, providing them with such equipment as may be needed and with products distributed either through existing channels or through the franchisee – generally at a subsidised price. The franchise is promoted by a local marketing company through the mass media. A second-generation approach is more prescriptive with more focus on achieving financial sustainability.

In practice the term is used very loosely – even to describe a network of trained medical providers supplying a range of services and products – and sanctions are rarely applied. The high cost of monitoring also means that social franchising is not yet a sustainable activity – a point confirmed by PSI, FGE and MSI.

The Sustainable Healthcare Enterprise Foundation, with financial support from the Gates Foundation and technical assistance from Management Science for Health (Europe) is focusing on developing a sustainable franchise for the delivery of 26 essential drugs in Kenya working through small shops and an associated network of private clinics (managed by nurses) that also sell the drugs. MSH has set financial sustainability as a primary objective and MSH anticipates that the network will be becoming self-sustaining when it has 300 outlets operating. In Ghana MSH is co-operating on a programme involving 600 chemical sellers in which it is applying the lessons being learned in Kenya.

Based on reviewing the available literature and inputs from the SMOs themselves the following observations are offered:

- Social franchising (as broadly defined above) will usually be appropriate only when the product involved is not simply a commodity but requires medical skill to apply and/or maintain it.
- There is a wide spectrum of definition of SF, ranging from the near charitable to the near commercial and the term is in danger of losing its meaning.
- The available studies on SF consider the SF model from a social rather than a business perspective – not covering issues such as levels of investment needed, how capital is raised, return on investment, how business efficiency has been/could be improved etc.
- Assuring technical quality is the most important factor in franchising – a process that must involve both stick and carrot. Whilst the carrot of training appears to be common to all SF activities, the stick of sanction through withdrawal of the franchise appears to be rare. If this is the case, then the use of the term “franchise” may be inappropriate. Equally, the concept of accreditation (external quality assessment), which also occurs in SM, is meaningless unless the accreditation can be withdrawn if standards are not met.
- A strictly private sector perspective raises reservations about providing equipment and training on a **grant** or subsidised basis to an individual or organisation which is then expected to operate in a business-like manner in order to achieve sustainability.

- Sustainability is a key concern. Whilst it is possible for a PSP franchise to become a sustainable business activity in well located areas of high population (although increasingly difficult in less populated and poorer areas) the chances of the franchisor (with responsibility for training, supplying products, monitoring performances, invoicing for and being paid franchise fees) becoming sustainable is unlikely in the short term. As the franchise network grows, the combination of % earned on product sales and/or management fees could be expected to fund a large growing portion of central overheads.

6. BRINGING TOGETHER DFID INTERESTS IN HEALTHCARE, SOCIAL MARKETING AND PRIVATE SECTOR DEVELOPMENT

The relevance of SM to achieving DFID's wider healthcare objectives is addressed throughout this report. Analysis of the budgets of SM projects highlights that up to 70% of the expenditure is contracted out to the private sector – for products, physical and professional services. Further, the private sector is the single most important retail interface with those targeted in SM projects. For these reasons alone the efficiency and effectiveness of, and the relationship with, the private sector is critically important in the utilisation of DFID's funds. When combined with DFID's parallel interest in supporting the development of the private sector in its own right, because of its contribution to economic, fiscal and social development, renewed focus on the role of the private sector in SM is justified.

The previous sections reviewed the role of the private sector in economic development (section 1), its general contribution to poverty (section 2), its specific role in social marketing (section 3) and partnerships between the public and the private sector (section 4). This section considers the potential for bringing together the interests of DFID in healthcare and private sector development.

A number of donors have recognised the importance of the private sector, both in providing healthcare and in SM. USAID has always given priority to the private sector – through its focus on supporting and working through private sector health providers, its focus on markets (including its CSM project), its pioneering work on social franchising and its support for Netmark (see box). Sometimes, as with Netmark, substantial funds have been committed to a concept – allowing the project manager to test new ideas in fairly wholesale fashion. Providing commodities is a major, but not the only, component of German-funded projects whilst RNE has generally co-financed SM projects put together by others.

