

# Building on the Monterrey Consensus: The Growing Role of Public-Private Partnerships in Mobilizing Resources for Development



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# Preface

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The World Economic Forum is pleased to issue this report of our Financing for Development Initiative, which has been undertaken in partnership with the United Nations Department of Economic and Social Affairs (UNDESA) and the Swiss Agency for Development and Cooperation (SDC).

The UN-sponsored Financing for Development conference in Monterrey in 2002 concluded that greater cooperation between public and private actors will be required to overcome the inadequacies of development finance and achieve internationally agreed development goals. As a follow-up to the so-called Monterrey Consensus, the World Economic Forum's Global Institute for Partnership and Governance organized a series of multistakeholder expert consultations to identify where opportunities and obstacles lie in two areas that appear particularly ripe for deeper public-private collaboration: a) adapting multilateral development banks and bilateral aid agencies to the challenge of catalysing greater domestic and foreign private investment in developing countries, and b) harnessing public-private partnerships (PPPs) as vehicles to extend the reach and effectiveness of development assistance to the poorest in society.

The private investment segment of this project is examining ways in which multilateral development banks and bilateral aid agencies might expand their risk mitigation activities and deepen support for financial governance capacity building in cooperation with the private sector. Its findings and recommendations will be released in a separate forthcoming report.

This report conveys outcomes of discussions involving 200 PPP experts and practitioners over the past year regarding the status and promise of PPPs in three areas of development: health, education, water and sanitation. Six two-day roundtables were held involving experts from the public and private sectors, civil society and academia. These were

supplemented by individual interviews and staff research.

The fundamental lesson that emerged from these consultations is that all parties interested in improving the scale and effectiveness of development assistance – governments, international organizations, businesses, and NGOs – would be well advised to take PPPs far more seriously. While not a panacea, PPPs have substantial potential to add scale, efficiency and innovation to development efforts, drawing on the relevant competencies of each partner. Given that the shortfall in resources needed to meet the Millennium Development Goals is unlikely to be filled through official assistance alone, the time has come for the international community to investigate ways to integrate PPPs into the structuring and delivery of aid on a more systematic basis.

We would like to thank our partners, UNDESA, its Financing for Development Office, and the SDC for their foresight and cooperation in working with the Forum to structure this project. In particular, Undersecretary-General Jose Antonio Ocampo, Ambassador Oscar de Rojas, and their colleagues, Alex Trepelkov and Krishnan Sharma, have played important roles, as have Regis Avanthay, Head, Global Issues and Sustainable Development Division, SDC, and his colleague, Pascal Raess.

We would like to express our appreciation as well to the project team, which was led by Stefanie Held and included Valerie Weinzierl, Heather Pace Clark, and Lisa Dreier of the Forum, as well as Michael Warner, Programme Manager, Business and Development Performance, Overseas Development Institute (ODI). Dr Warner made substantial contributions to the design and moderation of the multistakeholder roundtable events and the final report. We are grateful to ODI for its involvement throughout the project.

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Finally, we would like to thank all of the expert participants in the roundtables and associated research interviews. Above all, this report seeks to give voice to the experience of PPP practitioners. Their enthusiasm, candour, technical knowledge, and willingness to think beyond personal experience were the most essential elements of the project's success. A separate acknowledgement of participants who took the added time to reflect on drafts of the report and provide other special input into the process appears at the end of this report. Although the report reflects the project team's best efforts to interpret the thrust of expert views, not every project participant necessarily agrees with each of the findings and recommendations.

The Monterrey Consensus provides a solid foundation for thinking about how the international community could organize itself to mobilize the additional finance necessary for the achievement of common development objectives. We hope that this report contributes to a better understanding of the important part that public-private partnerships can play.

Richard Samans  
Managing Director  
Global Institute for Partnership and Governance  
World Economic Forum

Geneva, September 2005

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## Introduction

The United Nations-sponsored Financing for Development conference in Monterrey in 2002 concluded that greater cooperation between public and private actors will be required to overcome the inadequacies of development finance and achieve internationally agreed development goals. As a follow-up to this conference, the World Economic Forum's Global Institute for Partnership and Governance in cooperation with the UN Department of Economic and Social Affairs (UNDESA) and the Swiss Agency for Development and Cooperation (SDC) convened a series of nine separate practitioner-driven, multistakeholder roundtable discussions during the period 2004-05. These two-day expert roundtables, supplemented by individual meetings and other research, sought to identify where the greatest opportunities and obstacles lie in two areas that appear particularly ripe for deeper public-private collaboration:

- Expanding the role of public-private partnerships (PPPs) in addressing persistent development challenges, with a special focus on education, health, and water; and
- Adapting multilateral development banks and bilateral aid agencies to the challenge of catalysing greater domestic and foreign private investment in developing countries.

This report summarizes the project's findings in the first area. It examines the status and potential of PPPs in three sectors of development: basic education, health, and water and sanitation, with a particular focus on the angles addressed in the Millennium Development Goals (MDGs) which were agreed at the United Nations Millennium Summit in 2000<sup>i</sup>. Nearly three-quarters of the sector-specific indicators for measuring progress on the MDGs relate to these sectors, where the participation of the private sector can be politically contentious. The

shortfalls in full-service delivery in education, health and water as well as the nature of these sectors suggest the need for a broader multistakeholder approach, both as a form of political risk management for investors and as a way to ensure that these three human necessities are accessible and sustainable to the poor.

Findings from the second part of the project relating to private investment in developing countries will be released separately.

## *Expanding the Role of Public-Private Partnerships in Mobilizing Resources for Education, Health, and Water and Sanitation in Poor Regions*

This report offers a practitioner's perspective on the status and promise of PPPs in poor countries – i.e., the extent to which they can be harnessed to extend the reach and effectiveness of aid in mobilizing resources for basic education, public health, and water and sanitation. Our focus is on the persistent development challenges facing these sectors in low-income countries and economically disadvantaged provinces and regions. We began the project with no preconceived notion of whether the weight of practitioner experience and opinion would support the proposition that PPPs have a substantial role to play in advancing development in these sectors. As the project concludes, we believe the answer to that question is affirmative, based on the large number of successful PPPs underway in developing countries, some of which will in be noted in this report. Some qualifications apply, however, and are discussed here. Although the views in this report reflect the project team's best efforts at interpreting the input from experts who were consulted and related research, not every expert participant necessarily agrees with each of the findings and recommendations.



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## ***Defining public-private partnerships***

The concept of public-private partnership is not new; there is no single definition. Indeed, the range of types of PPPs is constantly expanding, and the term means different things to different practitioners. The core concept involves business and/or not-for-profit civil society organizations working in partnership with government agencies and official development institutions. It entails reciprocal obligations and mutual accountability, including either voluntary or contractual relationships; the sharing of investment (financial or in-kind) and reputational risks (rather than the one-dimensional transfer of risk to the private sector), and joint responsibility in design and execution.

As far as finances are concerned, in a conventional PPP arrangement private companies often are invited to invest in public service infrastructure, for example, through concession agreements. While financial resource commitments are shared, financial risks tend to be transferred to the party most able to manage them, typically the private sector. The public authority carries the political risk of not delivering infrastructure improvements.

In many other PPPs, the resource component of the private sector's involvement is philanthropic, in the form of a donation of equipment or personnel, grants disbursed by corporate foundations, or community investment programmes linked to a company's production or marketing presence. For some, PPPs also include "outsourcing" and "insourcing" contracts in which the private sector delivers a public service by innovative and efficient methods (through design, procurement, construction, management or other services). These arrangements are often distinguished from core PPPs that involve explicit pooling of resources and some risk sharing, and can be characterized as a form of private sector participation (PSP). But to the extent that PSP arrangements in poor countries

often involve a substantial commitment of corporate resources that might not otherwise be justified on the basis of investment return alone, they belong in a discussion about PPPs and development.

## **General Findings**

### ***The PPP approach is gaining momentum and can be highly effective***

There is growing appreciation of the importance of engagement with the private sector in development work, so much so that the very concept of development appears set for a transformation. Many key actors including public, private, and NGO leaders are now advocating the scaling up and even the institutionalization of multistakeholder collaboration from strategic planning to programme implementation. There are at least three reasons for this shift in sentiment in recent years regarding the role of the private sector in development:

- **The urgent need for 'scale'.** Notwithstanding the significant increase in funding commitments for official development assistance by most G-8 and other donor countries, it is highly unlikely that the Millennium Development Goals will be achieved through official resources alone. Estimates of the financing gap range from US\$ 50 billion to US\$ 100 billion a year (approximately double the current level of aid), a deficit unlikely to be covered using official funds alone. As a result, there is a growing consensus that only by supplementing official efforts through a more successful mobilization of foreign and domestic private resources – via direct investment and PPP arrangements – is there a realistic prospect of achieving the MDGs.
- **Improving aid effectiveness.** Whether the promised increases in official development assistance ultimately materialize will be determined by how effective aid is perceived to be. To overcome the prevailing scepticism, there



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will need to be renewed emphasis in development work on performance-based structures and metrics as well as the efficiency of project management. These are areas in which the private sector is widely perceived to have a comparative advantage that would be worth tapping on a more systematic basis.

- **Unleashing innovation.** After decades of effort mainly through official aid delivery mechanisms, many of the persistent development challenges in poor countries clearly require new approaches. A growing number of aid sponsors are working not only with host country governments but also with a wider range of non-traditional actors such as private and social entrepreneurs who have developed new models for achieving results. Their cumulative experience has started to transform thinking about development assistance from regarding it as primarily a public-sector undertaking to adopting a multistakeholder approach in which donor and host country governments work extensively in partnership with the private sector and civil society on project design, accessing resources, and execution.

***In many poor countries, the commitment of private sector resources to poverty alleviation already equals a substantial share of current official development assistance and may exceed foreign direct investment.*** Private sector perspectives on the role of companies operating in poor societies appear to be shifting significantly. In addition to using PPP mechanisms to extend the reach of their philanthropy, many firms have concluded that compelling opportunities exist to apply core competencies to PPPs, often on an in-kind basis in ways that produce clear benefits to their business. Based on an extrapolation of survey data for Fortune Global 500 companies, we estimate that US\$ 12 billion in cash donations and between US\$ 10 billion and US\$ 15 billion in in-kind contributions are made each year by these 500

corporations alone. Moreover, we estimate that approximately 10% to 15% of these funds are donated to support activities in low-income countries. If contributions from the wider transnational corporate community, large national or regional firms and direct private donations are added, then corporate and private philanthropic resources directed to low-income countries likely approach or even surpass foreign direct investment (FDI) net inflows in most of these countries. Given the tendency of many donors to direct more official development assistance (ODA) towards direct budget support, these unconventional private sector resources may in coming years grow to form a major share of external project financing and technical assistance to low-income countries. Indeed, companies with international operations should consider increasing the share of their philanthropic and in-kind investments devoted to poor countries in line with the global diversification of their sourcing, sales and profits.

***The time has come for development institutions and professionals to take PPPs more seriously – to institutionalize their role in the structuring and delivery of aid.***

The analysis above suggests that a more concerted effort by governments and companies to scale up the use of PPPs in poor countries could help to fill a significant part of the MDG resource gap – possibly by several billion dollars a year. PPPs exist today because of general public failure or lack of capacity, because other models of collaboration or individual action have failed, or because in many cases PPPs are working better than traditional approaches. Practitioners in the roundtables emphasized that providing basic education, healthcare, and water and sanitation in poor countries increasingly requires a multi-sector approach, involving public and private service providers, user communities, project financiers, philanthropic corporations, regulators and international donors working together. Handled responsibly, these new multistakeholder alliances,

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and particularly those involving civil society organizations, can help to strengthen political acceptance of what otherwise might be the controversial participation of the private sector in health, education and water.

There is increasing multi-sector collaboration around project design, infrastructure development, service delivery, institutional strengthening and performance oversight. But more effort is needed to fully refine and target PPPs as a tool, and many issues related to the PPP operating environment (social, institutional and policy factors) need to be addressed. The challenges to successful implementation and scaling up are still significant. The following is a summary of cross-cutting and sector-specific recommendations from the practitioner consultations on how the international community could address these challenges and scale up effective PPP models.

## Cross-Cutting Recommendations

A number of common priorities and issues emerged from the practitioner roundtables in the separate discussions on education, health and water PPPs. These conclusions have been further informed by focused research undertaken for this report. Highlights these findings and recommendations are summarized below. The full set of recommendations is presented in the main report.

***A clearer appreciation of the nature of the private sector's added value needs to be cultivated among all actors.***

- **Mobilizing private sector resources means leveraging core company capabilities (e.g., tangible assets, expertise, management) and not just financing.**

Direct private investment in education, health and water in poor countries remains at low levels. In low-income countries and economically disadvantaged regions, private companies and

development finance institutions continue to be reluctant to invest capital in many aspects of basic education, public health, and water and sanitation provision, partly because of the imbalance between investment risk and return. Beyond the wealthier urban areas, conventional finance is not well suited to addressing many of the challenges of providing public goods in these three sectors. Other alternatives have yet to be fully exploited. These include the strategic use of in-kind donations of company personnel, equipment, or marketing and distribution services; innovation by private sector contractors in designing and delivering pro-poor solutions; and the marketing of low-cost, high volume, products and services. Practitioners in the roundtables emphasized that the mere involvement of business and NGO personnel in a partnership project often produces management efficiencies, innovation, and a performance culture that can be as valuable as the financial resources committed.

- **The businesses case for corporate engagement is more robust than often understood.** Attitudes in the private sector are undergoing a significant shift. More and more companies are coming to the conclusion that cooperation in poor countries with governments or NGOs can involve far more than just the pursuit of community philanthropy. Compelling opportunities exist in many countries for firms to apply core competencies to PPPs in ways that provide clear economic benefits, notably to their labour productivity, human resource costs, and marketing and brand recognition strategies. Yet appreciation of the role of PPPs remains as limited in the private sector as in the public sector.
- **Partnerships benefit from engaging and strengthening local private sector actors.** Local industries and local small and medium-sized enterprises (SMEs) have an important role to play both through business activities and philanthropic

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involvement that is often underestimated, and about which little data is available. Successful partnerships aim to include the local private sector in capacity building efforts. One of the most effective models identified involves domestic corporations, industry associations and foreign investors and operators engaging in development through coalitions and working in partnership with government with the overall goal of enhancing regulatory reform, policy incentives and endorsements that will in turn create a better workforce.

## *Governmental and intergovernmental organizations need to gear up to support the larger role that PPPs are likely to play.*

- **Public leaders should use their platforms to help demystify and strengthen public awareness of the potential value of PPPs.** The practitioners who participated in the roundtables placed strongest emphasis on the importance of building sufficient political will and public support to overcome concerns over private sector involvement in the provision of public goods. Many stated emphatically that the main impediment to successful partnerships is political, and that international organizations can play a significant role in overcoming that. Participants also identified a number of ways in which the public sector can become more efficient and effective as a key player in PPPs.

**The public sector's 'competency to collaborate' should be strengthened by embedding capacity building assistance for local managers and sponsors within PPPs as a matter of policy.** Many forms of public-private partnership have found that a substantial part of their activities end up being directed towards strengthening the capacity of public-service institutions and delivery systems. Partners quickly learn that in low-income countries, projects and programmes are unlikely to succeed or generate sustained outcomes without this capacity-building

component. Public-private partnerships should be designed from the outset to include budgets and competencies that improve the quality and sustainability of service delivery, and facilitate organizational changes required to reform wider public-sector delivery systems and institutions. In countries with weak public institutions and service delivery systems, a substantial proportion (if not the majority) of resource commitments within a PPP arrangement should be directed towards 'on-the-job' institutional and systems strengthening.

- **For national governments, improving the policy and institutional environment should be a priority.** The institutional environment in which PPPs operate has financial, operational and social implications, affecting start-up, transaction and operating costs of the PPP, as well as the transparency and accountability of the project to beneficiaries and the public. The need for a transparent and accountable public-sector operating environment is key to the success and scaling up of PPPs, including consistent policies and legal systems that support long-term engagement by the private sector.
- **Procurement rules need to strike a better balance between encouraging private sector interest and avoiding conflicts of interest.** Existing bidding processes for public sector contracts often provide incentives for cost savings over pro-poor service provision. The resulting financial pressures often have the greatest impact on poor user populations, who are often the most difficult and costly to reach. Grant-making donors and public sector agencies should consider strategies for promoting pro-poor service and infrastructure provision through their contract tendering procedures. New ways need to be found to use the procurement process to encourage innovation by private-sector contractors in designing and implementing solutions that help the poorest.

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*The public and private sectors should collaborate more at the global level to facilitate an increase of PPP activity to scale.*

- **Personal leadership is critical.** Many partnership models today are in an early and exploratory stage, and the field in general lacks broad public and institutional support. As a result, practitioners in all sectors report that individual “champions” often play a crucial role in forming and managing PPPs. The role of such individuals is often cited as a key success factor. Cultivating such leadership at both the local and global levels should be a priority.
- **Voluntary PPP governance and management guidelines should be developed and disseminated as a resource available to assist practitioners.** Ensuring effective governance of PPPs is often a major challenge. The multiple parties involved in PPPs often bring different cultures, motivations, and expectations to the table, complicating the task of finding agreement on a governance structure. Many partnerships fail due to a lack of programme accountability, weakly defined roles, unbalanced representation, or the absence of clear management processes. Guidance is needed to develop effective partnership practices for accountability, transparency, legitimacy, disclosure, participation, decision-making, grievance management and performance reporting. A public-private effort should be undertaken at the global level to develop PPP governance and management guidelines that could be used as a voluntary reference or benchmark for practitioners in different sectors and regions. Given the diversity of PPPs, such guidelines should in no way be considered a stepping stone to regulation or formal official oversight.
- **Leveraging private sector resources is probably more about facilitation than subsidy.** Inadequate information is an important impediment to the development of new PPPs. A

company may have a general inclination to make certain resources and expertise available for the public good, but it may have neither the time nor staff capacity to scout the landscape for suitable official and NGO development partners. The same is often true for governments and international organizations, which typically have little internal knowledge of the corporate sector. Developing a public-private partnership to bridge this information gap through the proactive identification of corporate interests and public needs could make an important contribution to progress on the MDGs. An early experiment is the Growing Sustainable Business initiative of the United Nations Development Programme (UNDP), which is essentially a partnership facilitation and brokering service. Although still in its inception, the initiative is expected to leverage around 14 times the level of resources that other donor-supported private-sector instruments, such as business challenge funds, can. Building on this example, donors should consider investing more in partnership facilitation initiatives to leverage the role of the private sector for development.

- **Strategic alignment and sequencing are needed to leverage financing and subsidy instruments.** To provide water, sanitation, basic education and health services to lower income groups, public subsidy or grant financing is likely to be necessary. Discussions with practitioners suggest that with the right sequencing and mixing of financial, subsidy and other resources from the public, private and development assistance sectors, PPP formulations can be developed that reach further into poor populations than they do at present. Greater care needs to be taken to employ the optimal combination and sequencing of tools such as debt management, development grants, loan subsidies, risk finance, small enterprise finance, commercial capital, and technical and management assistance.
- **New approaches are needed to reach rural and remote areas.** Public infrastructure and

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service delivery tends to concentrate on urban and peri-urban areas as well as relatively secure economic regions, often not reaching the poorest and most vulnerable groups in rural and remote areas. Governments can actively seek to develop PPPs to address needs in these regions, with special attention to vulnerable groups such as women and girls, ethnic minorities, or people with HIV/AIDS.

## Sector-Specific Recommendations

Separate discussions with practitioners from the basic education, health, and water and sanitation sectors allowed deeper questions to be posed about what is working well in PPPs and might be taken to scale, as well as other areas of significant potential which deserve closer attention. These are summarized below.

### Basic Education

In 2005, the world missed its first MDG Goal – achieving gender parity in primary and secondary education. Approximately 100 million children are currently out of school, three-quarters of these in Sub-Saharan Africa and South and West Asia. The majority of these are girls. This number is declining, but only at a rate of about 1 million per year<sup>ii</sup>. It is estimated that 40% of countries will not achieve gender parity in primary and secondary education by 2015. The education sector is faced with persistent challenges related to institutional and financing factors that significantly affect the scope, accessibility and quality of education services. An estimated US\$ 5.6 billion a year will be needed to meet the education MDG; available public sector financing falls far short of that level.

Public-private partnerships involving corporate philanthropy, and PPPs that bring private-sector efficiencies into the public-sector schooling system, are two instruments through which these persistent challenges in basic education might be better

addressed. These and other ways to expand the role of PPPs in mobilizing resources for basic education are summarized below.

### What is Working Well

#### *Ensuring the sustainability of outcomes of philanthropic PPPs in basic education*

Where development institutions act to convene, fund or partner with companies in basic education, all parties should insist on embedding strategies for sustaining (and scaling up) educational benefits within the original partnership agreement. Arranging new long-term financing for recurrent expenditures is not the only option. Alternatives include generating savings through cost-efficiencies and improved transparency in budget allocation and execution, arranging for transfers to public authorities, or securing new sources of donor funding.

#### *Involving the for-profit private education sector in raising standards in public schools*

A number of PPP initiatives are designed explicitly to bring private-sector expertise, services and markets into the public-sector school system. In addition, the financial and administrative competencies found within the private sector can be applied to the public school system to improve budgeting, accountability, and teaching methodologies. Donors should support public sector capacity-building and expert consultations to evaluate the available options for private sector participation in public schools. Examples of these options are listed in Box 1.

#### *Collaboration between public schools and private sector to mobilize discretionary income*

Discretionary funding for teaching aids and other purposes can be generated through innovative income-generating schemes using school resources, through collaboration with small-scale private companies or not-for-profit organizations. One example is the renting out of classroom space for evening use by private education or vocational



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## Box 1

### Options for Private Education Sector Involvement in Public Sector Schools

- short-term contracts with professional educators and consultancy companies to rapidly build educational quality or management effectiveness and efficiency in 'failing' schools, with incentive rewards for rates of improvement;
- "second-shift" education, whereby private-sector entities have a formal arrangement with educational authorities to use existing public schools to provide evening classes;
- long-term partnerships between educational authorities and the not-for-profit private and NGO sector to develop and manage community schools;
- long-term 'grouping' of a small number of public and private schools with a single principal and administrative system, and students moving between the schools to access the best each has to offer in teaching skills and facilities;
- private sector involvement in development of national and local curriculum; and
- short-term voluntary work assignments, e.g. in basic mathematics, literacy and IT, undertaken by staff from private companies, both in and out of working hours.

training providers. 'Tool kits' for schools are needed to outline options for income generation, effective strategies for collaborating with the private sector, and guidelines for commercializing certain education-sector resources. Such toolkits should provide clear guidance to schools in conforming to local legal frameworks and assessing the benefits and risks of such activities.

### ***Supporting business coalitions for basic education***

One highly effective model identified by practitioners entails domestic corporations, industry associations, and foreign investors and operators engaging in basic education through coalitions working in partnership with government to enhance regulatory reform, policy, and strengthen incentives to improve education systems that will in turn improve the skills of the workforce. Various types of business coalitions are beginning to form, offering an avenue for the private sector to communicate their collective views and influence education policy and practice. A range of actors including corporations, international organizations, donor agencies and philanthropic organizations can help catalyse the formation of such business coalitions.