In general (although there are exceptions) the link between the contribution that the private sector can make to healthcare/SM and parallel donor-funded PSD initiatives seems not to have been made.

In most countries where DFID is operating, issues relating to the private sector are addressed in the PRSP or more specifically in a strategy paper on private sector development. Donors in general, and DFID in particular, have addressed private sector constraints through a series of measures that were noted in section 2.3 (Addressing market failure) which move from the macro (relating to the enabling environment) to the micro (interventions targeted at the enterprise level). Given that the effectiveness of enterprise-level interventions can be constrained by weaknesses in the business environment, donor assistance has focused increasingly on the latter – recognising that changing the business environment (which can involve major political, institutional and legal changes) requires a long time frame.

NETMARK

Netmark's goal is to reduce malaria in Africa by making ITNs widely available through the development of a commercially sustainable market. Launched by USAID in September 1999 under the management of AED, it has focused on seeking joint investment and planning with commercial partners. The budget for the period 1999 – 2007 is US$65.4 million The original design was based on a partnership with SC Johnson and son (SCJ - the world's largest marketer of consumer insect-control products and with a significant presence in Africa). Based on market research SCJ came to the conclusion that it would not break even and withdrew from the programme.

Approaches were then made to the major net and treatment manufacturers – including Aventis, A-Z Textiles, BASF, Bayer, Siam Dutch, Sunflag Tanzania, Syngenta and Vestergaard Frandsen – each of which submitted proposals. The basic model envisaged two competing partner groups (one net manufacturer and one insecticide manufacturer) per country – focusing initially on Ghana, Nigeria, Senegal and Zambia. Netmark worked closely with the commercial sector to identify and overcome the barriers to creating commercially sustainable markets
Early lessons include:

- Whilst generic advertising is appreciated, brand advertising makes the product sell – perhaps through matching funding
- A regional presence is not enough – an independent presence is needed in each country
- Manufacturers want to be able to vary their partner according to local conditions and want more control over how the money is spent

Netmark Plus (2002 – 7) will offer support to:
Commercial expansion (increased support to local distributors, accessing transnational distributors, advocacy for supportive policies, supporting expanded capacity and quality of ITN production, production of improved ITN technologies
Market priming (linking priming efforts with commercial expansion)
Targeted subsidies (developing operational models, helping countries to access the Global Fund, linking commercial and subsidised efforts)

Netmark claims:

- Increased interest of ITN companies in ITN retail market development
- Reduction in ITN tariffs and taxes
- Reduction of ITN prices and increased availability
- Formal partnerships with Global ITN suppliers
- New models and tools for public-private partnerships and for targeted subsidies
- Increased investment in retail market development

In the light of experience Netmark will:

- Create separate generic campaigns for ITNs and for retreatments
- Providing matching funds for the marketing of commercial brands
- Provide seed product to distributors

Expansion into Cameroon, Kenya, Uganda, Mali and Madagascar is being considered.

It is important to remember that you can only **fully** engage the private sector when it can see a profitable market (whether as manufacturer, service provider or distributor and whether directly contracted, encouraged by subsidy or forming a business alliance), when it is willing to invest in order to compete in that profitable market and when the enabling environment (which includes any distortions which may have been created by an SM project as well as other duties and bureaucracy) favours such an investment.

The effectiveness of private sector participation in SM will be influenced by:

- positive changes in the business environment that will be generically beneficial over time – witness the box in 4.4 above noting that PSI's private sector partners in the Tanzania ITN project would not exist if liberalisation had not slowly taken place over the past 10 years.
- Changes in the financial sector – increasing access to a range of financial services and tools that in turn could facilitate investment in manufacturing or increase the stocking capacity of small retail outlets.
- Changes focused on the SM area – perhaps relating to specific product regulation or to reduction in import duty, increasing local efficiency
- Enterprise level interventions that can increase efficiency or access to new technology.

All of these are in the donor armoury and can influence, directly or indirectly, the effectiveness of private sector participation in SM projects. But at present, whilst SM projects are encouraged to **relate** to the private sector, the efficiency and effectiveness of that same private sector are not addressed - and SM projects are operating largely independently of PSD-related projects funded by DFID in the same country.