### **Other High Potential Opportunities**

Additional PPP initiatives in basic education are demonstrating high potential. These deserve investment by development institutions to support further experimentation before being taken to scale. They include:

- corporate philanthropy to expand discretionary funds for public school systems;
- for-profit ventures to improve educational aids and equipment;
- expanding public sector support for the pro-poor private-education sector;
- early involvement of education equipment suppliers in public-sector procurement; and
- closer alignment of private-education providers who target low-income families within the public education system.

With regard to education equipment suppliers, development institutions could do more to ensure that when involved in the procurement of educational inputs, sufficient time is allowed at the beginning of the contract period for education authorities and suppliers to collaborate. This will allow more opportunity to improve product and service design in line with national and international development goals for basic education.

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## Health

Of the three sectors reviewed by the project team, healthcare is where the international community has the most successful experience with PPPs. There are a range of PPPs at the global, regional and national levels aiming to prevent or cure specific diseases. Although health-related PPPs face several challenges, many are working well. For nearly every unsuccessful case, an example can be found where obstacles of a similar nature have been overcome. The international community should give consideration to analysing and learning from these experiences and drawing the conclusions necessary to take successful approaches to scale. Practitioners identified the following PPP approaches among those that are working well enough to warrant replication or expansion.

### What is Working

#### *Employee Education, Prevention and Treatment Programmes*

Private-sector workplace programmes represent an important way to leverage public-health policies and initiatives. They present a particularly promising opportunity for joint public-private efforts. Leading multinational and large domestic companies that have occupational health programmes are addressing health issues in many innovative ways such as internal clinics, good health insurance coverage, health promotion activities, voluntary HIV/AIDS counselling and testing, counselling and care, providing best-in-class health services which can be scaled up and replicated.

#### *Community Health Programmes*

PPPs play an important role in effective healthcare provision in the communities and regions where firms operate. Workplace programmes alone cannot stop the spread of disease. By partnering with public authorities and NGOs, the private sector can extend the reach of its programmes into the community and a large number of partnerships to this effect already

exist. Several options were identified for sustaining and scaling-up 'outside-the-fence' company programmes, including payroll tax incentives, regulatory inducements, and access to sustainable funding.

#### *In-kind Applications of Core Company Competencies and Products*

Often the most valuable contribution the private sector can make to public health is not through the provision of funds or healthcare services to specific populations, but through in-kind resources such as people, services and products, project management expertise, and knowledge of local markets and customers. Yet there has been resistance to in-kind contributions from the private sector on the part of some donors and agencies. Much more needs to be done to leverage the full potential of in-kind donations.

#### *Business Coalitions*

Business coalitions at various levels enable companies to leverage their resources more effectively combat disease. They assist companies by facilitating information sharing, permitting economies of scale in the development of workplace HIV/AIDS products and services, and creating a strong, unified front for public policy debate and advocacy. Members often have substantial financial resources, well-established business and political networks, and strong incentives to combat the disease. But by acting collectively through a business association, they can also reduce potential risks related to a lack of specialized expertise or exposure to public relations challenges related to sensitive topics such as HIV/AIDS. Global business coalitions can also be a potent force for maximizing the voice of business on health challenges that undermine the economies in which they operate.

#### *Harnessing Single-Issue Health PPPs to Spur Improvements in Wider Public Health Systems*

Most diseases need a coordinated and cooperative response on a global scale. In such cases the



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international community often opts for top-down interventions due to greater reliability of results and ease of monitoring and evaluation. Nevertheless there is justified concern that infant mortality, maternal mortality, HIV/AIDS, tuberculosis (TB) and malaria health interventions need to be better integrated at the national, regional and global levels. The lack of more systemic approaches, such as addressing interactions between diseases or system-wide issues, can have devastating consequences. For example, in the case of TB and HIV/AIDS, where co-infection rates in Africa are as high as 70%, governments, NGOs and the private sector are still not able to provide a comprehensive response. As a result, up to one third of HIV/AIDS deaths in sub-Saharan Africa today are due to TB co-infection. One of the challenges in linking single-issue programmes to health system reform is financing. This is where PPPs could be the silver bullet – well-designed PPPs can help the whole to add up to more than the sum of the parts.

## Other High Potential Opportunities

### *Expanding Private Sector Participation in Global Fund Programmes and Country Coordinating Mechanisms*

While the private sector has played an active role in the governance of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), and dozens of country coordinating mechanisms (CCMs) have private sector representatives, the private sector is not yet substantially involved in the in-country activities of CCMs and their associated programme implementation. Getting engaged in the CCMs is often a complex process, a factor that can discourage participation. The Global Fund is beginning to stimulate concrete participation of private actors in CCMs and is supporting proposals that incorporate the full range of contributions that the private sector can make. For example, it explicitly provides for the possibility of co-investment with private sector partners. However, no such proposals

have yet been approved, and more resources and better policies need to be applied to this. For example, creating direct channels to GFATM for PPP proposals that bypass CCMs, while still requiring coordination and cooperation with local public health authorities as part of the proposal process, would be another way to encourage PPPs. This avenue has yet to be successfully exploited.

### *Challenges and Opportunities for Malaria PPPs*

One area where increased focus on PPPs would be beneficial is malaria control. Malaria product development PPPs have to date established a strong basis for successful partnerships, and interim results are very encouraging. Despite this encouraging start, the major public health PPPs addressing malaria are not living up to potential. For example, the Roll Back Malaria (RBM) Partnership could be considerably strengthened by:

- increasing the provision of resources by and the commitment of donor governments;
- strengthening World Health Organization (WHO) host support for the RBM Partnership Secretariat;
- expanding measures at endemic country, WHO regional and Geneva levels to increase partnership coordination effectiveness; and
- establishing an independent RBM Trust Fund to create a more reliable funding base similar to the Stop TB Partnership Trust Fund.

### *Creating Viable Long-term Funding Models for PPPs*

Access to long-term funding for PPPs is a common obstacle to formation, sustainability and scale up. Funding gaps are present at the international and regional levels in nearly all areas of healthcare. Expert practitioners regard addressing these systemic funding gaps as a critical challenge. Participants offered recommendations to overcome funding barriers including the identification of under-funded long-term global public goods programmes, diversification of sponsors, funding availability for coordination as well as implementation activities,

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increasing the length of available funding for PPPs that have proven to be successful, setting accounting standards, and developing new viable models that are adapted to individual partnership needs and goals.

## ***Adapting Intergovernmental Organizations to the Growing Importance of Health PPPs***

Intergovernmental organizations such as the agencies and programmes of the United Nations system and multilateral development banks play many different roles with respect to PPPs, including those of promoter, facilitator and funder. Intergovernmental organizations continue to be in a unique position to work with funders at the global level to encourage seed funding mechanisms and sustainable funding for successful PPPs. Their specialized technical knowledge is indispensable. However, they should also view their core mission as encompassing the job of scouting opportunities to form PPPs where market failures have occurred, facilitating interventions by all stakeholders depending on their relative skills and competencies. The UN Secretary General, heads of multilateral banks, and member national governments should work to ensure that the mandate and culture of relevant institutions are better aligned with this new challenge.

## **Water and Sanitation**

The urgent need for improved drinking water and sanitation is linked to a range of development challenges, from water-related diseases to productivity loss due to water collection over a long distance. Over one billion people lack access to an improved water source. There is tremendous variation among regions, with large pockets of unserved populations across all developing countries. Progress is especially slow in Sub-Saharan Africa and Oceania. Global progress towards the sanitation Millennium Development Goal

has been very poor, with over 2.6 billion people lacking proper sanitation facilities. Poor sanitation, particularly in dense peri-urban settlements common in developing countries, can contaminate untreated groundwater used for drinking purposes – a viciously unhealthy cycle.

Annual investment in the water sector in developing countries ranges between US\$ 27 billion and US\$ 30 billion, of which 70-75% comes from the domestic public sector, 20% from ODA, 7-11% from the international private sector, and 3-8% from the local private sector.<sup>i</sup> To reach the water and sanitation MDG by 2015, current investment will have to increase by between US\$ 52 billion and US\$ 55 billion annually.<sup>ii</sup> In developing countries and regions, expectations that development risk finance would play a key role in mobilizing private-sector investment seem to have been misplaced. The engagement of multinational companies in the water sector in developing countries has declined dramatically in recent years.<sup>iii</sup> In the roundtable discussions, international water companies confirmed that they have retreated from developing countries and are focusing on the developed markets. This poses a serious challenge to the public sector. Innovation, flexibility and increased action are needed. Opportunities to re-engage private-sector expertise and capital in developing country water projects by effectively addressing the issues that currently impede water and sanitation PPPs are summarized below.

## **Developing Local Capital Markets for Water Investments**

Investments in water works typically have long-term payback periods (20-25 years) and large foreign currency components. This has often led to the risky mix of long-term foreign currency exposure. The payback periods can be shortened by up-front subsidies from local or foreign governments or by increasing the price of water, enabling a faster

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payback of the loans. As revenues are virtually always in local currency, the currency exposure is best mitigated by attracting funds locally.

ODA is not sufficient to pay for the costs of delivering water and sanitation services. Often grant funding is for initial investments, not for the recurrent costs of operations, maintenance, and reinvestments. Increasing water prices to meet such costs is often controversial, drawing intense political pressure to keep water prices “affordable”. Price differentiation based on income or consumption levels is an option, but has proved difficult to administer. Many companies also struggle with proper measuring, billing and collection systems.

Local currency is not always available at the scale – or for the long-term timeframe – that is required. In addition, water sector companies may have difficulty obtaining credit as they typically lack strong balance sheets and assets that can be used as collateral. Donors can help remedy this by providing guarantees to local banks for the long-term obligations of the water companies. This would allow the water companies to attract long-term funding and enable local banks to meet the requirements of central banks and/or multilateral development banks.

Additionally, many water companies are government-run rather than commercially run. The managers often lack the skills required for for-profit management, ranging from ‘hard’ skills required to make investment decisions to ‘soft’ skills relating to communications with customers. Technical assistance from international water operators could provide crucial help.

National governments, in collaboration with development finance institutions, need to strengthen local currency markets so that local investors interested in water supply projects have a realistic prospect of securing affordable capital. This could range from capital investments of many millions of

dollars in big cities, to peri-urban, small towns and rural areas, to revolving SME equity and local currency loan funds in the US\$ 10,000 to US\$ 1million range. Raising funds locally avoids the risk of devaluation which has compromised the financial viability of some water sector projects in the past. It also offers water investors and operators an alternative source of finance for water projects, either directly or through local private investors. Grants could be used to guarantee funds for these local loans for commercial risk, political risk and as tenor extension for local currency. Furthermore grants can also be used for technical assistance, to strengthen projects’ technical knowledge and financial management skills.

## Formalizing the Informal Water Vendors Services

In many rural and peri-urban areas the poor are not serviced by reliable sources of potable water. Filling this void is often an informal, inefficient and high-priced pattern of private small-scale water vendors. Whilst creating conditions for major capital investments in production capacity and network expansion – a process that takes many years in most developing country settings – an immediate measure is to reform this informal sector. Options for reform include:

- voluntary frameworks and operating principles to improve water quality, reliability and accountability of small-scale providers (SSPs);
- micro-finance as an incentive for reform;
- commitments by municipal water utilities to assure supply access points to small-scale providers at reasonable cost;
- development of associations of SSPs to spread good practices, strengthen negotiation and lobbying capabilities with municipal utilities and regulators; and formally entering into contractual agreements with small-scale local enterprises to manage and operate mini-networks on conditions that both give formal recognition to informal

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vendors, helping to improve their business conditions whilst providing better services to the consumer.

The policy reform relevant to small-scale water providers should be supported by public utilities, national governments and donor institutions. For greater reliability, quality and economies of scale to be realized, provision for small-scale providers will need to be incorporated within the capital investment plans of public utilities. The utilities may also need to challenge dysfunctional monopolies (e.g. inefficient and overpriced truck providers as the only alternative), provide a degree of legitimacy to the SSPs, establish units dedicated to their management, and possibly offer to outsource sub-networks to them if they can reach thresholds of quality and reliability.

## **Improving the Efficiency of the Rural Groundwater Borehole Industry**

Dispersed rural settlements in many low and low-middle income countries are dependent on surface waters for drinking water: ponds, dug-outs, springs, streams and rain-water harvesting. But these sources carry an increasing risk of contamination and are frequently host to water-borne disease. Groundwater abstraction, in particular the borehole industry, offers one particular alternative.

Meeting the needs of rural dwellers for reliable and accessible potable water through ground water abstraction will likely require substantial investments in the borehole industry. Yet the rural borehole industry is often unregulated and inefficient, both in economic and environmental terms. Reform is needed. In order to address the industry's image problem and become a force for responsible groundwater abstraction and water management, associations of borehole contractors, suppliers and operators should be promoted to uphold common standards and codes of conduct. The associations

would provide a platform for the development and dissemination of best practice skills and technology (e.g. smaller rigs) and offer an interface with government and aid agencies.

Development institutions working with municipal water authorities, environmental regulators, social entrepreneurs and technically-competent NGOs need to facilitate greater dialogue between these organizations and the private borehole industry. The aim should be to jointly explore "pro-poor", low-cost and low environmental-impact solutions. In addition, development finance institutions could do more to provide financial support to rural borehole companies, either directly through targeted SME financing facilities, or indirectly through financial intermediaries.

## **New Forms of PPPs for Water Supply between Municipalities and Local Industry**

Where existing water and sanitation infrastructure is insufficient, many companies install their own schemes. These are often for exclusive use by the factory, facility, plant or labour camp. At the same time, companies often need to secure and sustain a social licence-to-operate with local communities, and to position themselves favourably with the government for the long term.

Some companies are thus beginning to look for ways to extend their visible positive social and economic impact on society by linking operational infrastructure with community investment. Community investment programmes, along with training, employment and locals business support schemes, are common ways in which companies seek to extend local benefits. Relatively untested is the role of PPPs in aligning the operational water supply and sanitation infrastructure of manufacturing plants and mining facilities with the infrastructure plans and budgets of district and regional government authorities.

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For this approach to be successful, a range of interests need satisfying: those of the company for timely completion of capital works and reliable water supplies; those of water end-users for levels of water quality higher than that needed for industrial purposes; and those of public utilities and private or NGO providers for control over sub-networks. Development institutions might play a number of catalytic roles in new forms of water PPPs between municipalities and local industry:

- facilitating negotiations between factory or site managers and district planners;
- providing grants to cover the transaction costs and feasibility studies for the parties;
- underwriting the risks to the private sector of expanding its operational infrastructure to the local population;
- incentivizing local government and companies through grant schemes; and
- integrating these arrangements within financing agreements.

### **Combining Mainstream Urban Water Supply Contracts with Pro-Poor Technologies**

In urban and peri-urban areas, much of the political risk for companies in water projects stems from the frequent charge that in order to secure viable

financial returns, networks are not extended to the poorest. Private sector and public utilities counter-argue that connections are not always possible because, for example, people living within the core urban area lack land titles, and peri-urban settlements are characterized by a disorganized layout prohibitive to efficient engineering solutions and economies of scale.

However, there are many examples of NGOs, small and medium-sized private companies and municipal utilities who, using appropriate technology, have found cost-effective ways to connect very low-income customers. Technologies include metered standpipes, community constructed and owned "last-mile-infrastructure", very low-cost household connections such as five-day water tanks built from discarded vehicle tyres, and community-managed revenue collection and infrastructure maintenance. Providing technical assistance to utilities would facilitate greater application of pro-poor technologies in urban water and sanitation projects. It is especially important that knowledge of pro-poor technologies be brought into the design process at an early stage. Accordingly, research on existing and replicable technologies is as important as a practical assessment of their local applicability.

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<sup>i</sup> WaterAid (2001): Financing Water and Sanitation. Key Issues in Increasing Resources to the Sector. London: WaterAid. These figures assess the average investments in the year 1996.

<sup>ii</sup> WaterAid (2001): Financing Water and Sanitation. Key Issues in Increasing Resources to the Sector. London: WaterAid. Here different statistics are available (i.e. World Water Assessment Programme (2003): The UN World Water Development Report. Water for People, Water for Life. Paris: UNESCO); in the literature the mostly cited figures are those from WaterAid.

<sup>iii</sup> Sub-Saharan Africa is the most affected: In 2002 not even 0.2% of total global private sector investments in the water and sanitation sector in all developing countries went to this region (United Nations Millennium Project (2003) Achieving the Millennium Development Goals in Water and Sanitation, Background Issues Paper, Task Force on Water and Sanitation, New York: United Nations Millennium Project.).

# Expanding the Role of Public-Private Partnerships in Mobilizing Resources for Health, Education and Water in Poor Regions

## 1. Purpose and Methodology

### 1.1 Purpose

This report examines how public-private partnerships (PPPs) can best be harnessed to extend the reach and effectiveness of aid to address international and national development challenges.

The Johannesburg World Summit on Sustainable Development highlighted the importance of multistakeholder networks and PPPs in addressing poverty reduction, economic growth, humanitarian assistance and environmental stewardship. Likewise, the United Nations-sponsored international Financing for Development conference in Monterrey in 2002 emphasized the need for greater collaboration among public and private actors to mobilize the resources required to meet international development goals. Most recently, in July 2005, leaders at the G-8 Summit in Gleneagles called for the use of PPP mechanisms in Africa to increase direct investment and utilize market incentives<sup>vi</sup>.

"In the increasingly globalizing interdependent world economy, a holistic approach to the interconnected national, international and systemic challenges of financing for development...in all parts of the globe is essential. Such an approach must open up opportunities for all and help to ensure that resources are created and used effectively and that strong, accountable institutions are established at all levels. To that end, collective and coherent action is needed in each interrelated area of our agenda, involving all stakeholders in active partnership"<sup>vii</sup>.

This global recognition of the importance of PPPs is not yet matched by a capacity to develop and successfully manage such complex partnerships. In addition, it is only gradually becoming clear what types of partnerships work well for different development challenges, and which models have untapped potential. This project was designed to contribute to that emerging body of knowledge. We asked whether PPPs can play a more substantial

role in the provision of health, basic education, and water and sanitation in the poor communities of low- and middle-income countries. While they are often less attractive to investors and lenders than other more commercially viable sectors (such as infrastructure, communications or banking), these three sectors are fundamental to development and make up nearly three-quarters of the Millennium Development Goals (MDGs)<sup>viii</sup>. They are also sectors in which there is an enormous gap between available and needed resources. While PPPs are not a panacea, they offer new approaches and resources to help fill the gap.

*"The key challenge is creating a marriage of private and public sectors and increasing the role of private sector partners."*

### 1.2 Methodology

As a follow-up to the Monterrey Conference, the World Economic Forum's Global Institute for Partnership and Governance and the UN Department of Economic and Social Affairs (UNDESA), with strategic support from the Overseas Development Institute in the UK, conducted a series of practitioner-driven, multistakeholder, roundtable discussions. The events focused on the role of PPPs in the health, basic education, and water and sanitation sectors.

*"Development-driven PPPs must achieve both financial and social objectives, being commercially sustainable while extending service to the poor to help achieve the Millennium Development Goals."*

PPPs of all scales, configurations and function were considered, from formalized multistakeholder dialogues to informal processes of regulatory reform, and from large-scale urban infrastructure expansion and service contracts to village-based schemes in remote rural areas.



Roundtable participants spanned a wide range of institutions, including government ministries, regulatory institutions, public utilities, private companies, commercial banks, development finance

*"There must be an incentive to motivate all parties. Goals need to be on the table and cultural differences need to be taken into account in a transparent fashion."*

institutions, not-for-profit organizations (social enterprises and non-governmental organizations), consulting firms, and academic institutions. The gatherings emphasized the practitioners'

perspective, encouraging frank discussion of what works and what does not. In total, there were six two-day roundtables (see Box 1.1).

The conclusions and recommendations in this report draw from the roundtable discussions as well as related interviews and research. They are intended to offer practical guidance to the full range of stakeholders in development PPPs – governments, companies and civil society — highlighting key opportunities and obstacles to the wider and more effective use of PPPs in tackling development challenges in each sector. Section 2 surveys the general status of PPPs and development, and frames a number of common themes and recommendations that surfaced during separate discussions on education, water, and health. Sections 3, 4, and 5 provide sector-specific findings and recommendations, highlighting both what appears to be working well and what could be done to exploit other opportunities of high potential.

Although the views expressed in this report reflect the project team's best efforts to interpret the expert consultations and related research, not every project participant necessarily agrees with each of the findings and recommendations.

**Box 1.1 PPP Multistakeholder Practitioners' Roundtables**

**Education**

Brasilia	Brazil	7-8 November 2004
Paris	France	28-29 April 2005

**Health**

New Delhi	India	3-4 December 2004
Geneva	Switzerland	25-26 May 2005

**Water**

Durban	South Africa	18-19 October 2004
London	United Kingdom	10-11 May 2005



## 2. The Evolving Nature of Public-Private Partnerships

### 2.1 The Growing Diversity of Public-Private Partnerships

There is no single definition of what a public-private partnership is. For the purposes of this report, a public-private partnership is a form of agreement between public and private parties<sup>9</sup> that contributes to achieving international and national development goals for health, basic education, and water and sanitation. Figure 2.1 provides a summary of partnership types. The core concept of PPPs involves business and/or not-for-profit civil society organizations working in partnership with government agencies, including official development institutions. It entails reciprocal obligations and mutual accountability, voluntary or contractual relationships, the sharing of investment and reputational risks, and joint responsibility for design and execution.

PPPs are gaining momentum today because other models of collaboration or individual action have been less effective for development than required, and because in some cases, PPPs are working better than traditional approaches. The spectrum of different types of PPPs is continuously widening, and thus many remain experimental. Though there are successes, more effort is needed to fully refine and target PPPs as a resource mobilizing and delivery mechanism. Many issues related to the PPP operating environment – social, institutional and policy factors – need to be addressed. The challenges to successful implementation and scale-up are still significant.

In a conventional PPP arrangement, private companies are often invited to invest in public service infrastructure, for example, through concession agreements. While financial resource

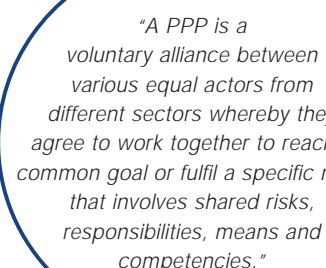
commitments are shared, financial risks tend to be transferred to the party most able to manage them, i.e. the private sector. The public authority retains the political risk of not delivering infrastructure improvements.

In other types of PPPs, the private sector's financial engagement may take place through philanthropy. This can include donations of equipment or personnel, grants disbursed by corporate foundations, or community investment programmes linked to a company's production or marketing presence.

Still other PPPs involve the private sector under contract to deliver public services. Through construction, management or service contracts, private sector involvement has the potential to bring innovation and efficiencies to public service delivery. Such an arrangement is often defined as private sector participation (PSP) rather than a PPP.

PSP arrangements in poor countries often involve substantial commitment of corporate resources that might not otherwise be justified on the basis of investment return. Thus, they are included in this report.