To what extent is it realistic or desirable that SM and PSD projects should collaborate more closely?

Firstly, is there any justification for closer co-operation? It is not impossible to find health professionals who would argue that private sector issues have nothing to do with their professional focus on providing health care – distortion of the market or not. However, the same person would probably get incensed if PSD projects were indiscriminately supporting companies that damaged the health of their employees. Hence there is overlap and synergy between health and PSD.

Secondly, is it practical? A view that emerged in the case studies was that involving PSD professionals would slow down, and possibly dilute, the health-focused project. That is probably because the PSD adviser has been brought in late, by which time making changes is difficult. This suggests that co-operation should start earlier, when the project is on the drawing board and when the role of SM is being considered as one of the options.

In what ways could a PSD initiative assist the project? The first is to look for co-incidence of interest. What are the PSD programmes and activities and can they relate to or enhance an SM initiative? Is there a challenge fund, for example, to which the SM-related private sector could apply? The second is targeted. What particular constraints are being experienced by the potential or actual private sector partners? Is there expertise which the PSD adviser can contribute, either directly or through bringing in external assistance, to address specific problems or advise the SMO/project on dealing with the private sector?

Table 4 below summarises the key areas of donor/DFID intervention, the strategies normally used and their potential links with SM.

In summary, a project focusing on health must have health improvement as its priority. However, during the planning stage a range of options for achieving specific outcomes will be considered, including the potential role of SM. Given the general importance of the private sector in economic development, and its specific role in both health care delivery and in the operations of SM projects, the potential role which the private sector can make to the targeted health outcomes should be considered – taking into consideration current and planned DFID-funded interventions in PSD. In this way, the opportunity for co-operation with PSD should emerge naturally.

POTENTIAL RELATIONSHIPS BETWEEN SOCIAL MARKETING AND DONOR SUPPORT FOR PRIVATE SECTOR DEVELOPMENT

AREA OF DONOR INTERVENTION	STRATEGIES	POTENTIAL LINKS WITH SOCIAL MARKETING
SUPPORTING A STABLE MACRO-ECONOMIC ENVIRONMENT To create a market-oriented economy in which private sector development can operate in an efficient manner with the aim of achieving national development goals such as poverty reduction, employment and wealth creation	• Macroeconomic policy framework • Market liberalisation • Governance	Provides the framework for private investment in sectors and activities of relevance to SM – e.g. transport, distribution, communications, product manufacture
DIRECT POLICY AND LEGAL REFORMS: PRIVATE SECTOR DEVELOPMENT (GENERAL) To ensure policies, laws and regulations governing the private sector did not unduly encumber the private sector.	• Privatisation programmes • Private sector promotion policies and strategies • Legislative and regulatory reforms	As above. Possible links where government assets are being privatised (e.g. warehouses, transport, pharmaceutical companies, TV, radio)
DIRECT POLICY AND LEGAL REFORMS: PRIVATE SECTOR DEVELOPMENT (SME DEELOPMENT SPECIFIC) To remove anti-SME biases found in policies, laws and regulations and to ensure the reform of these instruments are responsive to conditions and capacities of the SME sector	• SME promotion policies and strategies • Legislative and taxation reforms	Tax and duty implications on raw materials used in SM products, companies making SM products, R & D
STRENGTHENING INSTITUTIONS: POLICY DESIGN, IMPLEMENTATION AND ENFORCEMENT To ensure that existing and newly created or reformed policies, laws and regulations are properly implemented and enforced in an a transparent, equitable and market-oriented manner	• Capacity building	As above