Indeed, it could be argued that the only form of private sector participation in public services in developing countries that should not be considered a PPP is where the private sector retains full ownership of the assets in question<sup>8</sup>.



*"A PPP is a voluntary alliance between various equal actors from different sectors whereby they agree to work together to reach a common goal or fulfil a specific need that involves shared risks, responsibilities, means and competencies."*

Figure 2.1 Types of PPPs in Basic Education, Public Health, and Water and Sanitation							
Types of PPPs	Private Sector Role	Primary Purpose of the PPP					
		Reforming the regulatory framework	Research and Product Development	Design and Construction	Service Delivery	Institutional and human capacity building	Oversight of performance
Private investor PPPs	Concessionaire, BOT						
Supplier PPPs	Contractor						
Design and build PPPs	Contractor						
Operator PPPs	Contractor						
Multi-stakeholder partnerships/PPCPs	Participant/Co-investor						
Corporate Philanthropic PPPs	Donor/co-investor						
Business coalitions	Advocate						

#### Common PPP Practice

#### Areas of PPP Innovation

In the context of international development, much of the recent broadening in the conventional definition of PPPs stems from the emergence of multistakeholder partnerships – collaborations among the public sector, donors, for-profit companies, and not-for-profit organizations.

- They are innovative solutions that are often unique to their respective context or actors, and may not be easily replicable.
- They generate value through optimization or efficiency effects which could not be achieved by the partners acting independently.

Although PPPs are diverse and often unique, there is growing consensus among practitioners that in the context of accelerating progress towards the MDGs and national development goals, PPPs share certain characteristics:

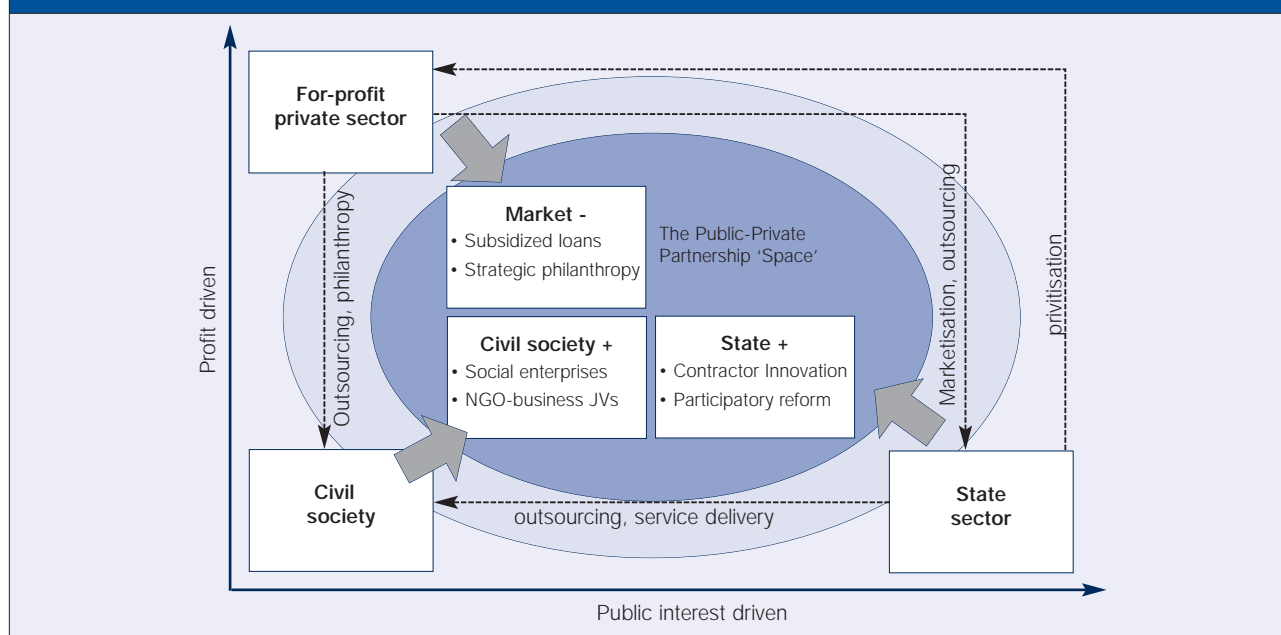
- Each has emerged out of inefficiencies in the market, public policy, governance and risk financing models of development, and is a “means to an end” designed to meet needs that are not otherwise addressed.
- They are a new way of working founded upon bringing together “core complementary competencies” from non-traditional parties<sup>xi</sup>.
- Partners share benefits, risks and some degree of inter-dependency, as well as individual goals and expectations, but are not bound by hierarchy.

#### Box 2.1 PPPs as Enlightened Self-Interest

In the 1940s, in Pittsburgh, USA, a number of municipalities became chronically short of financial liquidity. Rising public pressure forced the development of a new financing concept. Local authorities used the self-interest of resident enterprises in a stable social and economic environment and a functioning administration to encourage companies to give money to a commonly managed society for economic development. By uniting efforts, the goal was to contribute towards overcoming urban problems. In the 1970s, the withdrawal of national programmes deepened the relevance of local development and regional structural policy in the USA and led to a dramatic increase in PPPs.

Figure 2.2

Growing Complexity in the Public-Private Partnership 'Space'<sup>xii</sup>



The realities of providing public health, basic education, and water and sanitation in poor countries requires simultaneously achieving (i) multiple development goals, (ii) viable financial returns, (iii) institutional strengthening to ensure the sustainability of recurrent expenditure and development outcomes, (iv) a strong focus on poverty, and (v) broad political and public support. Public-private partnerships, in particular those that involve civil society organizations, are a logical response to managing this complexity.

*"There is a need for a note of caution on the limit of partnerships. They cannot do everything or cover everything. We need to be fair on when to move a partnership back into the marketplace or to the state."*

Common characteristics of private sector participation in the provision of public services include:

- a lack of political will to embrace private sector participation in public services;
- high political and commercial risks – actual or perceived – for investors in anything but very short-term ventures; and
- low institutional capacity of the public sector to engage with the private sector.

As a result, private investors are often not invited by the public sector to invest, fail to raise the necessary capital, or simply are reluctant to take on the risks. These obstacles – and their potential solutions – are discussed in more detail in the following chapters.

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## 2.2 Combining Core Competencies through Public-Private Partnerships

### 2.2.1 The Private Sector: Core Competencies and PPP Roles

Development institutions and public authorities alike need to broaden their outlook on the role of the private sector in health, education and water. Mobilizing private sector resources means more than tapping private sector funds. It also means employing strategic in-kind contributions, innovation by private sector contractors, low-cost products and services, and the application of management efficiencies and performance-based approaches to institutional capacity building.

Notwithstanding the significant increase in funding commitments for official development assistance by most G-8 and other donor countries, it is highly unlikely that the Millennium Development Goals will be achieved based on official resources alone. Estimates of the financing gap range from US\$ 50 billion to US\$ 100 billion a year, approximately a doubling of current official aid flows. As a result, there is a growing consensus that only by supplementing official efforts through increased mobilization of foreign and domestic private resources – via direct investment and PPP arrangements – is there a realistic prospect of achieving the MDGs.

The private sector is an under-utilized resource for addressing the challenges in the basic education, health and water sectors in a number of ways.

- **Corporate and private philanthropy:** This may be a source of innovation and discretionary funds for reaching the very poorest. Consider the US\$ 25 billion in assets that supports the work of The Bill & Melinda Gates Foundation in health and education,<sup>xiii</sup> or the substantial funds that the Business Trust of South Africa (a coalition of 145

domestic companies) expects to raise over five years to help align education with employment opportunities;<sup>xiv</sup>

- **Strategic cash or in-kind investment:** Funding may be linked to corporate operations, such as the US\$ 3.4 million Royal Dutch Shell's operating company in Nigeria is spending on programmes for malaria prevention and the development of local capacity to manufacture impregnated mosquito nets;<sup>xv</sup>
- **Design and marketing of "bottom of the pyramid" business models:** For example, Unilever introduced an iodized cooking salt to address nutritional deficiencies that can cause severe and irreversible health problems. Due in part to innovative distribution strategies, such as marketing messages coordinated with those of the Ghana Health Service, their product now accounts for half of the market for cooking salt in the country<sup>xvi</sup>.
- **Operational infrastructure:** These may be designed, constructed and/or operated in partnership with local governments. For example, the Barrick Gold Corporation's operations in Tanzania have aligned an operational investment of US\$ 3.4 million in a 47-kilometre-long water pipeline with the District Development Plan.<sup>xvii</sup> This has helped meet the water needs of 30,000 villagers along its route as well as provide a reliable water supply for the 5,000 residents of the villages nearest to the mine<sup>xviii</sup>.
- **Building institutional and human capacity:** This includes increasing management efficiencies and performance-based operations, and can take place through collaboration on design, innovation in procurement, technical and management skills, training services, organizational change and competency development, performance and quality management, borrowing at reduced interest rates, and equipment and products.

The last point is especially relevant in the context of recent commitments to increase official development assistance (ODA), together with proposals to increase it even more. Overcoming scepticism about aid effectiveness will require increased emphasis on performance-based structures and metrics as well as efficiency of project management. These are areas in which the private sector is widely perceived to have a comparative advantage that would be worth tapping on a more systematic basis. PPPs can serve as a vehicle for building a stronger “performance culture” into public sector institutions. One good example is the Uganda National Water and Sewerage Corporation. This system helped to reduce water losses from 60% to 21% in five years, and in the same time period improve staff productivity from 40 staff per thousand connections to just nine<sup>xxi</sup>. A core competency of many private sector companies is this type of performance culture. The Uganda example shows that, over time, mobilizing this type of resource may be just as effective as mobilizing finance.

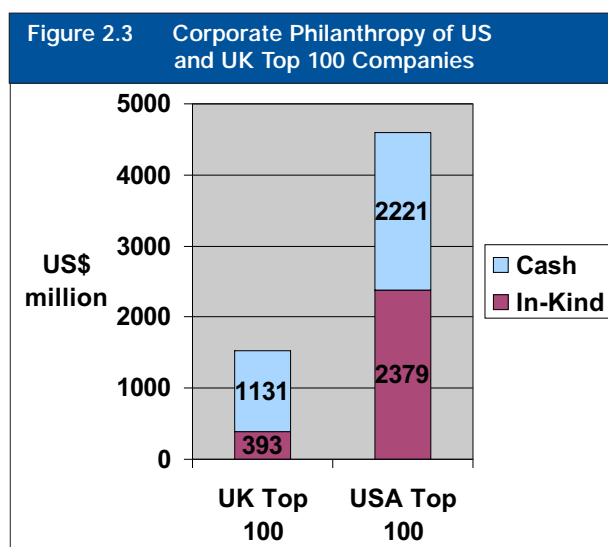
### 2.2.2 The Growing Importance for Development of Corporate and Private Philanthropy

Many of the emerging PPP models involve some form of philanthropy on the part of the private sector. These cash or in-kind donations often fill vital gaps in financing or expertise that are essential to the success of the PPP. While donations to projects in the developing world make up only a small portion of overall corporate philanthropy, their total volume is significant and likely to grow. Corporate philanthropy, therefore, is an important part of the strategic and financing picture for achieving development goals in general and for PPPs specifically.

Reliable information on the global value of corporate philanthropy to developing countries is hard to locate. A recent study estimated that US corporate donations comprise 2% (or \$2.7 billion) of the total

US philanthropic and official financial flows to developing countries. However, the authors assert that “the corporate giving number is vastly underestimated. Many companies do not even keep complete records of their cash and in-kind giving, nor are cause-related and overseas affiliate giving well documented.”<sup>xx</sup>

To begin to address this information gap, we extrapolated recent survey data on total corporate cash and in-kind donations in the US<sup>xxi</sup> and UK<sup>xxii</sup> to the Fortune Global 500 companies (the data is included in Annex 1).



Based on an extrapolation of company survey data, we estimate that the Fortune Global 500 companies alone contribute US\$ 12 billion in cash donations and somewhere between US\$ 10 billion and US\$ 15 billion in in-kind donations each year. Variations in contributions across companies are largest with in-kind contributions. For example, three pharmaceutical and consumer products companies – Pfizer, Merck & Co., and Johnson & Johnson – contributed an annual equivalent of around US\$ 1.5 billion in drugs, vaccines and other healthcare-related products and support.

Figure 2.4 Donations by Seven Major Multinational Enterprises <sup>xxiii</sup>				
Company	Total donations	Regional distribution	Sector distribution	Developing countries with marketing or production presence
BP	2004: US\$ 88m	13% UK, 7% Rest of Europe, 29% US, 44% Rest of World.	US\$33.3m in education programmes US\$3.6m as humanitarian aid	12+
Exxon Mobil	2003: US\$ 103m	70% US, 10% Africa & Middle East, 5% Canada, 8% Europe & Central Asia, 2% Latin America, 5% South Asia & Pacific (2003 figures)	11% pre-college education (26% higher education) 9% health (2004 figures)	25+
Royal Dutch Shell	2004: US\$ 106m	largest programme in Nigeria: US\$ 30.8m	Nigeria: 26% education and schools 8% on health care 6% on water and sanitation	37+
Unilever	2004: € 65.3m	10% Africa, Middle East & Turkey, 21% Asia & Pacific, 38% Europe, 10% Latin America, 21% North America	33% health 27% education	7+
Pfizer	2003: US\$ 523m in-kind, US\$ 73.8m cash*	Significant donations (mostly in the form of free medicines) to developing countries, eg Diflucan Partnership: US\$ 110m dollar commitment by Pfizer, 4m free doses of Diflucan	predominantly health	15+
Johnson & Johnson	2004: US\$ 406.9m in-kind, US\$ 121.8m cash	N/A	Unknown	8+
GSK	2004: £ 328m	N/A	Breakdown of cash (£48.4m): 44% health; 37.8% education; US/UK focused	9+

Figure 2.4 illustrates the geographic and sector breakdown of philanthropic donations for seven major multinational companies.

Much of the corporate philanthropy in developing countries is linked to production or marketing operations, which are more likely to be based in low-middle and middle-income countries. Therefore, the proportion of global corporate donations directed towards low-income countries is likely to be small compared to total corporate giving. Many extractive industries, however, do have significant production interests in low-income countries, and manufacturers

have growing marketing interests in the larger and more politically stable low-income countries.

Although the proportion of global corporate philanthropy benefiting low-income countries may be low in relative terms, it is significant when compared to foreign direct investment and official development aid.

In addition to multinational corporations, companies based in low-income and low-middle-income countries donate considerable resources to social projects through either community investment programmes or foundations. As with corporate

philanthropy for multinational enterprises, reliable data for donations by domestic companies in low- and low-middle-income countries is difficult to locate. The philanthropic giving of a sample of selected domestic companies is included in Annex 1. As a proportion of total revenues, corporate giving across this sample varies widely, from 2.7% for the Indian conglomerate Tata to 0.074% for Pakistan Telecom. For many domestic corporations that are subsidiaries of multinational enterprises, it is often unclear whether their charitable giving is included in the global figures generated by corporate headquarters.

It appears likely that corporate and private donations to public health, basic education, and water and sanitation in low-income countries and regions will increase in the near term. The volume of community or 'social' investments by extractive industries is likely to rise. Oil and gas companies are already operating or investing heavily in about 40 low- and low-middle-income countries, in part as a form of mitigation against the highly risky business environment<sup>xxiv</sup>. Mining companies have a similar presence and trend. Companies in other sectors may have limited commercial exposure, but are also increasing their philanthropic expenditures in low-income countries. This is in part to test and develop new markets, but also due to an increased awareness of global development challenges including public health, water and basic education. For example, over the next five years, BP plans to invest US\$ 500 million in enterprise development, education and improving access to energy, with more expenditure in the Asia Pacific, Africa, the Caspian and Russia, and less in the US and UK.<sup>xxv</sup> This plan is part of an overall shift in the company's community investments away from the US and Europe, and toward other regions (see Annex 1).

In summary, companies often undertake philanthropic activity in countries where they have an existing or potential presence, and many are involved

in global poverty-related issues through corporate foundations. Based on the available evidence, it is possible that about 10% to 15% of the total donations from Fortune Global 500 companies – somewhere between US\$ 2 billion and US\$ 4 billion – are contributed to activities in low-income countries. If we add to this figure contributions from the wider transnational corporate community, large national or regional firms and direct private donations, then it is likely that total corporate and private philanthropic resources directed to most low-income countries approach or even surpass total foreign direct investment (FDI) net inflows. It is also possible that with the trend in ODA towards direct budget support, over the next few years these unconventional private sector resources will be a major share of external project and technical assistance to low-income countries. To illustrate, in 2002 net FDI inflows to the 48 least developed countries (LDCs) totalled US\$ 5 billion,<sup>xxvi</sup> while the larger group of 61 low-income countries netted US\$ 16 billion.<sup>xxvii</sup> (Total ODA flows to LDC and low income countries in 2002 were US\$17<sup>xxviii</sup> billion and US\$ 30 billion respectively.<sup>xxix</sup>.)

The significance of corporate resources devoted to development is under-appreciated in part because of the absence of solid data. The policy debate surrounding the MDG financing gap suffers as a result. The UN Millennium Project or other groups might consider estimating the potential savings to future aid budgets of using private-public partnerships to help deliver the required infrastructure and institutional reforms needed to meet the MDGs. This calculation should take into account not only the possibilities of private sector finance, small though they may be, but also the effects of strategic corporate philanthropic contributions and the cost-efficiencies secured from involving private contractors working with utilities and authorities to install, rehabilitate and operate basic public services.



Companies may want to consider increasing their philanthropic investments in low-income countries, given the high potential leverage of such investments and their potential for complementing the company's in-country interests or PPPs. Corporate foundations should target their philanthropic giving in developing countries to align with internationally agreed development goals, create synergy with other development actors, or fill key financing gaps in PPPs.

### 2.2.3 Non-profit and Civil Society Organizations: Core Competencies and PPP Roles

Multi-sector partnerships involve the private sector and/or government working with not-for-profit actors such as social entrepreneurs, community development charities, church groups, advocacy organizations, or research institutes. Some define such arrangements as public-private-civil society partnerships (PPCPs). PPCPs that involve strategic alliances between private companies and not-for-profit organizations offer added value in at least three ways:

- They improve the integration of pro-poor technologies into the design and management of larger infrastructure investments, such as providing water supplies to peri-urban areas or HIV/AIDs screening to remote rural locations.
- They bring local knowledge about priority beneficiary needs, limits to affordability, gender and cultural sensitivities.
- They provide ongoing communication channels to the local population and opinion formers.

Most critically, direct involvement of credible civil society organizations in PPCPs can help assure that the poorest in society are served. PPCPs thus offer an additional pathway for government to deliver on its obligation to assure continuity in the delivery of essential public services in health, education and water.

**In evaluating competitive bids for expanding or delivering public services in health, water and sanitation through PPPs, governments should consider increasing the weight given to bidders who have invested in developing alliances with civil society organizations that have proven records in delivering pro-poor solutions.** One example is the PPP tendering process adopted by the National Treasury PPP Unit in South Africa (see Box 2.2).

For PPPs initiated by companies, collaboration with not-for-profit civil society and community groups can improve the quality and public acceptability of PPP activity.

For example, in the State of West Bengal in India, as part of its community development programme with local villages, a private coal mining company, ICML, negotiated a partnership agreement with two local NGOs, a district authority and three community, or *panchayat*, representatives. The agreement was to collaborate on public health services in eight villages adversely affected by a mine. One of the villages was to be relocated. The presence of the two NGOs contributed to a more meaningful assessment of relocation needs and helped to resolve at least one incident of hostility towards the company<sup>xxxiii</sup>.

*"The public sector has a misguided approach to public-private partnerships...Moving from risk transfer to risk sharing is important... In order to manage risk everyone has to put something on the table."*

A common barrier to private sector investment and participation in health, water and basic education services are the political risks: nationalization, confiscation of assets, termination of contracts due to political pressure, and operational disturbances such as construction stoppages arising from strikes or user-fee boycotts. Political risk can make projects more costly and less efficient, reducing their efficacy. **Direct involvement of civil society organizations in concessions, licences and contracts can play**

## Box 2.2

### Rewarding Collaboration between For-Profit and Not-for-Profit Parties: Bid Evaluation Criteria adopted by the South Africa Government PPP Unit

South Africa passed the Broad-Based Black Economic Empowerment [BEE] Act in 2004. In accordance with this law, government tenders for private parties to participate in PPPs are awarded in part based on the quality of the partnership arrangements the bidder has negotiated with civil society organizations. Emphasis is placed on two types of collaboration: equity investment by black people and enterprises, and support for black enterprise development.

The PPP Unit of the National Treasury gives general guidance on PPP tendering through the published Standardized Public-Private Partnership Provision. Bidders are ranked on the BEE targets they demonstrate during the feasibility study and proposal request phases; they must score a minimum of 50% to progress further. Black-owned equity is required in the enterprise making the bid, including:

- a minimum percentage of voting equity in the private party allocated for direct beneficial ownership by black people or black enterprises;
- black equity to be “locked in” for a specified period, with transfer of equity only to other black shareholders, people or enterprises;
- a minimum proportion of this black equity held as “active equity”, i.e. not a pure investment, with the aim of enabling direct participation by black people in the day-to-day management and operation of the private party.

The PPP Unit is currently developing sector-specific “toolkits” for PPP tendering. At present only the kit for tourism has been developed, but others will follow, possibly including water. Notably, new rules make a “Community Trust” partner a mandatory part of the board composition in any tourism PPP award.

Part of the tourism PPP toolkit includes a “Request for Proposals” template<sup>xxxi</sup> for small-, medium- and micro- enterprise (SMME) tourism PPPs. This lays out the scoring system for bids based on BEE policy. The bid criteria that relate most to the quality of collaboration between for-profit and not-for profit parties are as follows:

Indicator	Target	Max Score
Strategic Management	Mandatory Community Trust as a % of Board of Directors	2.5
Preferential Procurement	Spend on Local BEE compliant companies as a % of total procurement spend	5
Enterprise Development	The sum of % spend of post tax profits on enterprise development and % employee time contributed to enterprise development over total management time	7
	Enhanced revenue and/or cost savings and/or twining initiatives facilitated for black owned SMMEs, as % of revenue of the company measured	7
	Total score, out of 80	21.5
	Percentage of total possible score	27%

Bidders are not currently rewarded for leveraging resources into community investment programmes through partnerships with civil society, such as in education, water or health

Source: RSA 2005<sup>xxxii</sup>

**a part in reducing the political risks for the private sector of participating in health, basic education and water projects.**

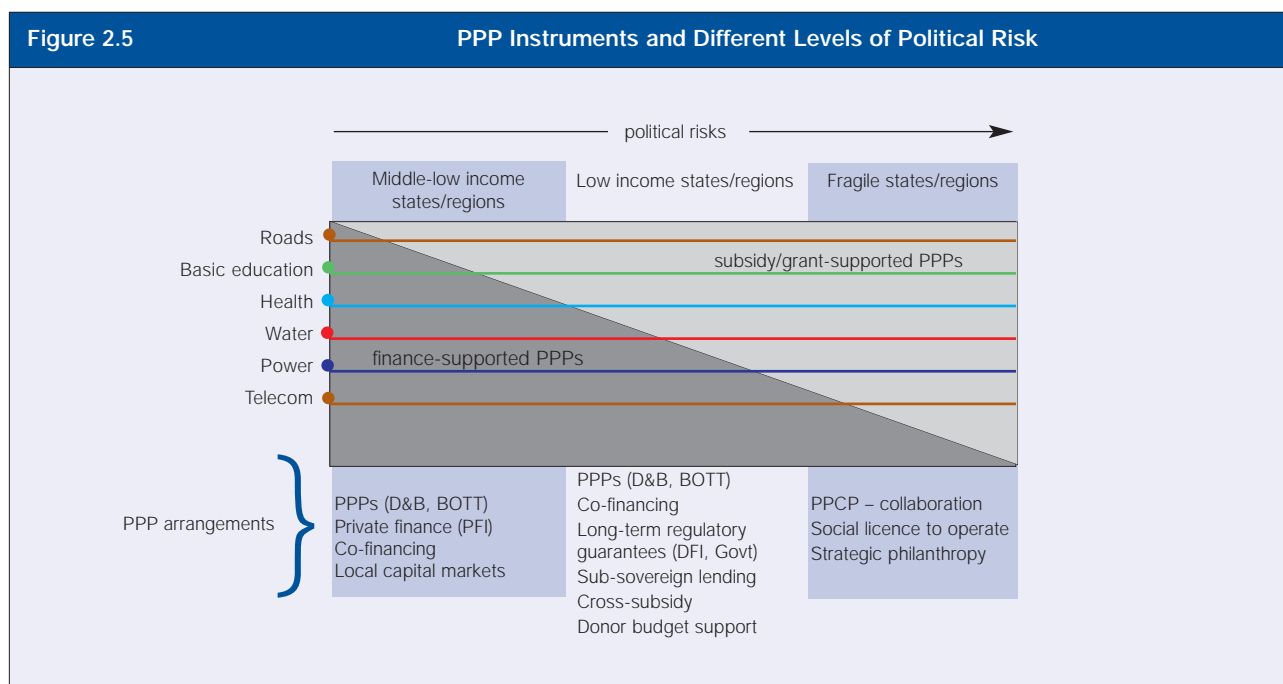
Private sector participation in the provision of public services is a politically controversial topic in many countries, both developed and developing. Basic education, water supply and primary healthcare are particularly affected. One example is the recent experience of the international utilities company Suez in La Paz and El Alto, Bolivia, where despite achieving 100% coverage and affordable prices, public and political pressure mounted to the point that the President issued a decree requesting the Regulator to initiate termination of the company's contract.

Despite positive comparisons with the public sector in terms of value for money, the prospect of private companies running fee-paying schools or public health facilities for low-income communities can also be controversial. Many bilateral development agencies shy away from supporting the expansion of this sector, preferring instead to support universal free basic education and primary healthcare.

From both a private and public perspective, there are thus considerable benefits from engaging the not-for-profit sector in PPPs in these more politically sensitive sectors. **Equity-based joint ventures and other forms of collaboration between the for-profit and not-for-profit private sector have the potential to mobilize substantial in-kind and philanthropic private sector resources for poverty reduction, while strengthening the political acceptability of private sector participation in public services.**

Figure 2.5 provides a schematic showing how different forms of PPPs and PPCPs may be more or less applicable as one moves from middle to lower-income countries where good governance and institutional capacity problems mean that the level of political risk rises<sup>xxxiv</sup>.

The involvement of civil society organizations can clearly bring significant value, but it is not without challenges. The different parties can have very different, sometimes conflicting, objectives for entering into collaboration.



Not-for-profits may also have limited institutional capacity that constrains their ability to engage in partnerships. **Governments, donor agencies and international NGOs should consider increasing technical assistance and grant-making activities to strengthen the capacity of civil society organizations for engaging in PPCPs. Building skills in negotiation, partnership governance and multi-party performance monitoring are especially relevant.** Capacity building that combines participants from the public, private and civil society sectors is preferable and can be achieved by designing programmes that are open to the private sector on a fee basis.

#### **2.2.4 Government: Core Competencies and Roles in PPPs**

As the institutional partner with the mandate and ultimate responsibility for public infrastructure and service delivery for all citizens, governments are usually a core partner in PPPs. National, state and governmental bodies control physical and administrative infrastructure, as well as broad-based service-delivery systems. In terms of reach and sustainability, they are key to the scaling up and maintenance of development programmes health, education, and water and sanitation. Yet the capacity and efficacy of public sector systems are severely limited in many developing countries. The persistent development challenges outlined in this report for all three sectors underscore the enormous challenges that governments in developing countries face in seeking to meet the MDGs.

**With the support of donors and other partners, governments can approach PPPs as a strategic opportunity to strengthen their capacity.** This report outlines a number of ways in which PPPs can contribute to public-sector administrative capacity, physical infrastructure and service delivery efforts. **For national governments, improving the policy and institutional environment should be a priority.** The institutional environment in which PPPs

operate has financial, operational and social implications, affecting start-up, transaction and operating costs of the PPP, as well as the transparency and accountability of the project to beneficiaries and the public. The need for a transparent and accountable operating environment is key to the success and scaling up of PPPs, including consistent policies and legal systems that support long-term engagement by the private sector.

**Governments in turn can take a lead role in identifying which PPP models are best suited to meet public goals, and then building public support for their implementation.** The practitioners who participated in this project's roundtables placed strongest emphasis on the importance of building sufficient political will and public support to overcome concerns over private sector involvement in the provision of public goods. Many reckoned that the main impediment to successful partnerships is political, and that international organizations can play a big role in overcoming that, not least by helping governments gear up to support the role that PPPs could play in development.

### **2.3 Strategies Needed to Support a Larger Role for PPPs in Development**

Based on the evidence presented by practitioners in the project, there is growing appreciation of the importance of engagement with the private sector in development work, so much so that the very concept of development appears set for a transformation. All key actors including many leaders in the public, private and NGO sectors are now advocating a scaling up, even institutionalization, of multistakeholder collaboration from strategic planning to programme implementation. There are at least three reasons for this shift in sentiment in recent years regarding the role of the private sector in development:

- 
- **The urgent need for 'scale':** Notwithstanding the significant increase in funding commitments for ODA by most G-8 and other donor countries, it is highly unlikely that the MDGs will be achieved based on official resources alone. Estimates of the financing gap range from US\$ 50 billion to US\$ 100 billion a year, roughly double or triple current official flows, a goal that looks unlikely to be realized. As a result, there is a growing consensus that only by supplementing official efforts through a more successful mobilization of foreign and domestic private resources via direct investment and PPP arrangements is there a realistic prospect of achieving the MDGs.
  - **Improving aid effectiveness:** Whether the promised increases in ODA ultimately materialize will be determined by how effective aid is perceived to be. To overcome the prevailing scepticism, there will need to be a renewed emphasis in development work on performance-based structures and metrics as well as the efficiency of project management. These are all areas in which the private sector is widely perceived to have a comparative advantage that would be worth tapping on a more systematic basis.
  - **Unleashing innovation:** After decades of effort mainly through official aid delivery mechanisms, many of the persistent development challenges in poor countries clearly require new approaches. A growing number of aid sponsors are working not only with host country governments but also with a wider range of non-traditional actors such as private and social entrepreneurs who have developed new models for achieving development results. Their cumulative experience is helping to transform the way we think about development assistance from regarding it as mainly a public sector undertaking to taking more of a consortium approach in which donor and host country governments work extensively in partnership with

the private sector and civil society not only in the execution of projects but also in the design and the provision of resources.

Practitioners argued that the time has come for development institutions and professionals to take PPPs more seriously – to institutionalize their role in the structuring and delivery of aid. The evidence suggests that a more concerted effort by governments and companies to scale up the use of PPPs in poor countries could help to fill a significant part of the MDG resource gap, possibly by several billion additional dollars a year. Providing basic education, healthcare, and water and sanitation in poor countries increasingly requires a multi-sector approach, involving public and private service providers, user communities, project financiers, philanthropic corporations, regulators and international donors. Handled responsibly, these new multistakeholder alliances can strengthen the political acceptability of what otherwise might be the controversial participation of the private sector in health, education and water. Indeed, public-private-civil society partnerships have the potential to improve the extent to which the poorest in society are served, helping governments deliver on their policy commitments and obligations to donors

PPPs exist today because of general lack of capacity, because other models of collaboration or individual action have failed, and because in many cases PPPs are working better than traditional approaches. There is increasing multi-sector collaboration around detailed project design, infrastructure development, service delivery, institutional strengthening and performance oversight. But more effort is needed to fully refine and target PPPs as a tool, and many issues related to the PPP operating environment including social, institutional and policy factors need to be addressed. The challenges to successful implementation and scale-up are still significant. The following are recommendations that surfaced in one form or

another in each of the sector roundtable discussions regarding how the international community could rise to this challenge more effectively. These are followed in sections 3, 4, and 5 by sector-specific recommendations.

### 2.3.1 Strengthening Institutional Capacity

Many government institutions are ill prepared for the job of collaborating with the private sector. There is a deficit of information on the role of the private sector within many ministries and authorities responsible for health, basic education, and water and sanitation. This sometimes combines with a limited concept of private sector participation by project consultants, transaction advisors and others participating in donor-driven technical assistance. PPP models are often poorly conceived, if at all, with inaccurate expectations of the role and interests of the private sector. Negotiations with the private sector are frequently protracted and costly, and can run afoul of competition rules applied by donors. Performance oversight and service delivery monitoring are frequently less than fully effective. A range of new capacities is needed to address these obstacles. Some of these are listed in Box 2.3.

Public-private partnerships should be designed from the outset to include budgets and competencies that improve the quality and sustainability of service delivery and facilitate the organizational changes required to reform wider public-sector delivery systems and their institutions. **In countries with weak public institutions and service delivery systems, a substantial proportion, if not the majority, of resource commitments within a PPP arrangement should be directed towards “on-the-job” institution and systems strengthening.**

Many forms of public-private partnership have found that a substantial, if not *the* substantial, part of their activities ends up directed towards strengthening the capacity of public service institutions and delivery systems. Partners quickly learn that in low-income countries without this capacity-building component, projects and programmes are unlikely to succeed, or if they do, are unlikely to generate developmental outcomes that are sustainable once the partnership funding period comes to an end.

#### Box 2.3 Institutional Strengthening to Develop the Public Sector’s Competency to Collaborate: *Priority Areas*

##### *Project Preparation*

- data collection and analysis of current performance: customer base (divided into different income brackets), revenues, assets, comparison across utilities, models of future demand, technical and financial feasibility studies of investment alternatives (including the PPP option)
- preparation of project scopes for tendering or negotiation
- locating available finance and grants, and meet their eligibility criteria
- initiating and management of competitive tendering processes
- skills to negotiate with preferred bidders and during post-contract award discussions
- meeting transparency and accountability standards for competitive tendering
- skills to negotiate with non-traditional partners, such as NGOs or philanthropic companies

##### *Project Implementation*

- detailed project design, including how to reach the poorest populations
- performance and incentives systems that deliver rapid cost-efficiency and quality gains
- planning for recurrent cost expenditure beyond the life of the PPP arrangement
- planning for scaling-up innovative PPPs initiatives, including financial arrangements and training public sector workers to absorb the new ways of working



The Global Alliance for Vaccines & Immunization (GAVI) Vaccine Fund provides one example of how institutional strengthening and delivery-systems reform are increasingly fundamental to the success of PPPs. The GAVI Vaccine Fund encourages ministries of health and officials to develop their competencies in long-term financial prudence by requiring a financial sustainability plan. This plan must demonstrate how government will finance the costs of the immunization service and new vaccines after the end of the funding commitments from the Vaccine Fund. The number of examples where, by default or by design, a strengthening of institutions and delivery systems is embedded within the activities of the PPP is growing. Further examples are given in Box 2.4.

Pushing back against this trend is the effect of general and sector-wide budget support by development institutions. This type of aid architecture has the potential to reduce the role of the private sector to contractual status, overlooking the core expertise of the private sector in institution and systems strengthening. Within the context of general budget support and fiscal reform, new ways are needed to harness the institutional strengthening expertise of the private sector as contractors.

**Consideration should be given to establishing new “task forces” or “specialized units” within donor-supported PPPs and project advisory,**

**preparation and funding institutions, targeted at the public health, basic education, and water and sanitation sectors.** Each unit should have a dedicated budget, and be mandated to improve the supply of viable PPP projects. Proactive approaches to water and sewerage utilities, ministries of health and education, or dedicated PPP units within the ministry of finance are needed, rather than the reaction to formal requests as is common at present. More timely assistance can then be provided with long-term institutional and human capabilities to identify viable PPP project finance or subsidy options, structure robust and bankable PPP projects, put together risk-adjusted project scopes, and manage competitive and transparent tendering processes.

### **2.3.2 Creating the Right Incentives through Procurement Contracts**

The UK-convened Commission for Africa and others argue that the main role for the private sector in contributing to increased infrastructure in poor regions will be as “performance contractors,” not investors. Some of the needed resources and competencies can be provided by the public sector via design and construction contracts or service contracts. A common problem, however, is that contracting the private sector in this way – say, to construct sanitation infrastructure, supply school text books, or run an immunization programme – often

#### **Box 2.4**

#### **Embedding Institutional and Delivery Systems Strengthening within PPPs**

- Instituto Ayrton Senna's Connect Yourself programme in Brazil is a philanthropic partnership that aims to reduce drop-out rates in public schools. It works with education authorities, school principals and managers to improve management efficiencies and the quality of education.
- The African Comprehensive HIV/AIDS Partnerships (ACHAP) is a collaboration among Merck & Co. (providing US\$ 50 million and two patented anti-retroviral medicines), the Bill & Melinda Gates Foundation (providing US\$ 50 million), and the Government of Botswana. Its goal is to support and enhance Botswana's national response to the HIV/AIDS epidemic through a comprehensive approach to prevention, care, treatment and support. As of June 2005, over 40,000 patients were receiving treatment through the national ARV treatment programme. ACHAP has supported this national effort by helping to construct clinics; develop laboratory capacity; train healthcare workers and teachers; and distribute free condoms. Lessons learned from the project include the importance of a comprehensive approach; enabling policy; alignment to the national strategy among all partners; local capacity building and buy-in.

Source: Ayrton Senna 2004<sup>xxxv</sup> and IFPMA 2005<sup>xxxvi</sup>



fails to deliver services that are accessible or affordable by the very poorest. Despite efforts to use results- or output-based contracts and to introduce least-cost and other subsidies, the competitive bidding rules used by many donors including the European Union and World Bank encourage private contractors to bid as low as possible to meet the pre-defined scope of work. Margins are subsequently squeezed throughout the life of the contract, which often impacts the poorest user populations first, since they are usually the most difficult and costly to reach. In summary, even though contractors may be well placed to design more pro-poor interventions, few incentives are built into the contract tendering processes for them to be so innovative. **Grant-making donors and public sector agencies should evaluate their contract tendering procedures with an eye toward facilitating PPPs. New ways need to be found to use the procurement process to create incentives for innovation by private sector contractors in designing and implementing solutions that reach the poorest.**

Knowledge about how to involve the private sector earlier in the project design process is growing, however. **The Public-Private Infrastructure Advisory Facility (PPIAF), the Project Preparation Facility of The New Partnership for Africa's Development (NEPAD), and other development institutions advising governments on PPPs should review recent procurement practices in the engineering, construction, and oil and gas industries, such as "project partnering" and "early contractor involvement." This may allow the public sector to adapt their existing competitive tendering process so that private sector contractors are given incentives to innovate in designing infrastructure solutions that reach the poorest.** Adaptations might include refunding bidding costs, incorporating front-end design capability as a pre-qualification requirement,

rewarding private companies who have joint ventures with locally knowledgeable smaller firms or not-for-profit civil society groups, and allowing, in certain circumstances, fully negotiated (rather than tendered) contracts.

### ***2.3.3 Brokering Partnerships***

Because of high transaction costs, a number of celebrated failures, and complex interactions and interdependencies between non-traditional partners, attention in some quarters is now turning to the importance of facilitation of and brokering PPPs. The World Bank, World Economic Forum, and the UN Sustainable Development Commission have all recently provided facilitation services of one sort or another in which private companies, public authorities, civil society groups and donors were each afforded space to make proposals to each other and try to launch partnerships.

Other forms of donor support to the private sector, such as challenge funds, provide a portion of capital in grant form. These focus on businesses that can also demonstrate a similar win-win outcome, but where commercial viability is the key driver.

The Growing Sustainable Business (GSB) initiative of the United Nations Development Programme (UNDP) is essentially a partnership facilitation and brokering service that aims to deliver pro-poor outcomes *and* viable financial returns. GSB makes almost no grants. Instead it offers brokering services to potential partners, assisting in convening, negotiating roles and responsibilities, project preparation, and tackling institutional and regulatory barriers to approval or implementation. Although still in its inception, the initiative is anticipated to leverage around 14 times the level of resources compared to some other donor-supported private sector instruments such as business challenge funds. A number of UNDP country offices are building the

internal capacity to convene and broker PPPs, and are gaining practical experience through GSB.

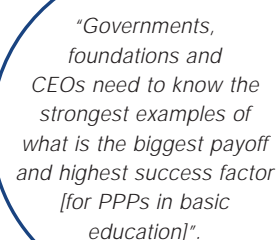
**Donors may wish to follow this example in investing more in partnership facilitation initiatives to leverage the role of the private sector for development.**

As a new discipline, brokering partnerships for sustainable development is evolving fast. The first formal broker accreditation scheme for sustainable development PPPs is now up and running, managed by the International Business Leaders Forum and the Overseas Development Institute<sup>xxxvii</sup>. Definitions and roles of partnership brokers are also being cross-fertilized among organizations and across sectors. For example, it is increasingly clear that there is both an institutional and human-capacity component to partnership brokering, and that there at least two types of brokers, internal and external (see Box 2.6).

**Virtually all large companies, international development institutions and NGOs, as well as many public sector agencies, are involved in partnership negotiations of one sort or another. Within these organizations, in-house training programmes need to refocus a portion of their annual budgets to build capacity in partnership brokering and governance.** This includes developing skills in negotiations, identification of core competencies, participatory programme design, multi-party performance tracking, change management, partnership governance and accountability, and understanding the role of intermediary organizations.

To foster this broadening of brokering skills, institutions that currently hold deposits of case studies and documented experience in PPPs should increase their efforts to strategically disseminate these materials to the training departments in companies, donor organizations and NGOs, both directly or through web-based global learning portals. For example, drawing on case studies developed through the World Bank's Business Partners for Development programme<sup>xxxix</sup>, both Shell International<sup>xi</sup> and the International Finance Corporation<sup>xii</sup> recently produced good-practice guidelines for partnership management.

Despite the volume of philanthropic and conventional PPPs in health, education and water, there is a continuing lack of substantive evaluation of the development value provided by different types of PPPs. Although some public authorities assess the cost-effectiveness of PPP versus public sector options as part of project feasibility studies, few undertake post-project evaluations to determine whether their predications were accurate. Partnerships are often judged instead on whether they delivered their stated objectives or outputs, or worse, on the quantity of the resources leveraged from the private sector and other parties. Little effort is currently being made to evaluate whether the development outcomes of PPPs are better than the original alternatives.



*"Governments, foundations and CEOs need to know the strongest examples of what is the biggest payoff and highest success factor [for PPPs in basic education]".*

#### Box 2.5

#### Types of Partnership Brokers

- **Internal:** individuals or units take on the role of preparing their organization for working in public-private partnerships, negotiating their organization's involvement in a partnership, and/or playing a key role in maintaining a partnership arrangement, monitoring performance, or securing mutual benefits.
- **External:** independent third-party individuals or institutions facilitate consultations or negotiations to develop partnering arrangements, and/or research, monitor, review or evaluate PPP performance over time.

Source: ODI/IBLF<sup>xxxviii</sup>

**The World Bank, possibly in conjunction with other institutions, should consider establishing a series of long-term studies (over six years) to monitor and evaluate the added value of a broad sample of innovative PPPs in health, basic education, and water and sanitation<sup>xiii</sup>.**

Selection of the study sample should involve participating companies and corporate foundations. Interim evaluation every two years would be advisable so that PPPs showing evidence of substantial added value can be taken to scale rapidly.

### 2.3.4 Good Governance of PPPs

**The sheer diversity of public-private partnerships suggests that there is no standardized model available for wholesale mass replication. Instead, the international community should seek to propagate more widely what has already been learned about effective processes of partnership formulation and the essential ingredients for good partnership governance and management.**

The health, education and water sectors in low-income countries are characterized by a huge diversity of demand requirements, supply constraints, regulatory frameworks, political realities, and levels of private sector participation. This fits

with the ever-widening definition of what a public-private partnership is – from large-scale concession contracts involving private sector finance, to smaller-scale service arrangements involving multiple parties from the for-profit and/or not-for-profit sectors. There is also a wide choice of product-development, infrastructure-expansion and service-delivery technologies available, as well as a raft of financing instruments, many of which are discussed elsewhere in this report.

This complexity suggests that it would be unwise to seek to replicate model PPP arrangements since they are unlikely to work across countries or even provinces.

There is, however, a growing body of experience regarding the key success factors and obstacles to formulating robust and well-governed PPPs. Methodologies and toolboxes for partnership negotiations and governance are increasingly common (see Box 2.6).

*"Decisions drive the outcomes: if you get this (governance) wrong, the resulting structure is weak."*

The practitioner survey discussions highlighted the key success factors and obstacles in the formulation and management of public-private partnerships in health, water and sanitation, and basic education as

#### Box 2.6 Methodologies and Toolboxes for Effective PPP Formulation and Governance Relevant to Public Health, Water and Sanitation, and Basic Education

##### Health

- **HIV/AIDS and Business in Africa and Asia: A Guide to Partnerships**, Harvard Business School: [http://www.weforum.org/pdf/Initiatives/GHI\\_Harvard\\_Partnership\\_Guidelines.pdf](http://www.weforum.org/pdf/Initiatives/GHI_Harvard_Partnership_Guidelines.pdf)

##### Basic Education

- **Private Participation in Education Handbook**, International Finance Corporation <http://www2.ifc.org/edinvest/public.htm>

##### Water and Sanitation

- **Rural Water Supply and Sanitation toolkit for Multi-Sector Projects**, World Bank: <http://www.worldbank.org/html/fpd/water/rwsstoolkit/index.htm>

##### General

- **International Business Leaders Partnering Toolkit** <http://www.iblf.org/csr/csrwebassist.nsf/content/f1d2b3aax4.html>
- **Business Partners for Development Training Manual on Tri-Sector Partnerships for Social Management in the Natural Resources Industries**, World Bank: [http://www.bpd-naturalresources.org/html/tools\\_train.html](http://www.bpd-naturalresources.org/html/tools_train.html)

perceived by experts who participated in the project. From a choice of 63 variables, participants were invited to identify what they considered to be the three key obstacles or success factors in formulating and managing development-driven PPP arrangements in the basic education, health, and water and sanitation sectors. The results are reported in chapters 3, 4 and 5 respectively.