AREA OF DONOR INTERVENTION	STRATEGIES	POTENTIAL LINKS WITH SOCIAL MARKETING
STRENGTHENING INSTITUTIONS: REPRESENTATIVE AND ADVOCACY. To ensure that the SME sector is properly represented in policy and legislative reform dialogues and that representative institutions can advocate for change to government in a consistent and knowledgeable manner that is driven by mandates that come from the SMEs themselves	• Creating new institutions • Capacity building	Capacity of SM partners to lobby government on specific issues relating to tax, duty, product regulations, skills training, cost of power etc
SUPPORT FOR BUSINESS DEVELOPMENT SERVICES Building business skills through training and advice	• Capacity building (structural and human) • Developing new techniques and approaches • Developing private sector service delivery through accreditation	• Strengthen those sectors relevant to SM - including manufacturing, services, distribution, transport • Development of business models for social franchising
SUPPORT FOR FINANCIAL SERVICES Building the capacity of organisations engaged in microfinance, commercial banking, venture capital and leasing to provide effective and relevant financial services	• Research and introduction of best practice • Helping commercial banks to relate to the SME and informal sector • Helping microfinance institutions to develop into deposit taking banking institutions • Challenge funds	• Build capacity to carry stock • Build a savings culture amongst target clientele • Health insurance schemes • Support investment in social franchising • Strengthen distribution sector
SUPPORT FOR THE DEVELOPMENT OF SPECIFIC SECTORS Supporting the development of particular sectors of importance to an economy – such as manufacturing, transport, tourism, agro-industry	• Training • Providing access to new technologies • Developing business linkages • Stimulating foreign investment • Challenge funds	• Build business links involving new technology • Encourage FDI in manufacturing SM products • Use of challenge funds to stimulate competition and innovation

APPENDIX 1:

ASSESSING THE POTENTIAL FOR LOCAL MANUFACTURE

The following steps could be considered:

1. **SPECIFICATION.** Prepare a detailed unambiguous specification of the product in terms of its performance (e.g. strength) and design (e.g. shape and colour) with a clearly defined inspection procedure.

2. **LOCAL MANUFACTURE.** Is the product currently manufactured within the country? If the answer is YES, then proceed to 3. If the answer is NO, are similar products manufactured where the manufacturing process could relatively easily be modified to produce the SM product? The most obvious example is bed nets which complements existing polyester-based textile manufacturing operations. If YES, is there interest in such investment and does the volume of product required by the project make such investment worthwhile? If YES, proceed to 4.

3. **EXTENT OF THE LOCAL MANUFACTURING CAPACITY.** If the product is manufactured locally, is there only one manufacturer or several? This is important if/when it comes to issues of competition and/or offering aid-funded assistance to the local manufacturing capacity. List the manufacturers noting location and ownership and current levels of production.

4. **QUALITY.** Does the local product currently meet the specification? If NOT, what constrains the quality and **could** the quality specification be met given a definable level of investment in technology, skills or hardware? What is that level of investment? Is it likely that contracts placed by the project would justify a return on such investment (e.g. either as a result of economies of scale or of the project paying a premium for meeting specific quality criteria?)

5. **VOLUME.** What is the current output of the local manufacturer(s)? Is this significant in terms of the project demand? What investment (technical and financial) would be needed to permit the company to meet the minimum contract volumes required by the project?

6. **PRICES AND INTERNAL EFFICIENCIES.** What is the current price of the locally manufactured product? Would that price increase or decrease if investments were made by the manufacturer(s) to increase both quality and volume as defined in 4 and 5 above? How internationally competitive are these prices? To what extent do these prices reflect internal business weaknesses such as general inefficiency, lack of investment, lack of competition (perhaps due to protected markets), and lack of market knowledge or of volume?

ASSESSING THE POTENTIAL FOR LOCAL MANUFACTURE (cont)

7. **PRICES AND THE EXTERNAL BUSINESS ENVIRONMENT.** To what extent do these prices reflect an unfavourable business environment (poor infrastructure, lack of access to competitively-priced finance, excessive regulation, and lack of transparency) or unfavourable taxes/duties (e.g. duty payable on raw materials but not on finished goods). Are there any steps that could be taken to remove such external constraints (e.g. lobbying Government to amend product legislation, to remove specific duties or to harmonise duties/taxes on raw materials and finished products)?

8. **SUMMARISE THE INVESTMENTS AND COSTS.** Summarise the level of investment needed by the companies to achieve the required levels of volume, quality and price as well as the potential cost to the project.

9. **SOURCING THE LEVELS OF INVESTMENT NEEDED.** What are the options for sourcing that investment – professionally, technically and financially? Is the demand created by the project likely to justify such an investment by any or all of the local manufacturers. Are the local manufacturers interested in making such an investment – and if so under what conditions (e.g. minimum orders from the project, specific technical or financial assistance, changes in the fiscal environment etc).

10. **DFID COUNTRY POLICY AND PRACTICE.** What is DFID's current and planned policy and practice towards private sector development in the country? Are there any obvious areas of overlap between such policy/practice and the constraints faced by local manufacturers? Are there any mechanisms in place – such as challenge funds – which might be brought to bear? What contribution can the country PSD adviser make towards addressing the issue of local manufacture? Can the economics adviser comment on the implications of paying a higher price for a locally manufactured product if that higher price is due to the payment of import duties on raw material, where such import duties are for the public good?

11. **DECISION TIME.** Decide on whether or not the costs associated with one or more local companies becoming internationally competitive (such costs including paying more because of import duties, paying more whilst investment by the manufacturers themselves works through into lower prices, matching private investment through the use of challenge funds etc) is justified.

EVALUATING OPTIONS FOR INVOLVEMENT OF THE LOCAL MANUFACTURING SECTOR IN SM PROJECTS

ISSUES	Findings	Options for change and costs involved
GENERAL		
Is there a watertight specification?		
Is the product available locally as well as imported?		
Name the local manufacturers		
Could the product be manufactured following supplementary investment by local manufacturers of related products? If so, name the companies?		
At what level of annual sales is such investment likely to be justified?		
QUALITY ISSUES		
Does the local product meet the spec?		
If not, what constrains quality?		
What levels of investment would be needed to meet the spec?		
What levels of sales would justify such investment being made and over what time period?		
VOLUME ISSUES		
What is the current local		

ISSUES	Findings	Options for change and costs involved
manufacturing output?		
What is the minimum order that the project would be willing to place?		
What investment is needed by the company(ies) to meet min. prod. Levels and over what time period?		
PRICES AND INTERNAL EFFICIENCIES OF LMs		
What is the current price of the LMP?		
How competitive is this with the IP?		
What impact would investments for quality/volume have on LMP price?		
To what extent do local prices reflect internal business inefficiencies? Specifically: • General inefficiencies (define) • Monopoly market/lack of competition • Lack of investment • Lack of market awareness • Others (define)		

ISSUES	Findings	Options for change and costs involved
PRICES AND THE EXTERNAL BUSINESS ENVIRONMENT		
To what extent do local prices reflect an unfavourable business environment? Specifically: • Unfavourable business regulations • Unfavourable product regulations • Poor/expensive infrastructure • Corporate tax regulations • Specific/skewed import duties • Lack of investment incentives • Favouritism/corruption • Absence of competitively priced finance • Others (specify)		
INVESTMENT		
Summarise the investments needed by the LMs?		
Identify potential sources of funds for these investments		
What is the cost to the project of supporting the LMs through this		

ISSUES	Findings	Options for change and costs involved
process of investment and upgrading?		
DFID COUNTRY POLICY AND PRACTICE ON PSD		
Policy priorities		
Current interventions		
Planned interventions		
Relevant interventions funded by other donors		
IMPACT		
What additional local employment is likely to be generated?		
What level of additional fiscal income (from duties and taxes [corporate and personal]) might be generated?		
Is the investment in LM likely to strengthen the potential sustainability of the project and assist a structured exit from the project by DFID?		

APPENDIX 2:

QUESTIONS ASKED IN BUSINESS LINKS CHALLENGE FUNDS – AN EXAMPLE FROM GHANA

SECTION 1: DETAILS OF APPLICANT

SECTION 2: DESCRIPTION OF PRODUCT OR SERVICE

Mission Statement: (Briefly describe the overall objectives of the project).

Detailed description of proposed project – what do you propose to do?

(This section should include the key issues that the project is intended to address and how it will make a difference)

a. Clearly describe the linkage proposed, who are the partners, what is their experience, how long have they been operative and what will they invest in the linkage that will contribute to the achievement of the objectives?
b. Who are the main intended beneficiaries?
c. What is the role of the organisation in the lead in submitting the bid (e.g. if from a consortium), and what are the roles of the other partners – what exactly will they do?
d. The time-scale – proposed start and duration.