Roundtable participants suggested that broadening knowledge about the key success factors and pitfalls in partnership governance and management could be assisted through the development and dissemination of informational toolkits and on-the-job training guides. These reference resources might include core governance principles, case studies, and contact information for knowledgeable practitioners. A consortium of public and private institutions might commission, publish and help promote such resources and training schemes, guided by a strong advisory group. In developing this proposal, care should be taken to build on the existing toolkits and resource material already available (see Boxes 2.6 and 2.7). Given the diversity of PPPs, such guidelines should in no way be considered a stepping stone to regulation or formal official oversight.

Effective governance within a public-private partnership arrangement is complex. PPP actors often have preconceived ideas about each other's motives. Public and private institutions also sometimes have quite different underlying interests in and expectations for their collaboration. For example, the private sector partner may need reassurance about how funds are being used, how effectively technological advice is disseminated, and adequate brand recognition. The public sector partner, by contrast, may expect to be trusted to do the job without heavy oversight and will need to have confidence in the motives of its private partners. The idea that one partner may be less important can often present a stumbling block to success. Perceived inequalities in the relationship can result in frustration and lack of trust.

These preconceptions, differing interests, and power plays make transaction costs in PPPs high. Strong governance arrangements between partners are therefore all the more important. Partnership governance is problematic not least because of ambiguity in what exactly makes for good governance – accountability, transparency, legitimacy, disclosure, participation, decision-making, grievance management, and performance reporting<sup>xliv</sup>. Partnership governance is multi-layered,

#### **Box 2.7 Partnership Governance Skills Development, example of the Partnership Brokers Accreditation Scheme**

The Partnership Brokers Accreditation Scheme (PBAS) is a joint initiative of the Overseas Development Institute and the International Business Leaders Forum. It is a direct response to the concern of its founders that building robust multi-sector partnerships requires a rare mix of skill sets, from relationship management to performance tracking.

Many of the emerging principles for providing skills training in partnership brokering and management are embedded in the design of the course. These include:

- mixed groups of trainees – business, public sector, development agencies and civil society;
- developing critical skill sets such as partner due diligence, interest-based negotiation, third-party facilitation, preparation for partnering agreements, and partnership management;
- providing a period of on-the-job professional practice to apply the acquired skills; and
- special attention to putting in place management systems that ensure partnership projects remain affordable and provide value for money and a “balance of benefits” to all partners.

To date, around 50 individuals have been accredited to the PBAS. They belong to organizations including CARE Angola and CARE Vietnam, Shell Nigeria, BP Trinidad and Tobago, Nike, UNDP, UNIDO, SINCOR, the UK Department for International Development, Rio Tinto, Flora and Fauna International, and a range of independent consultants and NGOs.

Source: ODI (2005)<sup>xliii</sup>

involving transparency and accountability not only among the partner institutions, but also to the project or programme beneficiaries and the wider public. It entails established systems of democracy and good public sector and corporate governance.

The multiple parties involved in health, water and basic education PPPs and their sometimes contrasting cultures and motives present a further set of governance challenges. Consider, for example, how financial risk is most efficiently allocated among the partners. While generally more averse to risk

*"Goals need to be on the table and cultural differences between stakeholders need to be taken into account in a transparent way."*

than the public sector, the private sector is often better at handling it. Finally, while methods of monitoring and evaluating PPP negotiations, governance and performance exist, they are rarely employed. Many practitioners are not aware of the tools, and effective training is not readily available. There is poor understanding of basic concepts such as multi-party performance tracking, financial integrity, monetizing in-kind contributions, benefits realization, and multi-party relationship management. Some new governance and project management tools designed for use in the context of PPPs in development are now beginning to emerge. Two such examples are given in Box 2.8.

Beyond the criteria used to compile the survey results, participants in the six roundtable events were also invited to identify other key success factors for partnership governance. These included:

- shifting from satisfying shareholders to satisfying stakeholders by ensuring equal opportunity to participate and contribute for all partners;

- selecting partners carefully – involvement should be based on the needs of the partnership, and roles should be defined according to comparative advantages;
- ensuring strong representation of affected sectors – involving the domestic health sector increases programme relevance, ownership and effectiveness, but is challenging for the private sector and vice versa; and
- establishing adequate trust among partners, for which the key factors are strong negotiation skills and a transparent operating environment.

### 2.3.5 Strategic Alignment and Sequencing of Financing Instruments

The prospects of leveraging private sector finance into public services are generally greatest for middle-income communities. For PPPs to provide water, sanitation, basic education, and health services to lower-income groups, some form of public subsidy or grant financing is likely to be necessary. The practitioner discussions suggest that with the right sequencing and mixing of financial, subsidy and other resources from the public, private and development assistance sectors, PPP formulations can be developed that reach further into poor populations than they do at present. Schemes that might benefit from this type of co-financing include water supply in peri-urban areas or larger rural towns, provision of educational inputs (e.g., textbooks and information technology) and access to vaccines and drugs for urban slum dwellers and rural populations.

Competitive subsidies, cross-subsidies, development grants and secure long-term recurrent public expenditure commitments over five to ten years can

all help raise the anticipated rate of return for private investors and development risk capital. Subsidy use within PPPs is not new and the World Bank, WHO and others are continuing to develop their expertise in this area. Using PPPs to achieve a broadening in health and water infrastructure investments from the wealthier populations to the “next-in-line” poor requires development finance institutions and public sector agencies to broaden the basket of available financing and funding instruments. **A greater account needs to be taken of the best mix and, in particular, sequence in which to deploy debt management, development grants, loan subsidies, risk finance, SME finance, commercial capital, and technical and management assistance.** Examples of innovation in financial instrument mixing and sequencing are given in Box 2.9.

Figure 2.6 indicates possible sequencing for different funding and financing instruments within PPP arrangements. The illustration is not meant to be

exhaustive in terms of either the range of instruments or the suggested alignment. It is offered only to indicate that the design of public-private partnerships should be looked at over the longer term, with a focus on which public or private sector instruments to deploy at which time, and how different public and private entities might “upgrade” from one instrument to another.

In aid-dependent countries, the growing trend towards aid-driven Sector-Wide Approaches (SWAs) sometimes forms a barrier. Public sector ministries and their international advisors in reforming the public health, basic education and water and sanitation sectors give little consideration to the role of the private sector other than as contractors. Low priority is given to sector reform that might enable subsidies to be targeted to unlock private finance, or encourage early involvement of private contractors to improve project design in line with development goals. **In formulating SWAs, development institutions working with ministries of health, education and water management should encourage early dialogue with private**

#### Box 2.8 Examples of Governance and Project Management Tools for Development-Driven PPPs

*The Framework for Partnership Governance and Accountability (PGA)* is an integrated set of tools to assist partnerships, partners, and their stakeholders to more effectively design, guide and assess the quality of governance and accountability of partnerships. It proposes key principles, a self-assessment and evaluation tool, and guidelines for fostering good practice. The PGA Principles outline both enabling characteristics as well as desired outcomes of good practice of partnerships. The PGA Rating Tool is designed to create a model of what effective governance and accountability arrangements should look like in practice. It focuses on six areas of good practice: Strategic Planning, Mission and Identity, Governance Structures, Performance Accountability, Financial and Asset Integrity, and Stakeholder Engagement. AccountAbility will release the first public version of the Framework towards the end of 2005.

*Partnership Tracking* is a software-supported project management tool designed to strengthen the negotiation, management and performance of strategic partnerships for development. The tool builds on the lessons learned from the World Bank's Business Partners for Development programme. Capabilities of the tool include a single depository for all information relating to a partnership project, guidance on early due diligence to find suitable partners and on the process of negotiation to formulate partnership agreements, the monitoring of partnership performance to ensure the delivery of intended outcomes, “snapshots” of which partners are winning and which are losing to enable managers get projects back on track before costs spiral or a project collapses, and portfolio project management (PPM). The tool, which SnSi and eTrack developed jointly, can be viewed on the Internet, allowing full transparency to all partners and project beneficiaries.

Source: AccountAbility; eTrack.



contractors and service providers to determine the added development value they could bring, be that in strategic philanthropy as performance contractors or in developing and marketing very low-cost products. Quantifications should then be made to determine whether national and international development goals might be achieved more rapidly, in a more sustainable way, with greater reach or higher quality, through various forms of public-private partnership. If so, appropriate sector reform and budget allocations should follow.

*"There should be space made for [public-private] partnerships within SWAps [Sector-Wide Approaches], but it is not happening."*

#### Box 2.9

#### Innovation in Financial Instrument Mixing and Sequencing to Support PPPs

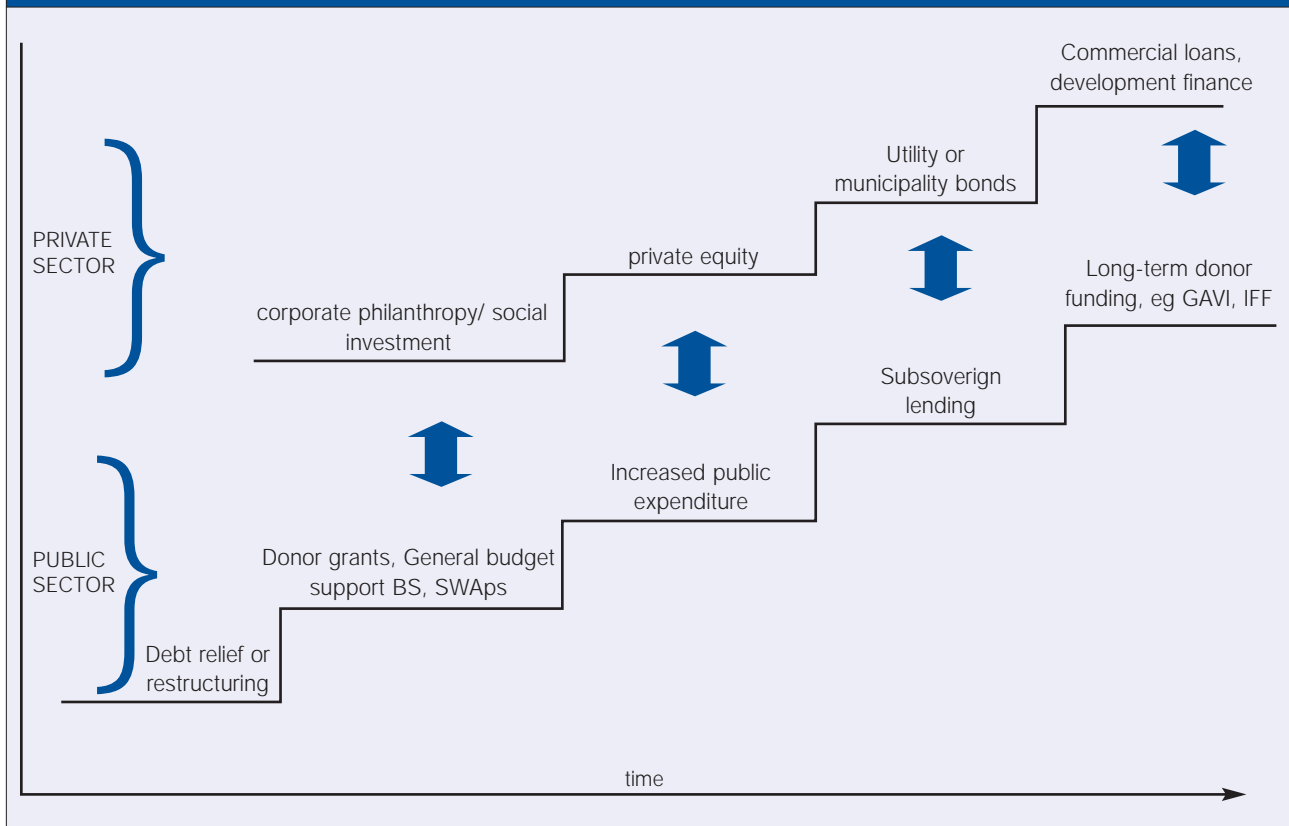
In Uganda, the National Water and Sewerage Corporation (NWSC) recently returned a profit (after depreciation) enabling expansion of the network into outlying peri-urban areas. Now on a more stable financial footing, it plans to seek external and partly development-backed finance to allow for further infrastructure expansion. There are also plans to outsource network management and user-fee collection to private operators on a competitive basis. Arriving at this juncture required Germany's Gesellschaft für Technische Zusammenarbeit (GTZ) to first underwrite the utility's substantial debt, followed by a capital grant for initial rehabilitation and then the introduction of a strict performance- and incentives-driven institutional culture.

The Global Alliance for Vaccines and Immunization (GAVI) and the proposed Global Fund to Fight AIDS, Tuberculosis and Malaria provide long-term grants for governments to purchase vaccines, drugs and equipment. Their design assumes a certain mix and sequence of inputs. For example, one set of aims is to offer incentives for private companies to invest their own resources in higher risk, higher cost, Phase-III trials of new vaccines and medicines, and to pre-invest in production facilities. In return, pharmaceutical companies are expected to allow for differentiated pricing structures, and grant-receiving governments are encouraged to find alternative financing to continue to purchase the products over the long-term.

Source: NWSC 2005,<sup>xlv</sup> and The Vaccine Alliance 2005.<sup>xlvi</sup>

Figure 2.6

Possible Sequencing of Funding and Finance for PPPs in Health, Education and Water  
(schematic, and not exhaustive)



### 3. Expanding the Role of PPPs in Mobilizing Resources for Basic Education

This section addresses two major categories of public-private partnerships for basic education. The first is PPP applications that have demonstrated success in mobilizing resources for the basic education sector. The focus is on four areas:

- corporate-driven philanthropic PPPs;
- private sector involvement in raising standards in public schools;
- income-generating schemes for schools; and
- the impact of business coalitions.

The second major category is comprised of PPP models that appear to have high potential but face greater obstacles or require more evaluation. These include:

- increasing schools' discretionary funds through philanthropic PPPs;
- for-profit ventures to increase access to educational aids and equipment; and
- greater collaboration between public education systems and pro-poor private schools.

#### 3.1 Development Challenges in Basic Education

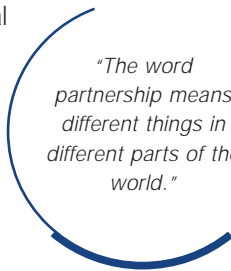
In 2005, the world missed its first MDG Goal – that of achieving gender parity in primary and secondary education. Approximately 100 million children are currently out of school, three-quarters of these in Sub-Saharan Africa and South and West Asia, the majority of which are girls. This number is declining, but only at a rate of about 1 million per year<sup>xlvii</sup>. It is estimated that 40% of countries will not achieve gender parity in primary and secondary education by 2015. The education sector is faced with challenges (see Box 3.1) related to institutional and financing factors that significantly affect the scope, accessibility and quality of education services. While

Education For All (EFA) emphasizes free schooling, efforts to rapidly expand enrolment by abolishing school fees do not guarantee improved educational outcomes if the associated decline in funding levels is not addressed, as was the case in Malawi. School performance itself (as measured by test scores) is significantly improved by smaller class sizes, improved teaching practices, adequate instruction time and textbook provision, and increased teacher training, all of which require significant investment.

An estimated US\$ 5.6 billion a year will be needed to meet the education MDGs. Available public sector financing falls far short of that. The World Bank's Education for All Fast Track Initiative (FTI) was intended to accelerate efforts but has raised fewer funds than hoped. Though it recently revised eligibility rules and established a capacity-building fund for securing and managing grants, only 12 of 60 potential countries are actually receiving funds. As with the water and health sectors, the impact of official development finance in leveraging private sector resources into basic education in developing countries and regions is minimal. The opportunity for greater engagement of private sector resources is significant.

#### 3.2 The Status of PPPs in Basic Education

Accelerating the rate of progress on basic education will require improved aid effectiveness as reflected in learning outcomes. Core principles of international good practice are emerging that emphasize the importance of sound, nationally owned development policies, close alignment of donor support with national governments' priorities and harmonizing donor practices. Roundtable



*"The word partnership means different things in different parts of the world."*

**Box 3.1****Development Challenges in Basic Education**

**Education For All** - Dakar Framework for Action (endorsed by UNDP, UNESCO, UNFPA, UNICEF, World Bank):

1. Improve comprehensive early childhood care and education, especially for most vulnerable and disadvantaged
2. By 2015 all children, particularly girls, should have access to free and compulsory primary education of good quality
3. Expand access of young people and adults to learning and life skills
4. Increase adult literacy by 50% by 2015, especially among women, and provide equitable access to basic and continuing education for all adults
5. Eliminate gender disparities in primary and secondary education, with focus on girls full and equal access
6. Improve every aspect of quality of education

**Millennium Development Goals:**

Goal 2, Target 3 - Universal primary completion by 2015

Goal 3, Target 4 - Eliminate gender disparity in all levels of education by 2015

**Persistent challenges for National Governments<sup>xlviii</sup>**

- Inadequate political commitment to education as a fundamental human right
- Weak domestic resource mobilization including insufficient budget allocations; insufficient monitoring of public expenditures
- Weak, non-transparent or inconsistent education policies and sector plans
- Inadequate attention to equality and gender issues, at all levels
- Lack of transparency and accountability to education stakeholders, including transparency (eg up to half of intended funds are not reaching schools)
- Poor education delivery service and inadequate quality control (e.g. Inadequate curricula and teaching equipment)
- Lack of robust education data to inform policy and budget decisions
- High dropout and repetition rates
- Inadequate numbers of teachers (particularly in areas affected by conflict and HIV/AIDS, eg from 2004 Zambia expects 1,600 teacher deaths per year)
- High levels of teacher absenteeism (e.g. random visit to primary schools in India found no teaching in half of all schools visited), due in part to lack of training and incentives
- Lack of school infrastructure tailored to student needs (e.g. latrines for female students, geographical distance of nearest school, etc)

**Persistent Challenges for Donors<sup>xliv</sup>**

- Inadequate levels of external aid resources, particularly for recurring costs
- Poor linkage of aid to education sector plans and strategies
- Diverse and inconsistent policy advice
- Poor outcomes and inadequate focus on results in education-focused aid allocations
- Weak capacity building at local levels

**Some Emerging Challenges and Highlights<sup>i</sup>**

- An estimated 100 million children are out of school, three-quarters in Sub-Saharan Africa and South and West Asia, the majority these girls. These numbers are declining slowly at a rate of 1 million per year.
- 40% of countries anticipated not to achieve gender parity in primary and secondary education by 2015.
- World Bank Fast Track Initiative (FTI) currently finances 12 countries of 60 that are eligible. For others, preparation of education plans can be supported by the Education Program Development Fund (EPDF), and those with 'extreme difficulties' can be supported by a US\$ 300 million Catalytic Fund.
- School performance (as measured by test scores) is significantly improved by smaller class sizes, improved teaching practices, adequate instructional time and textbook provision, and investment in training teachers.
- Countries that have increased enrolments (for example by the abolition of school fees), but who have not maintained previous level of per student funding, have seen quality levels fall markedly.
- In 2005, Kenya, Zambia, Mauritania and Nigeria introduced legislation for free and compulsory education.

participants expressed belief that public-private partnerships could make important contributions to both improving educational outcomes, and improving aid effectiveness in the education field.

Official public sector commitment is not lacking. Already in April 2000, international education stakeholders met at the World Education Forum in Senegal and adopted the Dakar Framework of Action. This Framework is a collective commitment to action by the EFA partners, stating that governments have an obligation to ensure that the agreed goals and targets are reached and sustained<sup>li</sup>.

Research as well as the two education roundtable discussions revealed a range of PPP examples, including the Business Trust in South Africa, Instituto Ayrton Senna in Brazil, and the Jordan Education Initiative, among others. A variety of these models for applying PPPs to basic educational needs are presented below. Most of these, however, while they appear promising, are being implemented on small and experimental scales. Overall, private sector involvement in education is limited in scope and impact. Some of the highest levels of involvement are seen in Latin America and the Middle East, where business alliances and other PPP models are particularly active. Greater efforts are needed to

meet the enormous needs of Sub-Saharan Africa. Deliberations at the education practitioner roundtables suggest that several PPP models as described below are delivering benefits and deserve closer attention from donors, education authorities and others.

### 3.3 Key Success Factors and Obstacles in the Partnering Process

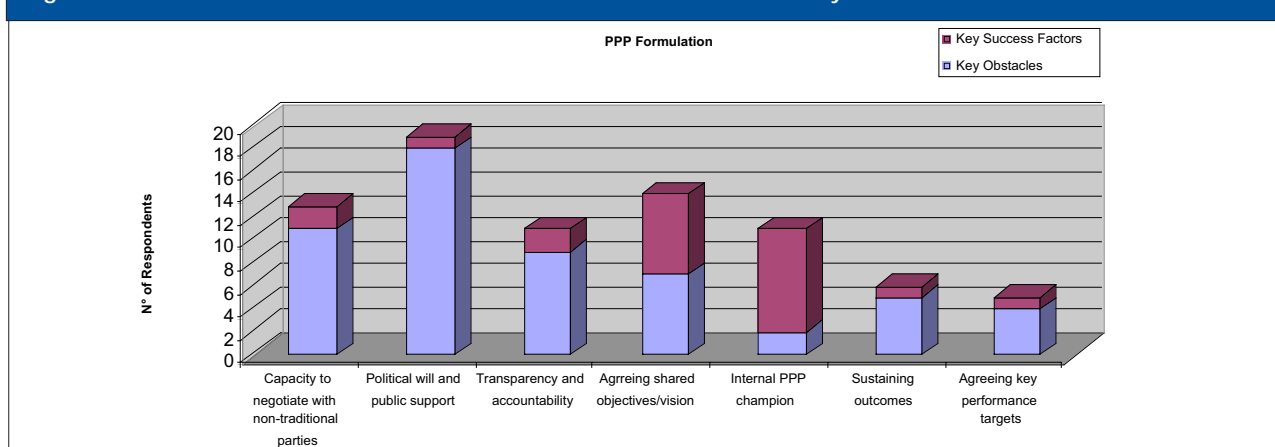
In considering successful PPPs in education, practitioners identified key success factors and obstacles relevant to those cases. The two factors that emerged most clearly were:

- engagement of a senior “champion” for the PPP arrangement; and
- agreement on shared objectives at the beginning of the partnership.

Participants also agreed that, despite the raft of official declarations on achieving basic education goals, the lack of political will and public support is the greatest obstacle, followed by poor negotiating capacity, transparency and accountability. These are described in more detail in Section 2 of this report.

One key need for advancing the development of effective PPPs in basic education is better evaluation of existing models. More systematic information

Figure 3.1 PPP Formulation: Outcomes from the Survey of Education Practitioners



gathering is needed to establish baseline data and track partnership performance. This will help determine whether individual PPP arrangements are achieving their intended objectives, and whether projects provided better value than the alternatives. Greater efforts are needed to design and test methodologies for measuring the added value of philanthropic PPPs in basic education. Approaches already developed for evaluating community investment partnerships in the extractive industries and telecommunications sectors<sup>lii</sup> can form good models for this effort. In basic education PPPs, it seems that what is most lacking is the willingness and determination to improve basic education through locally developed solutions and build partnerships from the ground up rather than through the application of templates developed at a global level.

### 3.4 PPPs in Basic Education: What is Working Well

#### 3.4.1 Sustaining the Outcomes of Philanthropic PPPs in Basic Education

A number of transnational and domestic corporations operate philanthropic or community investment programmes in basic education in developing countries, focusing on:

- direct financial assistance to educational charities;
- provision of education services; or
- collaboration with NGOs, government education authorities and development agencies.

For example, in 2004, BP invested US\$ 33.3 million in education programmes throughout the world.

Over the next five years the company plans to invest a further US\$ 500 million in enterprise development, education and improving access to energy<sup>liii</sup>. Trends in corporate philanthropy

*"Education is measured by generations, while private sector performance is measured by quarters."*

show increases in funding directed at Asia Pacific, Africa, and Russia, with decreases in donations allocated to the US and UK.

Some companies grant direct financial assistance, for example, to educational charities. Others, such as a number of mineral extraction companies and manufacturers, provide basic education services themselves. Others still are adopting forms of PPPs, involving collaboration with government education authorities, schools and development assistance agencies.

In South and East Asia, manufacturing companies are driving a number of philanthropic PPPs in basic education. In Sub-Saharan Africa, the extractive industries sector dominates the corporate philanthropic landscape. In 2003, Shell Nigeria invested US\$ 8 million in education<sup>liv</sup>. In partnership with the United States Agency for International Development (USAID) and local government authorities, the company funded the building, renovation and equipping of local schools, the construction of teachers' quarters, and the distribution of textbooks. A key question now facing actors involved in similar philanthropic PPPs is how to sustain and scale up the positive educational outcomes of these initiatives over the long term, once the funding arrangements come to an end.

Companies are beginning to realize that sustaining the educational benefits of philanthropic PPPs need not necessarily be tied to sustaining the longevity of the partnership configuration itself. Continuing the same funding arrangements and transforming a PPP into a permanent formal institution such as a

*"We believe we can provide value through funding education in areas which are critical for the communities concerned, such as basic education where it is lacking in developing countries, and in areas where we can add some value through our own know-how, such as education related to energy and the environment"<sup>liv</sup>.*



charitable foundation are not the only ways to continue to attract female students, reduce drop-out rates, maintain school buildings or equip teachers. Most crucial is to integrate some type of sustainability strategy into the core activities of the PPP at the outset.

Various strategies are available:

- **Financial transfer:** Prior to commencing PPP activities, secure commitment from public authorities to take over the financing requirements once the life of the current funding arrangements comes to an end.
- **Cost efficiencies:** Build into the core work plan of the partnership institution- and human-capacity strengthening that over time delivers higher productivity from officials and school administrators. See Box 3.2 for a description of an innovative partnership involving the private sector, the Instituto Ayrton Senna, and Brazilian state governments. This partnership not only demonstrates with concrete numbers that it is possible to operate PPPs in basic education on a large scale, but it also presents a sustainable PPP model based on cost efficiencies. A key success factor is to bring public sector educational institutions and teachers into the design of partnership programmes from the outset.
- **Passive alignment:** Align PPP programmes with national and international development goals and targets for basic education. This may increase the likelihood that at the end of the term of the partnership the public sector will absorb the new expenditure. The choice of targets will depend on government policy, but is likely to include enrolment rates (gross and net), primary completion rates, gender parity and equality, assistance to vulnerable groups, attendance rates, year repeaters, and various institutional, teacher and student performance standards.
- **Proactive alignment:** Through the activities of the partnership, assist educational authorities and economic planning agencies to make the case for

increased public sector budgets for basic education – to address teacher shortages from HIV/AIDS, for example. At the national level this might include meeting the eligibility criteria for the World Bank Fast Track Initiative, while at the local level it might entail preparing a district education plan that complies with requirements for budgetary decentralization.

- **New collaborations and innovative partnerships:** Work with non-traditional partners to increase access to new technologies and negotiate with not-for-profit and/or for-profit private education providers to assist them in making proposals to the public sector or donors to continue the education benefits provided by the original partnership. See Boxes 3.3 and 3.4 for descriptions of two models – World Links and The Global Learning Portal. The latter is an interesting example of scalability, personal and group empowerment, and individual customization.
- **Transparency:** In collaboration with community groups and school administrators, improve the transparency of public sector budget allocations for basic education. The intention is to encourage greater and more timely transfers of funds from education authorities to local schools so as to continue the benefits accrued during the period of the partnership.

The principal lesson here is that where development institutions act to convene, fund or partner with companies in basic education, strategies for sustaining and scaling-up educational benefits should be embedded within the original partnership agreement. Arranging new long-term financing for recurrent expenditure is not the only option. Cost efficiencies achieved through targeted institutional strengthening and improved transparency in budget allocation and execution, can also work well.

**Box 3.2****Accelerate Brazil and Connect Yourself**

Among Brazil's 34 million students in basic education – the first eight years of school – a third have failed a grade at least twice. Only 3.4% of students reach their eighth year without failing. The cost to Brazil of this abysmal academic performance: US\$ 2 billion annually.

Private companies combined with Brazilian state governments and the private foundation, Instituto Ayrton Senna to tackle this grave problem.

State	Participants
Goiás	Nokia and VIVO (Portugal Telecom and Telefônica)
Tocantins	VIVO (Portugal Telecom and Telefônica)
Paraíba	Martins Distribuidora (Brazilian wholesale distributor) and Tribanco
Sergipe	Vale do Rio Doce (mining company) and Votorantim (greatest Brazilian cement company)
Pernambuco	LIDE/EDH (Entrepreneurial Leaders/Entrepreneurs for Human Development) formed by over 70 national and multinational companies including Nestlé, Accenture, Telefônica, American Express, Oracle, Nivea, HP, Motorola, Microsoft, Nokia, Faber-Castell, Avon, Colgate, Nextel, Pfizer, Price, Sun Microsystems, and VisaNet

**Achievements**

- A scalable social technology that helps students who have failed. Entails a new education management culture to replace the old working pattern that led to poor academic results.
- The Accelerate Brazil and Connect Yourself programmes have been extended to more than half a million students in 519 Brazilian cities.
- Adoption of the technology is now government policy in five Brazilian States.
- High success rates – between 95% and 99.5% – in combating failures and narrowing the age-grade gap.
- Huge savings in public expenses, e.g., US\$ 60 million in Goiás

**Lessons learned**

- The government should define priority problems, while private companies locate a serious and competent NGO that can help find solutions. The corporations finance the NGO, not the government.
- The NGO should look for solutions that can be transformed into a social technology that can be disseminated and transferred to others, thus achieving sustainability and scalability.

Source: Instituto Ayrton Senna 2005<sup>lv</sup>

### Box 3.3

### Information Technology to Improve Basic Education

In 2002, Accenture, a global management consulting, technology services and outsourcing company, and World Links, a global non-profit organization, forged an innovative partnership in India to increase access to technology by converting existing school computer labs into revenue-generating community access centers. These School Based Telecenters (SBT's) are used by teachers and students during school hours then open to the community on a fee-basis during non-school hours.

With funding from Accenture, five school computer labs were transformed into SBT's in Mumbai in 2003. Through individualized business models, recurrent revenues helped the schools meet the monthly expenses of their computer labs, sometimes making US\$100 in surplus. As part of the SBT program, school directors and community leaders participated in a 45-hour operations training workshop, learning how to operate and manage their telecenter and develop center-specific business plans and action steps for revenue-generation and entrepreneurship.

Accenture helped develop a business and operational model specific to India, developed school selection processes, and reviewed strategy and training materials. Local Accenture staff also provided advice throughout implementation, facilitated discussions with coordinators, demonstrated best practices through case studies, and offered much-appreciated moral support.

Based on lessons learned in Mumbai, the training and business model has been applied to schools in the Dominican Republic and Uganda as well as in Delhi, India. With prospects of additional funding and partnership with Accenture, World Links will employ its expertise and continue to work towards helping youth gain the knowledge and skills they need to participate successfully in the global knowledge-based economy.

Source: World Links 2005 <sup>lvii</sup>

### 3.4.2 Involving the For-Profit Private Education Sector in Raising Standards in Public Schools

A number of PPP initiatives are designed explicitly to bring private sector expertise, services and markets into the public sector school system. In addition, the educational and administrative competencies found within the private sector can be applied to the public school system to improve budgeting and accountability (e.g., Pratham in India and the Business Trust in South Africa), and teaching methodologies (e.g., Instituto Ayrton Senna in Brazil and Escuela Nueva in Colombia).

State schools often perform poorly for a wide range of reasons. Some factors are externally generated and difficult for local educational authorities to address – for example, disease, conflict, gender discrimination, and public investment decisions that affect the access to and quality of education. Local authorities can more easily address issues such as teaching quality, curriculum design, infrastructure and equipment, administrative efficiency and accountability, student attendance, and sexual violence within schools. Involving the private education sector in outsourcing, insourcing and the application of market mechanisms to the public school system can offer innovative ways to

overcome school-based challenges (see *Box 3.5*). A number of these options (see *Box 3.5*) require policy or legal reforms. Because private sector involvement is often controversial, public support is also needed. For PPPs to be viable, achieving the right balance of outcomes between social benefits (for students) and commercial returns (for the private sector) is essential. Either as part of Sector-Wide Approaches (SWAs) in education or through conventional technical assistance, development institutions can work with ministries of education and finance to build capacity for evaluating available options for private sector participation in public schools. The options need to be assessed jointly by both policymakers and education professionals, not only on the basis of their educational value and relative cost effectiveness, but also on their political viability.

### 3.4.3 Income-Generating Strategies to Increase Schools' Discretionary Funding

Evidence from Brazil, India and other countries suggests that expenditure on teaching aids such as textbooks is about 15 times more productive (in terms of increased test scores) than spending on teacher salaries<sup>lx</sup>. Discretionary funding for teaching aids and other purposes can be generated through innovative income-generating schemes using school

**Box 3.4****The Global Learning Portal PPP**

The Global Learning Portal (GLP) is a free, universal network of educators, online education-related communities, and easy-to-use features and tools designed to improve education quality worldwide through connectivity, exchange, teacher empowerment, and innovation. GLP complements rather than competes, enhancing education activities at every level by connecting and leveraging the knowledge and contributions of millions of users and thousands of education groups. Like the Internet, GLP empowers educators through sophisticated tools/search engines to find colleagues, content and communities. Among its services: My GLP, an interactive website that registered users can customize and through which they can connect with others around the world. GLP aims to reach more than 64 million educators, with a focus on developing countries.

**Partners**

Co-founders: Academy for Educational Development, the US Agency for International Development, Sun Microsystems. Illustrative partners: International Reading Association, UNESCO, G-8 Broader Middle East and North Africa Initiative (BMENA), SchoolNET/South Africa, Connect-ED/Uganda, LTNet/Brazil, US-Mexico Higher-Education Partnership (TIES).

**Funding model**

GLP is a global asset to support Education for All (EFA). Building on public-private seed capital, the aim is to create a sustainable GLP Foundation by 2010, run as a PPP to assure flexibility and innovation, with the financial and technical support of government, multilateral agencies, private corporations, private voluntary organizations (PVO) and NGO groups, higher education, foundations, and thousands of civil society volunteers.

**Achievements**

Successful pilots in Brazil, Ethiopia, Nicaragua, South Africa, Uganda; 6,000 current members in 78 countries.

**Lessons learned**

- Pilots proved the value of educators connecting and sharing experiences.
- A multi-language, scalable platform must be designed from the outset.
- Partnerships should focus on mutual benefits, rather than donations.

Source: US Agency for International Development 2005<sup>[viii]</sup>

**Box 3.5****Private Education Sector Involvement in Public Sector Schools: Some Options and Examples**

- Short-term contracts with professional educators and consultancy companies to rapidly build educational quality or management effectiveness and efficiency in 'failing' schools, sometimes incentivised with rewards for rates of improvements (e.g. in Chile);
- "Second-shift" education, whereby private sector entities have a formal arrangement with educational authorities to use existing public schools to provide evening classes. One such scheme has been running in the Punjab in Pakistan, providing literacy skills to young girls in rural areas who otherwise would not be in school;
- Long-term partnerships between educational authorities and not-for-profit organisations to develop and manage community schools. One example is the role of NGOs in schools in Rajasthan (see Box 3.6), which aim to boost girl's enrolment by increasing the number of female teachers and the relevance of the curricula;
- Long-term "grouping" of a small number of public and private schools, with a single principal and administrative system, and students moving between the schools to access the best each has to offer in teaching skills and facilities;
- Private sector involvement in development of national curriculum resources. For example the private IT education and training company NIIT in India is contracted by the state of Tamil Nadu to bring computer curriculum, software and hardware into high schools.
- Short-term voluntary work assignments undertaken by staff from companies, both in and out of work time. This can be valuable for teaching core skills such as basic mathematics, literacy, and IT, as well as "soft skills" such as teamwork, entrepreneurship, and career development.
- Private schools need to overcome fragmentation by forming alliances or coalitions. This will more clearly establish their identity as a separate stakeholder group, and allow more effective participation in the policy making, networking and the partnering process.

### Box 3.6

### The World Economic Forum's Global Education Initiative

The World Economic Forum's Jordan Education Initiative (JEI) is a multi-stakeholder partnership that includes over 45 partners working to support the Government of Jordan's efforts in education reform. The resulting public-private partnership has been successful on many fronts, and efforts are underway to expand it to the Palestinian Authority, the Indian State of Rajasthan and to other developing countries.

The JEI focuses on K-12 education and is piloting a "blended learning" approach that combines the use of electronic curricula ("e-content") with traditional teaching methods in the classroom. The initiative will ultimately reach 100 "Discovery Schools" with over 50,000 students. Partners in the JEI – including 17 global corporations, 17 local firms and 11 governmental and non governmental organizations -- have contributed over US\$25 million to the initiative. The Government of Jordan is now scaling up key parts of the initiative to the national level.

In the Palestinian Authority, the initiative will support K-12 education in over 142 schools, adopting a decentralized approach led by individual districts. The Palestinian Education Initiative involves the strong participation of NGO's and other community based organizations.

The Rajasthan Education Initiative is developing a cross-sectoral approach that leverages public private partnerships in the areas of information and communications technology in schools, school construction, health and sanitation, and mid day meal programs. Currently in the planning phase, the REI will empower young girls with the skills needed to participate in India's growing knowledge sector. The initiative will build on innovative efforts such as the "Hole in the Wall" project and support the development of a sustainable model for transforming rural education. It is hoped that the resulting lessons will play a vital role in raising South Asia's chances of achieving EFA (Education for All) goals by 2015.

Source: World Economic Forum Global Education Initiative 2005<sup>ix</sup>

resources, through collaboration with small-scale private companies or not-for-profit organizations. For example, NIIT's private training institute in India enabled some of the schools with which it partners to become franchisee holders of its equipment, leasing the computer hardware in the evenings on a revenue-earning basis.

Another option is to rent out space within the school and/or its equipment to private (for-profit or not-for-profit) education, vocational training or business-linked providers. This could offer a win-win scenario by simultaneously securing income for a school and separating vocational from conventional learning, which would address the concern of some stakeholders that school curricula are in danger of being driven by skills and not education.

However, the challenges and concerns raised by schools' income-generating schemes should not be underestimated. They include:

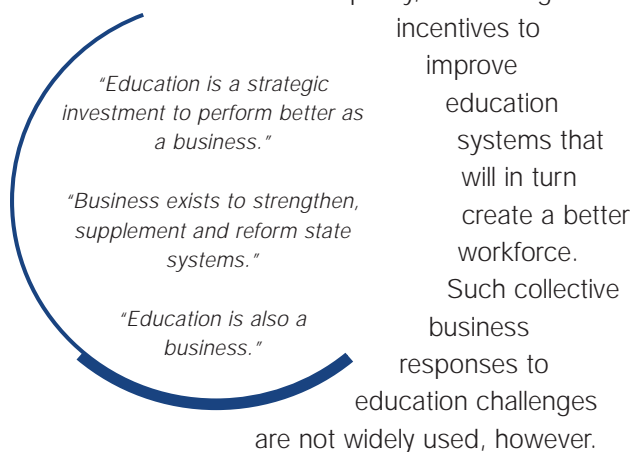
- challenges in assuring that educational outcomes take priority over income generation;

- the risk of revenues being either mismanaged or used for non-educational purposes (such as reinvestment to further expand the income earning venture);
- legal and policy reforms required to allow for such programmes;
- accelerated depreciation of school assets, which can reduce quality and represents a cost to the public sector; and
- public concern that kids should not be used for branding and marketing purposes.

Toolkits outlining income-generating options should be developed for schools. These should include options for collaborating with the corporate and local private sector and commercializing certain aspects of education. Such approaches can potentially generate high educational returns relative to the level of public or donor investment. The toolkits should take due account of the local legal framework for such activities, and provide clear guidance on the risks, as well as benefits of this approach.

### 3.4.4 Promoting Basic Education through Business Coalitions

One highly effective model identified by practitioners is when domestic corporations, industry associations and foreign investors and operators engage in basic education through coalitions working in partnership with government to enhance regulatory reform, policy, and strengthen



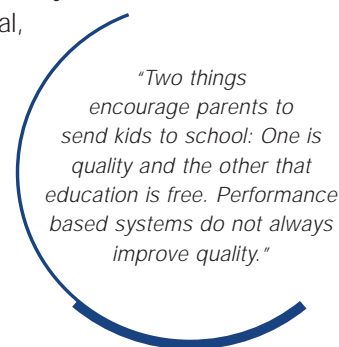
For companies not directly involved in basic education provision, there are divergent opinions on whether they should get involved in education policy issues. Differing viewpoints include the following:

- The private sector should *avoid involvement*, since education is a matter for the democratic process and state institutions.
- The private sector should have *peripheral involvement* at best – for example, in the form of philanthropy executed for short-term reputational gains.
- The private sector has a *strategic interest* in developing education policy to enhance productivity and innovation in the workforce.
- Involvement of the private sector in basic education is a *long-term investment* in increasing economic growth, as well as developing future markets and human capital.

As a result of this divergence, the private sector in basic education is frequently muted or fractured. Yet business engagement in policy dialogue can be

highly valuable. Various forms of business coalitions are beginning to form, offering an avenue for the private sector to communicate their collective views and influence education policy and practice.

Existing coalitions take diverse forms. They operate at all scales – international, national, provincial or local – and can be either sector-specific or multi-sector. Participants may involve domestic corporations, industry associations, foreign operators, local suppliers and the not-for-profit private sector. The coalitions may be predominantly operational, such as the Business Trust in South Africa. With 145 contributing companies, the Trust expects to raise significant funding over the next five years. Having concentrated on basic education in the past, the organization's new direction is to work with the government's expanded public-works programme to align education with employment opportunities.



Common themes that coalitions could address include:

- how non-educational businesses can work in partnership with government;
- the role of discretionary funds from business – for example, in helping to address priority issues such as the high drop-out rates of girls; and
- regulatory reform, policy, incentives and endorsements.

In Latin America, business leaders are beginning to use their influence to promote reform of the education system, rather than individual philanthropic endeavours. Pooling of resources and efforts in this way may succeed in building consensus and a common advocacy for educational policy reform<sup>lxii</sup>. A range of actors – including corporations, UN and



donor agencies – can help catalyse the formation of business coalitions. A key question is which institutions should take the lead in their formation. Companies that dominate a geographic region, such as BP in Casanare, Colombia, may be in a position to initiate the convening process and then reposition themselves as an equal player at the table. Given their mandates under the Education for All and Fast-Track initiatives, UNESCO and the World Bank, respectively, are well positioned to convene business interests at the national level and international levels. Further, for those countries undertaking second- and third-round Poverty Reduction Strategy Papers (PRSPs), the acknowledged lack of involvement of the private sector in the process to date provides an obvious entry point for building business coalitions in support of basic education.

At the international level, despite the efforts of the World Bank to open a window for corporate contributions to the Fast Track Initiative, there is conspicuous absence of business coalitions providing direct funding for basic education. Existing business coalitions already active at the international level might offer an alternative route. For example, the World Economic Forum and World Business Council for Sustainable Development could draw on their own Education Initiatives to press for regional or national dialogue and the establishment of trust funds for basic education.

Finally, a number of international philanthropic organizations and NGOs have recently expanded their basic education programmes – The Bill & Melinda Gates Foundation, Action Aid, and the Aga Khan Foundation, among others. Their practical experience and status may enable them to launch a discussion of issues in the business sector and among individual business leaders, perhaps in cooperation with existing industry associations.

### 3.5 PPPs in Basic Education: Other High-Potential Opportunities

There are other areas in the basic education sector where the added value of PPPs, though less clear cut, carry high potential. These initiatives require further development and/or experimentation before taking to scale.

#### 3.5.1. *Philanthropic PPPs to expand Discretionary Funds for Public School Systems*

Corporate philanthropy exercised in collaboration with schools or local education authorities is one route to increasing school access to discretionary funds.

However, public sector experience in the use of discretionary funds for basic education, such as “competed funds”, has had mixed results. It can provide urgently needed funding for core school requirements such as teaching aids, curriculum development, and infrastructure maintenance. The need and potential positive impact of discretionary resources are high in countries where a large proportion of education budgets are spent on teacher salaries (e.g., Kenya at 90%, and Tanzania at 85%<sup>[xii]</sup>). Critics, however, charge that, in such countries particularly, employment of discretionary funds introduces inequalities among schools, consumes management time, and can create dependence on external funding. If philanthropic funds are discontinued when no alternate source has been established, educational quality can decline.

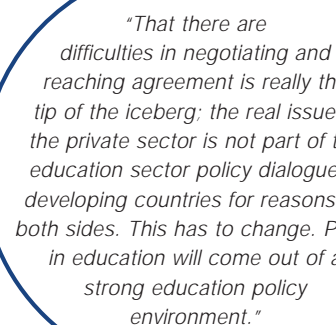
The provision of discretionary funds through philanthropic PPPs also raises the question of accountability. Some PPPs achieve accountability by closely aligning partnership funds and projects with public sector education plans and targets. Others, however, set their own agendas, or rely on alignment with only the broadest of internationally agreed

education goals, such as increased enrolment. Many companies, international NGOs and donors could do more to ensure that public-private education projects involving discretionary funds are closely aligned with the available recurrent public expenditure budgets of ministries and authorities responsible for basic education.

Short-term philanthropic investments in education can also divert public attention from longer-term investment needs to meet education goals, including that of ensuring universal primary education by 2015. An alternative is to ensure long-term commitment of philanthropic funds. Companies that have a long-term presence in a region have the greatest incentive to commit resources to basic education on a similar timeframe. For example, between 10 and 20 Sub-Saharan African countries have major oil or gas investors operating projects within their borders, many with a potential interest in basic education, not least as a long-term approach to operational risk management.

Corporate philanthropic giving is often subject to geographic limitations, focusing on areas that host corporate operations or are seen as potential markets. Even within such geographic limits, however, there is significant potential. For example, the telecommunications sector has penetrated many rural areas of Sub-Saharan Africa, China, India and Latin America. This presence offers opportunities to apply information and communications technology to improve basic education.