SECTION 3: CONTRIBUTION TO THE OBJECTIVES OF G-BLCF

- How will it contribute, directly or indirectly, to improved incomes, livelihoods and opportunities for poorer people and/or women or minority groups? Estimate the number of poor people (e.g. on less that $1 a day) income that will benefit from this linkage. Does the linkage offer wider community benefits and are any community organisations involved, in addition to those already identified?
- How will it enhance the competitiveness of enterprises or representative organisations and thus encourage sustainable growth, incremental employment and wealth creation?

SECTION 4: MARKET NEED

- Describe the nature and extent of existing relevant market weaknesses and the opportunities that this linkage intends to address.
- To what extent were linkage members involved in developing the linkage and will continue to be involved in its future.
- Describe the information sources you have used to assess market need and demand effectiveness
- Any positive or negative effects on the environment as a result of the linkage

SECTION 5: VALUE ADDED BY G-BLCF

- Why is the development of the linkage (and thus the service or product) dependent on receiving G-BLCF support?
- How will G-BLCF grants encourage and mobilise the skills and resources of the business and community sectors

SECTION 6: RISK

a) Why you (and linkage partners) believe the linkage can be delivered in the time scale envisaged and within the proposed funding profile
b) What are the main risks that may delay or reduce the effectiveness of this linkage and what are your contingency plans for dealing with these risks. To what extent is the non-BLCF funding dependent on factors outside the control of the applicant (or consortium partners)? What is the scope for adaptation in light of changing circumstances?
c) What are the risks that G-BLCF support may give you an unfair advantage over your competitors both local and international?

SECTION 7: IMPLEMENTATION

- What is the organisation structure (include partners etc) that will implement the linkage? (An organisation chart must be provided in the appendices).
- What is the experience and track record of the linkage manager and key people? (Brief CV's of the key people, maximum one page, should be provided in the appendices).
- How will the executive direction and administrative support for the linkage be delivered? Will the lead organisation (applicant) be responsible for the overall management, financial diligence and delivery of the linkage? (If different, please describe). What governance, accounting and monitoring systems will be put into place? Explain how such systems will ensure propriety and regularly in the handling of public monies and the codes of practice for labour conditions.
- Provide a summary of your detailed work plan for the implementation of the linkage indicating targets, time scale, milestones, inputs and outputs.

SECTION 8: FUTURE STRATEGY

SECTION 9: FINANCIAL INFORMATION

SECTION 10: OUTPUT MEASURES

SECTION 11: ORGANISATIONAL STRUCTURE

APPENDIX 3:

SOCIAL FRANCHISING

A number of other business mechanisms are relevant to SM – probably the most prominent of which is franchising[21]. A FRANCHISE is a privilege granted or sold to use a name or to sell products or services – or a combination of all three. The franchisor is the granter or seller of the privilege whilst the franchisee is the recipient or purchaser. Franchising is often promoted as a relatively safe way for:

- People to get into business **for** themselves but not **by** themselves;
- Companies to expand effectively without incurring the high overheads normally associated with establishing a branch network – or to convert an existing branch network into a marketing machine.

Franchised products are generally popular with the public because they have a recognised brand name and an assurance of quality. Franchising generally works because both parties have a strong motivation to succeed – the franchisor stands to gain royalties whilst the franchisee stands to generate net income or lose his/her investment.

Franchising ***in its conventional form*** has attracted interest as a development tool within the enterprise sector, particularly in the transitional economies. Franchising generates significant benefits to a franchisee, which buys a tried and tested package and receives ongoing training and assistance in all aspects of the business operation. The level of risk is reduced because of managerial training provided by the franchisor, supervision of the operation to ensure quality control and maintenance of standards, collective buying power through economies of scale, and technical and marketing support from the franchisor. The Franchise Association of South Africa, for example, has members offering over 150 franchises in:

- automotive products and services
- building and home services
- business services and speed printing
- education and training
- entertainment and leisure
- food concepts
- health and body culture
- real estate
- retailing and direct marketing

with investment levels ranging from less than £2,500 to over £25,000.