Although good examples can be found (see Box 3.7), in many rural locations and deprived urban areas, far more could be done by development institutions to give further incentives to the private sector to enter into, or scale up, strategic philanthropic partnerships with educational authorities and youth training institutions. One option is for the principal agencies in basic education – the UN Educational, Scientific and Cultural Organization (UNESCO), the UN Children's Fund (UNICEF), the UN Fund for Population Activities (UNFPA), UNDP, the World Bank, and key bilateral agencies – to convene local-level public-private partnership “match-making fairs” dedicated to basic education. A small innovation fund might help provide incentives for the process, for example, by paying for professional partnership brokers and transaction advisors to work with new partners to reach initial agreements on the optimal division of roles and responsibilities. Eligibility criteria for the fund could include alignment with decentralized education plans and the EFA and MDG education goals.



*“That there are difficulties in negotiating and reaching agreement is really the tip of the iceberg; the real issue is the private sector is not part of the education sector policy dialogue in developing countries for reasons on both sides. This has to change. PPPs in education will come out of a strong education policy environment.”*

#### Box 3.7

#### Philanthropic PPP Linking Communications Technology to Basic Education: Hewlett Packard and the Dikahotole Digital Village in South Africa

Dikhatole, a community of 8,000 just outside of Johannesburg, suffers from 30% unemployment, deficiencies in water supply, electricity and housing. Many families are female headed. The partnership project had three aims:

- Provide young people from the Dikhatole community with training in basic computer, Internet, business skills and employability skills with the aim of improving opportunities of employment and entrepreneurship. Training was provided through the ‘Dikhatole Digital Village’, a telecentre with 90 Internet-enabled workstations;
- Develop the computer resources and skills in the region's schools, train teachers and pupils in computer skills and upgrade and install computers and Internet facilities within schools; and
- Train local government employees in basic computer and Internet skills, and installing computers in the workplace to allow effective communication and information sharing.<sup>ixiii</sup>

Source ODI/FDI 2003\*

\* Overseas Development Institute and Foundation for Development Cooperation (2003), ICT4D Multi-Stakeholder Partnerships, Issue Paper, Kuala Lumpur: Global Knowledge Partnership.

### 3.5.2 For-profit Ventures to Improve Educational Aids and Equipment

There is considerable discussion within the field of corporate social responsibility at present around the “bottom of the pyramid” approach – the practice of developing and marketing low-cost products, in high volumes, to low-income end users. Educational department procurement budgets offer one obvious potential source of revenue for companies who manufacture or supply teaching aids, be that textbooks, computers, science and vocational training equipment etc. For example, LeapFrog (a company known for its touch-recognition learning products) recently franchised the marketing of its products in India. The entrepreneurs involved in the franchise are considering collaboration with educational authorities, schools not-for-profit providers to develop culturally, educationally and socio-economically appropriate products such as a version of the LeapPad™ HIV/AIDS product and a “wind-up” console.

The experience of some multinational manufacturers in marketing low-cost products has not all been positive. Criticism centres on the deployment of marketing strategies inappropriate to the host society, diverting limited public or household resources to products and services that are less cost effective or bring unintended adverse consequences.

Beyond managing these known risks, companies supplying educational inputs can learn from other sectors, in particular product-development PPPs for low-cost drugs and vaccines. Some believe that recent PPP innovations that involve the private sector in vaccine and drug development offer a highly cost-effective strategy to progress towards international development goals in health<sup>lxiv</sup>. Based on evidence about the effectiveness of increased spending on teaching aids, similar strategies could be used to advance education goals. Private sector publishers, manufactures and suppliers of textbooks,

and computer equipment producers could be involved in designing and distributing low-cost, high-quality product innovations for basic education.

The principles of effective product-development PPPs from the health sector provide a starting point for formulating product-development PPPs for basic educational aids. This suggests the following three-step strategy:

1. Manufacturers and suppliers of textbooks, computers, and other items collaborate with development assistance agencies and the not-for-profit private sector to undertake needs-driven, product and service research and development. Incentives such as guaranteed bulk purchase of such products by public education authorities might be enabled by donor-supported long-term financing vehicles, such as the Fast Track Initiative or part of the proposed International Financing Facility.
2. Private companies with experience in both educational product and service development and low-cost manufacturing technology can develop strategic alliances or joint ventures with domestic companies (or large not-for-profit educational providers). These business partners need to have the right domestic distribution channels and marketing capacities. They also need to be able to provide local level product training and support services. The alliances then jointly engage with education authorities to enhance the product and service design and optimize distribution systems, either through negotiated or tendered contracts.
3. Independent parties, including the education profession, provide oversight of the PPP

*“We need to involve communities in supply selection to prevent corruption and reduce bureaucracy.”*

*“The best projects I have seen come from the people, the locals.”*

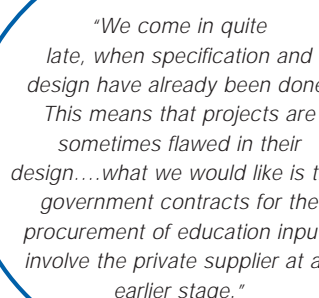
arrangements to ensure that the incentive of guaranteed advanced purchase actually leads to relevant teaching aids, and that these reach schools and deliver their intended impact on education quality and access.

There are, however, some key differences between educational products and drugs or vaccines. Most noticeable is the greater durability of educational products. The durability of many educational products raises the possibility that manufacturers and marketing companies might lease their products, rather than sell outright. This may reduce the need for local educational authorities, individual schools or parents to find high, and sometimes prohibitive, levels of capital investment. In addition, recurrent expenditure costs for education authorities might be spread over multiple schools across a district, thereby bringing economies of scale. The manufacturer would also be freer to upgrade and re-market its products on a regular basis.

PPPs that improve the relevance, uptake and sustainability of educational inputs are not without their problems. Most prevalent is the conflict between, on the one

hand, the benefits of early supplier involvement (e.g., in working with education authorities to better design products and services), and, on the other, the rules for open competitive tendering. Official


development assistance agencies could do more to ensure that when involved in the procurement of educational inputs, sufficient time is allowed at the beginning of the contract period to collaborate with education



*"We come in quite late, when specification and design have already been done. This means that projects are sometimes flawed in their design....what we would like is that government contracts for the procurement of education inputs involve the private supplier at an earlier stage."*

authorities and suppliers. Space is needed to improve product or service design in line with national and international development goals for basic education.

At a higher level, UNESCO, the World Bank and others should consider convening multi-party dialogue with potential private sector education material suppliers to develop more flexible tendering processes. The aim would be to use contract tendering to provide incentives for greater innovation by suppliers in collaboration with education authorities. This might include: more targeted pre-qualification criteria, "preferred bidder status", refunded bidding costs, or integrating planning and design for distribution and education impact into the terms of the contract.

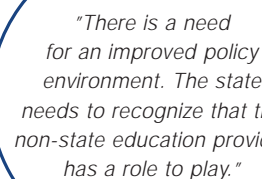


*"We need to involve communities in supply selection to prevent corruption and reduce bureaucracy."*

*"The best projects I have seen come from the people, the locals."*

### **3.5.3 Expanding Public Sector Support for the Pro-Poor Private Education Sector**

Education in many low-income countries is provided substantially by the private sector or NGOs, to a degree that may not be recognized in official statistics. Researchers have found extensive private schooling in poor areas of Kenya (35%), Nigeria (65%) and the Indian state of Andhra Pradesh (61%), with relatively low fees ranging from about US\$ 1.35 to US\$ 3.60 per month.<sup>lxv</sup> Parent surveys show that private schools are chosen based on perceived higher levels of educational quality, teacher involvement, and English instruction. Roundtable practitioners argue that well-



*"There is a need for an improved policy environment. The state needs to recognize that the non-state education provider has a role to play."*

run not-for-profit and for-profit private schools dedicated to low-income families have higher levels of teacher accountability – to both school managers and parents – than state schools.

Private schools frequently lie outside the established public school system, ineligible for state funding or subsidy. Many governments and international donors find it politically problematic to advance proposals for applying public finance to private schools, based on concerns that this could further weaken public

schooling systems and reduce poor households' educational access. Yet pro-poor private schooling merits

consideration as a vehicle for expanding and improving education in low-income communities.

International agencies have an important role to

play in facilitating public-private dialogue to evaluate this option. One useful role for UNESCO or bilateral agencies would be to convene country-level dialogues between education ministries and for-profit and not-for-profit providers of basic education to low-income families.

Recent data on the reach, quality and value-for-money of for-profit education services should be discussed to evaluate the role and value of for-profit

schooling in meeting educational goals. If expanding low-income communities' access to private schools is deemed desirable, options for achieving this through policy and regulatory reform, and through financing mechanisms such as grants, subsidies, vouchers and micro-finance can be discussed.

With regard to micro-finance, development finance institutions could create loan funds for private schools that support a majority of children from low-income families. These funds would need to be administered locally, backed by technical assistance to ensure sound financial management and quality performance improvements in schools. They might also be tied to local savings and resource mobilization at the country level. Care should be taken to ensure that local fund management institutions have the relevant experience. Participation of private school federations may help in this regard.

Further consideration might also be given to school- and teacher-certification and accreditation schemes. One option is for UNESCO to develop common standards for education provision and teaching, building on those developed by the European Union. This might then be tested in selected countries such as Afghanistan, Sudan, Colombia, the Democratic Republic of Congo, and Chad. These ideas for global accreditation and certification are not without their critics. For example, country-level education authorities and regulators would need to recognize the standards if resources and personnel are to begin to move across the public and private sectors.

*"We should ask not-for-profit private education providers to achieve accreditation based on accountability, affordability and adaptability. An endorsement from a higher agency will help them to get funding."*

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## 4. Expanding the Role of PPPs in Mobilizing Resources for Health

This chapter reviews current models for deploying PPPs to mobilize and efficiently utilize resources for the provision of healthcare and disease control. While partnerships in the fields of education, water, and health have many common features, there are also some notable differences. Water and education partnerships are often private sector participation (PSP) arrangements in which the private sector is engaged to provide services on a contractual basis. Partnerships in the health sector tend to be more diverse, including many local service partnerships and quite a number of ambitious global partnerships that combine the efforts and resources of a comparatively wide range of actors.

### 4.1 Development Challenges in Health

Box 4.1 summarizes some of the persistent development challenges in the health sector. It is estimated that two thirds of each year's 10.8 million deaths of children under five could be avoided by achieving universal coverage of standard medical interventions and health prevention activities. In the past this was driven by lack of funding and/or political commitment at the national level. In recent years, however, thanks to new and increased funding mechanisms, it is primarily the lack of healthcare systems and human resources that is making it difficult to translate increased aid from global funds and partnerships into action on the ground. This translates into a huge challenge and opportunity for progress through PPPs.

### 4.2 The Status of PPPs in Health

The international community has more successful experience with PPPs in the health sector than in the others reviewed in this project. There is a range of PPPs at the global, regional and national level aiming

to improve health status with specific disease prevention or cure goals. An excellent source for researching health PPPs remains the Initiative for Public-Private Partnerships for Health (IPPPH),<sup>lxix</sup> which provides a useful database of 92 public-private collaborations on neglected health problems in high disease burden countries. This initiative, including its two roundtable discussions dedicated to health, surveyed a wide range of examples, including but not limited to: The International AIDS Vaccine Initiative (IAVI), The International Trachoma Initiative (ITI), The India Business Alliance to Stop TB, Exxon Mobil's PPP for malaria bed nets in Africa, Merck's Mectizan's donation programme, Pfizer's Diflucan Partnership in South Africa, The Stop TB Partnership, The Vaccine Fund and the Global Alliance for Vaccines and Immunization (GAVI), and The Global Fund to Fight AIDS, Tuberculosis and Malaria.

There are essentially three kinds of international health PPPs – those dedicated to co-ordination and effectiveness for disease eradication, those focused on increasing the flow of funds against global health crises, and those concentrating on the development of new health technologies such as diagnostics, vaccination and treatments for key diseases. Strong examples of all three types of international PPPs in health exist, and sustainability of funding as well as inadequate healthcare systems tend to be important challenges facing each. Human resources are another big challenge, particularly in the hard HIV/AIDS affected areas. Coordinating PPPs such as the Global Partnership to Stop TB are fundamental for successful activities at the international level and maximization of the prospects for success at the national level. Rather than implementation, their purpose is to enhance access to networks and partners for the formation of regional or national PPPs.



**Millennium Development Goals**

Goal 4, Target 5 – Reduce by two thirds, between 1990 and 2015, the under-five mortality rate.

- Indicator 13 - Under-five mortality rate (UNICEF-WHO)
- Indicator 14 - Infant mortality rate (UNICEF-WHO)
- Indicator 15 - Proportion of 1 year-old children immunized against measles (UNICEF-WHO)

Goal 5, Target 6 - Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio

- Indicator 16 - Maternal mortality ratio (UNICEF-WHO)
- Indicator 17 - Proportion of births attended by skilled health personnel (UNICEF-WHO)

Goal 6, Target 7 - Have halted by 2015 and begun to reverse the spread of HIV/AIDS

- Indicator 18 - HIV prevalence among pregnant women aged 15-24 years (UNAIDS-WHO-UNICEF)
- Indicator 19 - Condom use rate of the contraceptive prevalence rate (UN Population Division)
  - 19a. Condom use at last high-risk sex (UNICEF-WHO)
  - 19b. Percentage of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS (UNICEF-WHO)
  - 19c. Contraceptive prevalence rate (UN Population Division)

- Indicator 20 - Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years (UNICEF-UNAIDS-WHO)

Goal 6, Target 8 - Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases

- Indicator 21 - Prevalence and death rates associated with malaria (WHO)
- Indicator 22 - Proportion of population in malaria-risk areas using effective malaria prevention and treatment measures (UNICEF-WHO)
- Indicator 23 - Prevalence and death rates associated with tuberculosis (WHO)
- Indicator 24 - Proportion of tuberculosis cases detected and cured under DOTS (internationally recommended TB control strategy) (WHO)

**Challenges at the National Level** <sup>lxvi</sup>

- Lack of health care infrastructure – ‘delivery systems’ - makes it difficult to translate increased aid from global funds and partnerships into action on the ground.
- Health care infrastructure is about: trained and incentivised health workers; equipment, drugs, medical supplies and information, management and co-ordination systems, physical infrastructure (buildings, power, clean water, transport access).
- The emphasis on treatment may be diverting attention away from disease prevention (e.g. via micro-nutrients, malaria prevention, TB vaccine, reproductive health etc.), e.g. WHO aim of treating 3 million AIDS patients by 2005.
- Business is realising that the business case of addressing health issues exists. Most of the large/multinational companies have used their infrastructure to deliver health care services to their employees, their families and sometimes to the communities in which they operate e.g. Anglo American's workplace HIV/AIDS programmes (including ARVs); Procter and Gamble's low cost water purification system; Unilever's low-cost iodized salt marketing in Ghana; Coca Cola using its distribution system to provide drugs and vaccines. Some businesses owning certain technologies are now more engaged in providing health care services through PPPs or directly.
- In sub-Saharan Africa, HIV/AIDS has the potential to cut up to 2.6% off annual GDP growth, and 18 such countries are projected to lose to AIDS more than 10% of their workforce by 2020. Yet, only 6% of business executives in a recent survey by the World Economic Forum reported having written policies to combat HIV/AIDS.

**Persistent Challenges for Donors<sup>1</sup>**

- More recent funding and financing sources, such as the US President's Emergency Fund for HIV/AIDS Relief and The Global Fund to Fight Aids, TB and Malaria, are large in historic terms; however, increased resource levels will need to be sustained for many years to come.
- Roll-back Malaria Partnership (WHO, UNICEF, World Bank) and the Global Fund are making progress on malaria, but local needs continue to outstrip the global response.

**Some Emerging Challenges and Highlights<sup>1</sup>**

- Progress in public health requires progress in other development sectors: education; drinking water; sanitation; income; peace and security.
- For example: ‘at any given moment almost half the developing world's people are sick from unsafe water and sanitation’; and ‘half the world's hospital beds are filled with victims of unsafe water and sanitation’.
- The proliferation of new health ‘partnerships’ and funds may be introducing inefficiencies, duplication and slowing the rate of progress, e.g. the President's Emergency Fund is directed by policies and regulations ‘divorced from those of The Global Fund’.
- Maternal mortality seems to be a ‘hard sell’ to the private sector, not least because of the political sensitivity to abortion (13% of maternal deaths are from unsafe abortions) and the absence of a single intervention that will produce immediate results.
- Two-thirds of each year's 10.8 million deaths of children under five could be avoided by achieving universal coverage of existing standard medical and health prevention interventions.

Most in-country and global health PPPs have arisen in response to a market failure or inadequate healthcare infrastructure. They seek to increase a country's capacity to address specific health concerns by increasing resource flows, engaging the private sector, and improving coordination among partners. The evidence suggests that PPPs have a particular role to play in confronting challenges that require innovative, time-bound and results-oriented interventions.<sup>lxx</sup> A number of PPPs have succeeded in this respect in part because of a governance structure that forces dialogue and planning across multiple public and private stakeholders while delivering true funding scalability. If a PPP includes government and donors, private sector and civil society, this sharing of information among the stakeholders helps to ensure that work implemented by the new PPP is complementary or synergistic to what is already provided by the government or any other system.

### 4.3 Key Success Factors and Obstacles in the Partnering Process

Participants in each of the two health roundtables were asked to designate what they considered to be the key obstacles and success factors in the areas of planning, development and implementation of PPPs from a choice of 63 generalized variables. Their combined responses are presented in Figures 4.1 and 4.2.

The results of this exercise suggest that many health partnerships face a number of key challenges: a lack of access to sustainable funding;

- an underdeveloped appreciation of the potential public health value of public-private collaboration, whether through workplace programmes, industry associations, product development, or other mechanism;
- a lack of clarity in the role of inter-governmental organizations at the global and national levels; and

- challenges in developing operational processes and governance structures reflecting the fact that health partnerships take many different forms and serve many different purposes, which precludes a one-size-fits-all approach.

Two additional points were cited most frequently:

- A well-connected "champion" is needed in a partnership, especially to ensure continuity and momentum should the champion ever leave. It is often the commitment and passion of one or two individuals and not of the institution itself that has made a PPP successful. It seems to be irrelevant if this champion is located within an international PPP, the public or private sector, or is a representative of civil society. What is important is the leadership and continuity of the champion's efforts
- Sufficient public support for the PPP concept generally and project objectives in particular is lacking.

Roundtable participants deemed the improvement of the public sector side of the equation as crucial for an expansion of successful health PPPs. Since the private sector can be a vital partner in disease control, the time has come

for the global public sector community to engage proactively and fully with it.

Faster progress is dependent on public institutions being capable of setting a framework that enables the competencies and contributions of all sectors

to be applied effectively. Since the public and private sectors often have different mandates and roles, agreement on common goals and a clear articulation of roles and responsibilities are essential.

"Governments and donors need to be proactive in PPPs - the bottom line is action, not talk."

"The PPP provides cover to allow for more open expression of opinion without fear of reprisal from individual governments."

Partnerships can be particularly important mechanisms to help address market failures, failures in governance, or weak public administrative or infrastructural capacity. Responsibility for health goals in many countries has been devolved to the municipal level, but national governments still play an important role in overseeing performance. Private operators emphasize that governments have often shown little commitment to meeting contractual obligations. Political transitions pose a particular threat to the stability of long-term PPPs, as newly elected governments have been known to abrogate commitments made by their predecessors. Accusations of corruption have also undermined the sanctity of contracts and led to prolonged and

adversarial contract renegotiations, demonstrating the need for transparency in the awarding of PPP contracts.

A fundamental responsibility of the public sector is to set and monitor progress on national strategies, including the development of targets and performance indicators as well as deciding upon priority diseases and regions. It was suggested that governments could show their commitment to working with the private sector towards the achievement of the MDGs relating to health infrastructure, diagnosis and treatment by raising the importance of these issues in national policy.

Figure 4.1 PPP Planning and Development: Outcomes from the Health Practitioners' Survey

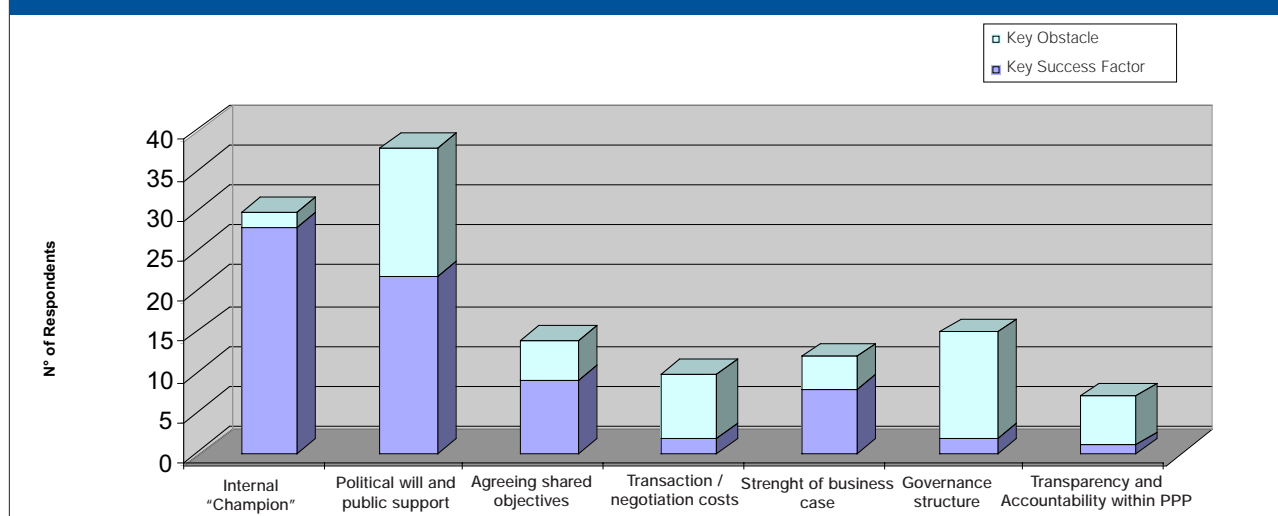
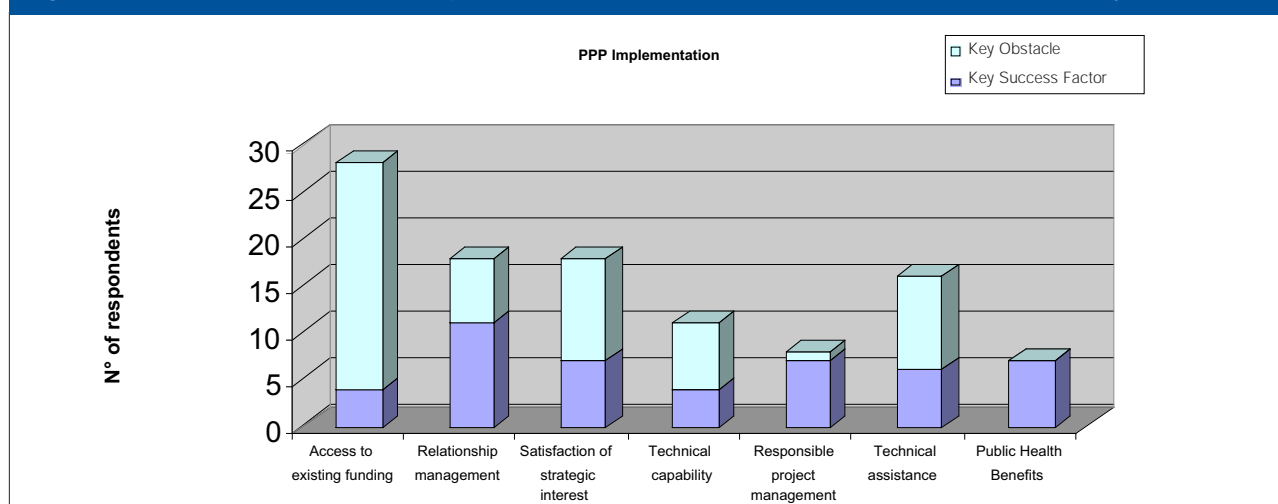


Figure 4.2 PPP Implementation: Outcomes from the Health Practitioners' Survey



**Box 4.2****China's National Diabetes Education Programme****B**

On October 20, 1998, Project HOPE launched a PPP for a five-year nationwide diabetes education and awareness programme for health professionals and for the general public in China. Project HOPE is implementing this programme in partnership with national and local health authorities, and with significant financial and technical support from three internationally known pharmaceutical and medical supply companies - Eli Lilly & Co., Becton Dickinson & Co., and Roche Diagnostics. All three of these companies have specific technical capabilities and products related to diabetes. The three companies have excellent track records in corporate humanitarian efforts worldwide, all three have strong potential for further market growth with a key business partner like China.