For franchising to work several factors are critical. These are:

- An expanding market for the goods or services being franchised

[21] A common definition of franchising is "an arrangement whereby a manufacturer or marketer of a product or service (the franchisor) grants exclusive rights to local independent entrepreneurs (franchisees) to conduct business in a prescribed manner in a certain place over a specified period".

- A supportive legal environment that allows protection for the trademark being franchised
- The ability for domestic franchisees to repatriate royalties and fees
- An adequate infrastructure for the timely distribution of goods of the right quality
- Access to capital for both fixed assets and operational requirements (in effect access to leasing and banking facilities)

All of which are typical of a favourable or enabling business environment.

Important additional characteristics of commercial franchising are the strict contractual relationships and the high level of monitoring and quality control, linked to a range of sanctions including withdrawal of the franchise. This, together with the potential loss of investment, imposes significant pressure on the franchisee both to conform and perform.

Commercial franchising has been modified to be applied to social marketing under the term social franchising - by recruiting private sector for-profit medical practitioners, pharmacies or paramedics as franchisees, generally for the delivery of sexual and reproductive health (SRH) products and services. SRH services are formed into "franchisable" packages of care – with training and delivery protocols defining minimum standards.

Social franchising – which may be defined as "the use of business franchise methods to achieve social rather than financial goals" is projected as being the **same** as commercial franchising in the following ways:

- The franchisee **wants** access to the brand name and to branded products, to proprietary know-how;
- The franchisee **needs** to be able to provide the capital for establishing the franchise – although in SF a donor may contribute to this;
- The franchisee has a contractual obligation to abide by specific rules and standards[22];
- Location is of key importance and financial self-sufficiency is more difficult to achieve in less populated areas – such sustainability being a function of target population served and corresponding positioning of the franchised brand in the market;

But SF **differs** from commercial franchising in the following ways:

- All or part of the initial capital may be provided by the donor. This reduces the risk but also the level of self-interest in succeeding.
- Other subsidies may be offered including for training, interest rates, rental on remote facilities, overheads and administration, discounts on wholesale prices;
- The franchisor's motivation may be less commercial and more social;
- The donor can interfere with the relationship between franchisor and franchisee;
- Whereas commercial franchising prefers franchisees with little experience (creating dependency) social franchising needs franchisees with training and

[22] These may include offering a standard range of services and goods, maintaining service quality, meeting sales quotas, keeping to standardised retail outlet design, paying franchise fees, providing transparency to the patient and providing statistics to the franchisor.

experience – although professionals can be more difficult to franchise in circumstances where there is a perception that clients are attracted by their skills rather than by the brand;

- Most franchises are likely to be ***fractional*** (i.e. adding a franchise to an existing business) rather than ***stand-alone*** (where a business is set up solely to promote the franchise);
- The level of sanction for failure to meet the franchise conditions is generally less.

Social franchising builds on some of the characteristics of the public health service (i.e. availability of trained medical personnel and facilities) and some characteristics of the commercial distribution network (private funds already invested in facilities for the commercial exchange of goods and services and with an existing customer base). Its goal is to use the commercial relationship of a franchise network to benefit provider members, and then to leverage those benefits into socially beneficial services. Social franchising was promoted by USAID in the early 1990s, recruiting and training private doctors to deliver specific SRH services, providing them with such equipment as may be needed and with products distributed either through existing channels or through the franchisee – generally at a subsidised price. The franchise is promoted by a local marketing company through the mass media. A second-generation approach is more prescriptive with more focus on achieving financial sustainability.

The Options report notes that social franchising:

- Offers a mechanism for introducing SRH care into the private health sector
- Can improve the quality of care
- Offers a wider range of products and procedures, through utilisation of trained professionals, than is available through product SM through the retail network
- Reassures users through recognisable brands and standards
- Can be effective in targeting SRH services to particular groups

At the same time, it has some limitations – in particular:

- There must be a growing consumer demand and a pool of potential franchisees
- A high level of investment is required in the start up phase by both franchisor and franchisee
- In the absence of continued donor funding sustainable SRH social franchising relies on the willingness and ability of users to pay for the services.

In Pakistan the PSI-managed Green Star family planning franchise has a network of 2,000 private doctors who receive subsidised supplies, signage and benefit from advertising for the clinic network and the SM products. Reported benefits as seen by the franchisees include increased patronage, the opportunity to discuss their medical concerns with other franchisees and training. In contrast, the Futures Group-managed Key family planning network in Pakistan is deliberately NOT defined as a franchise because there is no sanction (withdrawal of the Key sign) if quality standards are not met. FGE defines it more as a trained provider network[23]. Despite this, the Packard

[23] In its own submission to the 2002 OPR FGE noted that those doctors who do **not** attend training are those with busy clinics – from which it might be deduced that it is the less busy or successful who might be attracted to a franchise/provider network.

Foundation study on social franchises includes the Key network as one of the four franchises reviewed. Hence, the use of the term social franchise appears to be ill-defined.

Stephenson et al in their report on franchising reproductive health services note that *"franchising positively influences family planning and reproductive health client volume, staffing levels and the number of family planning brands and reproductive health services available. Client satisfaction is higher than other types of health establishments. Franchised health establishments are successful in attracting health clients".* The study does not, and probably cannot, report that the quality of the healthcare services is higher. In contrast, an as yet unpublished study by Montagu using data from Kenya notes that *"access appears to be a significant factor …….. women value **provider skill** above all other attributes."*

In practice the term "social franchising" is used very loosely – even to describe a network of trained medical providers supplying a range of services and products – and sanctions are rarely applied. The high cost of monitoring means that social franchising is not a sustainable activity.

The Sustainable Healthcare Enterprise Foundation, with financial support from the Gates Foundation and technical assistance from Management Science for Health (Europe) is focusing on developing a sustainable franchise for the delivery of 26 essential drugs in Kenya working through small shops and an associated network of private clinics (managed by nurses) that also sell the drugs. This appears to be the only example of a socially-oriented franchise operation in the health sector which has financial sustainability as a primary objective.

Based on reviewing the available literature and inputs from the SMOs themselves the following observations are offered:

- Social franchising (as broadly defined above) will usually be appropriate only when the product involved is not simply a commodity but requires medical skill to apply and/or maintain it.
- There is a wide spectrum of definition of SF, ranging from the near charitable to the near commercial and the term is in danger of losing its meaning.
- None of the available studies on SF consider the SF model from a business perspective – such as levels of investment needed, how capital is raised, return on investment, how business efficiency has been/could be improved – e.g. through:

  - recruiting and retaining good staff
  - maintaining adequate levels of stock
  - depreciating and replacing equipment
  - maintaining proper financial records and controls (with implications for business management and access to formal financial institutions), or
  - having sufficient liquidity to develop or diversify their businesses.

- Assuring technical quality is the most important factor in franchising – a process that must involve both stick and carrot. Whilst the carrot of training appears to be common to all SF activities, the stick of sanction through withdrawal of the franchise appears to be rare. If this is the case, then the use of the term "franchise" may be inappropriate. Equally, the concept of accreditation (external quality assessment), which also occurs in SM, is meaningless unless the accreditation can be withdrawn if standards are not met.

- Whilst SF includes some of the elements of a franchise (i.e. a standard package of goods and services) it lacks others.
- A strictly private sector perspective raises reservations about providing equipment and training on a **grant** or subsidised basis to an individual or organisation which is then expected to operate in a business-like manner in order to achieve sustainability. Where is the motivation to operate efficiently from a business perspective? A balance needs to be found between encouraging and discouraging people (through making entry either easy or difficult). In principle, a system that offers loans for establishment and performance-related payments for services delivered (from which loan repayments can be made) is more likely to generate a business-like approach that may encourage financial sustainability. Further, achieving the right to hold a franchise must in itself be a challenge worth aspiring to – and a right which can be withdrawn if the franchise conditions and standards are not met.
- Sustainability is a key concern. Whilst it is possible for a PSP franchise to become a sustainable business activity in well located areas of high population (although increasingly difficult in less populated and poorer areas) the chances of the franchisor (with responsibility for training, supplying products, monitoring performances, invoicing for and being paid franchise fees) becoming sustainable is currently unlikely.