Diabetes is one of the major chronic diseases in the Chinese population and a growing public health problem. The objective of this programme is to improve diabetes education for allied health professionals and people with diabetes, and to promote greater awareness of the disease within the public at large. Thus the essence of this two-tiered programme is to train Chinese doctors, nurses and dieticians in diabetes care, integrating treatment and patient education; with a second focus on diabetes education and prevention targeted at the community.

Over the course of the initial five years, the programme has had a national impact having trained over 160,000 health professionals in all 31 provinces. Using the train the trainer model, 30-40 trainees participated in each course from selected hospitals. Trainees have come from 150 tertiary and secondary hospitals and from 89 primary hospitals and community health centres. After the training in care and treatment, selected trainees receive additional training to become skilled at disseminating information to the public on care and prevention.

Other achievements include the development a nationally recognized diabetes curriculum and series of training modules, as well as a software database. A significant outcome of this programme is the affirmation by the Chinese Medical Association and MOH, that the formal training workshops as well as the community training sessions are recognized for continuing medical education credits. Project HOPE is the first non-Ministry of Health entity to obtain such national credit status for its training courses.

A Senior National Technical Assistance Group (SENTAG) comprised of Chinese physicians and senior nurses, foreign physicians, Ministry of Health representatives and Project HOPE technical staff meets regularly to support and guide the project.

Funding for the programme has come primarily from the corporate partners through grants managed by Project HOPE, now extended for another two years with the intention that the programme will be sustainable and overseen by the local health authorities.

**Lessons learned:**

- Patience: It took approximately two years of discussions among the partners to develop and finally sign the programme agreement.
- Forming the SENTAG was crucial to involving all the players in a meaningful way and assuring sustainability.
- Thorough and regular reporting was a critical to the corporate partners to assure good use of resources and provide information for corporate visibility.

Source: Project HOPE 2005<sup>lxxi</sup>

## 4.4 PPPs in Health: What is Working Well

The practitioner roundtable discussions suggest that, although many challenges confront health PPPs, a considerable number are working well and finding ways to overcome the obstacles cited above. For nearly every unsuccessful case, an example can be found where obstacles of a similar nature have been overcome. The international community should give consideration to analysing and learning from these experiences and drawing the conclusions necessary to take successful approaches to scale. As a step in this direction, the following section summarizes expert perspectives on what has been working well enough to warrant replication or expansion.

*"The role of the private sector is to create wealth, whereas the public sector's job is to create health. Where these two overlap is the PPP"*

### 4.4.1. Employee Education and Treatment Programmes

One of the most important trends in international development has been a growing awareness of the crucial role that productive, responsible companies can play in helping to control the spread of diseases like HIV/AIDS, TB, malaria, and polio. An increasing number of multinational and large domestic companies have

*"How very simple and easy it is to spread the word and not the disease among your employees."*

*"Policy is simple – non-discrimination, 100% awareness and education."*

occupational health programmes that are effectively addressing public health issues in a variety of ways, including through internal clinics, good health insurance coverage, health promotion activities, voluntary HIV/AIDS testing, counselling and care. For example, Anglo

American's HIV/AIDS workplace programmes cover 140,000 employees, achieving voluntary testing rates

of up to 90% and providing access to free anti-retroviral (ARV) drugs. Other useful examples of workplace programmes<sup>lxxii</sup> include those at Eskom South Africa, ExxonMobil, Standard Chartered Bank, Larson and Toubro, Reliance Industries and TATA Steel in India, Heineken, and Shell in Africa. Expert roundtable participants agreed that private sector workplace programmes represent an important way to leverage public health policies and programmes. Accordingly, they present a particularly fruitful opportunity for joint public-private efforts.

At the same time, the private sector appears to be underestimating the current and potential impact of HIV/AIDS, TB and malaria on their operations. In a perception survey of over 8,000 firms in 103 countries it appeared that relatively few firms are concerned about the impact of HIV/AIDS on their business – on average only 16% expected a serious impact of HIV/AIDS on their business. According to one survey, globally only 14% of firms have conducted quantitative HIV/AIDS risk assessments such as company-based prevalence testing or actuarial calculations, and most firms (71%) have neither formal nor informal policies to tackle HIV/AIDS. In 2004-2005, only 7% of firms reported that they have written policies<sup>lxxiii</sup>.

*"We already know that the private sector can do everything that the government can do, but it can do it better. We appeal to the corporate sector to help us. It controls the organized workforce, the 7%. The government has to deal with the rest, the unorganized workforce, the 93%, so the government has its own responsibilities."*

### 4.4.2. Community Health Programmes

PPPs play an important role in effective healthcare provision in the communities and regions where firms operate. Workplace programmes alone cannot stop the spread of HIV/AIDS, TB and malaria. By partnering with public authorities and NGOs the private sector can extend the reach of its programmes into the community. A large number of

small partnerships to this effect do exist – for example, to combat HIV/AIDS. For the private sector such outreach activities have typically involved awareness and prevention efforts. Odebrecht's HIV/AIDS programme in Angola is one such example of a well-orchestrated and systematic extension of a prevention programme into communities. This engagement even extends into participation in events such as World AIDS Day marches. The company has developed links with municipalities and NGOs active in Angola in the fight against HIV/AIDS. For example: The administrator and finance director for the water treatment and distribution project Aguas de Luanda, located in the municipality of Viana, contacted the municipality to form a group of peer educators among the youth of the municipality. The programme is also offered to the police of Viana.

*"Living with HIV/AIDS is part of our values. We want to be an innovative, creative company that inspires trust. We cannot be that, if we cannot look after our own employees' health."*

Similarly, and at the initiative of an employee of Odebrecht and resident of the municipality of Cacuaco (a municipality of 600,000 in the north of Luanda), a training programme for peer educators was launched in cooperation with the town administration. The municipality organized the recruitment of volunteers, location and materials for the training. Odebrecht has staffed and animated the training sessions for local peer educators during six consecutive Saturdays, a course totalling about 30 hours. At the end of the class series, 80 peer educators received their certificate of course completion.

Several options were identified during the roundtables for how governments could promote the scaling up of "outside-the-fence" company programmes, including payroll tax incentives, removal of regulatory disincentives, and provision of sustainable funding for company-driven outside-the-fence HIV/AIDS partnership programmes. Participants reaffirmed that the need to engage business does not imply any change in the core role

#### Box 4.3

#### The World Economic Forum's Global Health Initiative

The Global Health Initiative (GHI) works to increase the quantity and quality of business activity in the global response to HIV/AIDS, tuberculosis and malaria. The GHI is itself a PPP, comprised of businesses, non-governmental organizations, civil society, academic institutions and governments.

The GHI provides a unique platform for learning and partnership across both the private and public sectors. It supports an extensive community of companies and works in collaboration with the Joint United Nations Programme on HIV/AIDS (UNAIDS), the World Health Organization's Stop TB and Roll Back Malaria partnerships, a broad range of NGOs, and national governments. The GHI's areas of work include:

- advocacy for increased business action in the fight against HIV/AIDS, TB and malaria;
- supporting the role of business with workplace, community and PPP activities;
- monitoring and reporting results of business-led programmes; and
- promoting innovation in the private sector response by stimulating new engagement models.

Examples of the GHI's work include:

- Working with the World Economic Forum's Global Competitiveness Programme, the GHI has conducted the first-ever global survey on the business response to AIDS, with responses from almost 8,000 executives from over 100 countries. The key findings from the survey provide a resource for ongoing advocacy and mobilization in the private sector.
- The GHI, WHO, UNAIDS and the Global Partnership to Stop TB have developed the first guide for the joint management of HIV/AIDS and TB in the workplace.
- In partnership with the World Bank and UNAIDS, the GHI has been working with 15 African countries to bring together national business coalitions on HIV/AIDS with governments' national AIDS councils, labour unions and donors. This work resulted in the productions of the resource tool: HIV/AIDS Business Coalitions: Guidelines for Building Business Coalitions against HIV/AIDS.

Source: World Economic Forum Global Health Initiative<sup>xxiv</sup>



and responsibility of business, which is to create economic value through products and services in a responsible manner. However, most companies are also in a position to contribute to health and development goals through strategic philanthropy, in-kind collaborations, or engagement in public policy dialogue, advocacy and institution-building<sup>lxvii</sup>. Some specific strategies that have shown results include:

- **Aligning company programmes with government programmes.** In assisting rehabilitation of a clinic in rural Venezuela to meet a government-set threshold of access and quality, MINCA (a joint venture with Placer Dome, the Canadian mining company) was able to trigger the Provincial Health Department to release additional health budgets to the local District.
- **Aligning company programmes with donor and other philanthropic programmes.**

Companies and national health services working in collaboration can elect to design national and regional HIV/AIDS programmes to meet the eligibility criteria of official and non-official development agencies and programmes such as the President's Emergency plan for AIDS Relief (PEPFAR), GFATM or other development finance institutions. These donor agencies need to do their part by setting clear eligibility criteria for private sector requests for HIV/AIDS funding and ensuring that the financial support is sufficiently long-term to match commitments undertaken by corporate boards.

- **Linkage with private sector health providers or practitioners.** One option is to embed outside-the-fence HIV/AIDS and other public health diagnosis, care and treatment programmes into existing private health facilities (hospitals,

#### Box 4.4

#### HIV/AIDS Prevention in Indonesia's Papua Province

USAID and Family Health International (FHI) are assisting BP in expanding its workplace prevention and care programs to districts surrounding its operations in Papua. In addition to comprehensive workplace programming, BP is funding local NGOs to mainstream prevention and health service referrals into activities of women's groups, tribal organizations, faith-based organizations and local radio stations in six villages surrounding the site area. USAID, FHI, and BP are assisting local government AIDS commissions and health departments to establish sero-surveillance systems, STI treatment, VCT and care and treatment services in each of the three districts surrounding the BP site. BP is also supporting local HIV/AIDS radio dramas in partnership with AusAID's Indonesian HIV/AIDS Prevention and Care Project.

All activities are supported through parallel funding. USAID and FHI have provided technical assistance for workplace and community prevention and care activities while BP and the Indonesian government are funding trainings, print and broadcast media, lab equipment purchases and medications.

The BP-USAID-FHI partnership has been successful because of strong informal collaboration between individuals rather than defined mechanisms to define and manage the partnership. The next phase of the partnership will likely be sub-divided to specific development issues, and public and private sector funding will be combined and channelled directly to USAID implementing agencies that will carry out activities in accordance with USAID program management procedures.

Although it is too early to determine if these interventions will be successful in the long run, the project team believes that these three aspects of its strategy are key to its success:

- The project team invested resources and developed partnerships with government agencies and NGOs to increase its understanding of employee and community risks so that it could make informed recommendations to management.
- The project team focused on securing management support by developing a business case, strategy, and work plan which integrated these efforts into a broader health strategy and facilitated the allocation of financial and human resources.
- The project team engaged the government, labour unions, NGOs, and other stakeholders during the design and implementation of the strategy. To ensure buy-in and sustainability BP project staff aims not to directly implement community outreach efforts, but instead to work with other stakeholders to encourage local provision of these services.

Source: Family Health International 2005<sup>lxviii</sup>

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nursing homes etc). An example is the Polio immunization booths in India and the Public Private Mix project in TB.

#### **4.4.3 In-kind Applications of Core Company Competencies**

Often the most valuable contribution the private sector can make to public health efforts is not through the provision of funds or healthcare services to specific populations. Many private sector roundtable participants emphasized that perhaps the largest contribution they could make to health programmes could be through in-kind resources such as people, services and products, project management expertise and knowledge of local markets and customers. A noteworthy example for a company providing core competencies on the ground in-kind is the Tanzania Care project. In Tanzania, the Abbott Fund is working closely with the Ministry of Health, the management and medical staff of Muhimbili Hospital, the country's national referral hospital, and the Axios Foundation on a project to build capacity and transform the hospital into a regional centre of excellence, better able to serve thousands of HIV patients. Abbott's contribution involves not only funding and the provision of physical infrastructure, training, medicines and laboratory equipment, but also the engagement of some of the company's most experienced professionals in areas such as facilities and logistics management, information systems, environmental and waste management services, and laboratory technicians.

Other examples of in-kind company contribution include a large scope of activities from McKinsey & Co. supporting the GFATM through in-kind consulting services, Procter & Gamble seconding staff to the Stop TB programme and the WHO, and Reliance Industries under the auspices of the India Business Alliance to Stop TB running an India wide text messaging campaign against TB. Better ways need to be found to channel and capture these kinds of activities. In general, a key principle to

facilitate in-kind contributions highlighted in the Roundtables is to ensure close alignment with a company's core business, e.g., Federal Express or DHL, transport and logistics specialists, helping with emergency supply and shipments. For example, in 2004 DHL made an agreement with MSD to ship their antiretrovirals to specific centres in Africa at cost, thus helping to improve the delivery infrastructure. In July 2005, this agreement was extended to MECTIZAN shipments as well.

One obstacle to such donations has been resistance to in-kind contributions on the part of some donors and agencies. More needs to be done to address concerns and leverage the full potential of such donations, to capture the full potential of private sector competencies.

#### **4.4.4 Business Coalitions and Alliances**

Business coalitions are organizations of businesses and may include sector associations, chambers of commerce, labour unions, employer federations and other groups of companies that have committed themselves to a particular issue or set of issues<sup>lxvii</sup>. They usually concentrate on core business agendas, but an increasing number have been organized or adapted to assist with public health challenges in poor countries particularly at the country level, such as the Corporate Council on Africa.

National business coalitions enable companies to leverage their resources more effectively to combat disease. Coalitions assist companies by facilitating information sharing; permitting economies of scale in the development of workplace HIV/AIDS products and services; and creating a strong, unified front for public policy debate and advocacy. Coalition members often have substantial financial resources, well-established business and political networks, and strong incentives to combat the disease. Acting through a business coalition also reduces potential public relations challenges that single companies might face when tackling a sensitive topic such as HIV/AIDS.

#### Box 4.5

#### The India Business Alliance to Stop TB

The India Business Alliance to Stop TB was developed by the World Economic Forum's Global Health Initiative (GHI) to enhance participation of companies in TB Control, a first for India and worldwide. As part of the process, the GHI interviewed many potential Alliance member companies. While doing so, it became clear that some Indian employers were already running successful health and welfare programmes for their workers' families and communities, but few included tuberculosis. Focusing on those that had expertise in running health workplace and community programmes but did not yet cover TB would allow for faster outcomes. Initially eight premier Indian companies – Aditya Birla Group, Larsen & Toubro, Lupin, Modicare Foundation, Novartis India, Reliance Industries, TATA Steel, and Triveni Sugar joined forces with the Government of India's Revised National TB Control Programme (RNTCP), the Confederation of Indian Industry, the World Health Organization and the Global Partnership to Stop TB. New members such as the Ballarpur Industries, Bharat Forge, Hindustan Lever, Jubilant Organosys, Mudra Communications, Siemens, TATA Council for Community Initiatives, TATA Motors, TATA Power, Vedanta, and business groups including the Federation of Indian Chambers of Commerce and Industry and the Bombay Chamber of Commerce and Industry are collaborating with the Alliance.

To ensure sustainability, the Alliance is coordinated by the GHI and feeds directly into and from the Indian Ministry of Health's Revised National TB Programme (RNTCP). To do this a framework has been set up where the government programme provides technical expertise and free treatment for all employees of companies in the programme. In return, the companies implement the programme at their workplace and lend service in kind to the government and the alliance overall to build TB awareness and grow the number of participating companies. In this way, sustainable interdependence is developed between the private and public sector and synergies in outcomes are generated.

In total, Alliance companies cover a population of more than 4.4 million through workplace and community outreach programmes and have publicly committed to controlling TB in India. While the Indian Government remains committed to TB control, the Alliance provides a platform for continuous dialogue, sharing of experiences, and development of effective linkages with the business sector. Specifically, the Alliance works in collaboration with the RNTCP on the following core work streams:

- raising national public awareness of TB and its symptoms;
- reviewing company policies to include TB, build sustainable workplace programmes to treat TB and integrate TB initiatives into their community activities;
- implementing the management of TB (awareness, prevention and treatment programmes) in the workplace and community;
- broadening business sector engagement in TB by promoting and publicizing framework and principles of RNTCP for company action.

The key principle behind the partnership and framework is simple – each partner focuses on its strengths and collaborates in areas of its expertise.

The Alliance utilizes public and private resources to raise TB awareness, increase case detection and meet treatment rate targets through implementation of DOTS. To ensure sustainability, the Alliance is coordinated by the GHI and feeds directly into and from the Indian Ministry of Health's RNTCP. To do this, a framework has been developed where the government programme provides technical expertise (with WHO), training, templates of awareness generation material, reagents and consumables for diagnostic services, and anti-tuberculosis drugs in patient-wise boxes free of cost to companies. In return, the companies implement the programme at their workplace and in the community, lend in-kind services, build TB awareness, and facilitate the engagement of other companies. In this way, sustainable interdependence is developed between the private and public sector and synergies in outcomes are generated.

Source: World Economic Forum Global Health Initiative 2005<sup>lxxviii</sup>

There are also business alliances solely set up with a specific health or public goal in mind. These alliances include businesses but are not the “voice of business”, so to speak, and are constructed in such a way that they represent the needs of the group at large – public and private partners alike. Alliances enable transfer of best practice and promote prevention, testing and treatment activities, in addition to facilitating engagement with other stakeholders. Examples such as this can better inform policymakers, set a leadership example that can be replicated and disseminate good practice. However, huge variation exists in terms of the influence, scope, intent and technical expertise of different coalitions and alliances and attention needs to be placed in growing proven models. A noteworthy example is the India Business Alliance to Stop TB (see Box 4.5).

Business coalitions can also be a potent advocate for progress on health challenges. Prominent examples include the Global Business Coalition on HIV/AIDS, the Global Health Initiative of the World Economic Forum, the South African Business Coalition for HIV/AIDS and others. Inter-governmental organizations, national governments and bilateral organizations can support business alliances and federations for healthcare provision by formally endorsing these activities through citation in policy and public statements, health sector plans and poverty reduction strategies. They can also draft memos of understandings with groups and contract them or fund them to extend their policy-setting reach and implementation capabilities into the private sector.

#### 4.4.5 *Harnessing Single-Issue Health PPPs to Spur Improvements in Wider Public Health Systems*

Pandemics such as HIV/AIDS, TB and malaria clearly require a globally coordinated response. Donors often opt for top-down, single-disease interventions

due to the better reliability of results and ease in terms of monitoring and evaluation. But there is increasing recognition that infant mortality, maternal mortality, HIV/AIDS, TB and malaria health interventions need to be better integrated across the national, regional and global levels. The lack of more systemic approaches, such as addressing interactions between diseases

or addressing system-

wide issues (e.g., policy, skills availability, infrastructure or institutional capacity) can have devastating consequences. In the case of TB/HIV

where co-infection in

Africa is as high as 70%,

governments, NGOs and the

private sector are still not able to provide a comprehensive response, resulting in up to one third of TB cases in Sub-Saharan Africa being HIV/AIDS related<sup>lxxix</sup>. More integrative modes of intervention need to be tested, developed and implemented – PPPs can sometime provide a solution for this.

One example is a PPP arrangement formed by the Bill & Melinda Gates Foundation, health workers in the government of the Indian state of Andhra Pradesh, and Partnership for Appropriate Technologies in Health (PATH), an international NGO. The partnership offers the hepatitis B vaccine to the general public. The programme focuses on overcoming the weak links in the public health system of hepatitis B vaccine delivery – for example, in vaccine refrigeration, supervision at rural clinics, disposal of syringes, side-effect investigation, and local vaccine production. In the project area, the effect has been to strengthen the whole approach of the state health department to vaccine and drug distribution and delivery, as well as bring benefits for

*“In PPPs in health we need to move away from who should be responsible, to who has the comparative advantage to deliver.”*

*“If it happens in Africa, there is no good reason why it cannot happen in India. Let’s be guided by other people’s experience.”*

*“Not addressing co-infectious diseases is like clapping with one hand.”*

other single-issue health programmes such as those for HIV/AIDS prevention, diagnosis and care. Andhra Pradesh's Health Department has been persuaded by the evidence to sustain and expand the immunization programme with US\$ 60 million. Ultimately, the public health sector assumed

responsibility for continuing delivery, and the PPP was dissolved after having played its intended catalytic role.

*"The bottom line of every PPP must be action, not talk."*

*"PPPs are a means to an end, a vehicle for change, and not an end in itself."*

*"PPPs today are like NGOs were ten years ago: A new way of solving the problem."*

Another example is provided by Pfizer's Diflucan Partnership in South Africa and other HIV-prevalent countries.

Focused on donating medication for treating HIV/AIDS opportunistic fungal infections, the

programme has found that positive impact is best assured by also building the capacity of medical personnel. Other partners – American NGOs and Uganda's Makerere University – have joined the partnership to provide this added dimension.

When a single disease project is successful in advancing broader improvements in healthcare systems, conscious efforts should be made to help other single disease health projects to exploit the benefits. Obvious candidates here are other vaccination programmes, including those for hepatitis B and C and the avian flu.

## 4.5 PPPs in Health: Other High-Potential Opportunities

According to roundtable experts, there are a number of other high-priority opportunities for greater public-private cooperation in the health sector even if they have not yet been borne out by a large body of experience. These initiatives also were deemed to warrant further development or experimentation.

### 4.5.1 Expanding Private Sector Participation in Global Fund Programmes through Improvement of Country Coordinating Mechanisms

Since its inception, the Global Fund to Fight AIDS, Tuberculosis and Malaria has been operating as a PPP, incorporating the inputs of the private sector into its governing body and promoting private sector engagement in the functioning of Country Coordinating Mechanisms (CCMs) and in the implementation of programmes. While the private sector has played an active role in the governance of the GFATM, and dozens of CCMs have private sector representatives, substantial private sector in-country participation in CCMs and programme implementation has not materialized to date. Getting engaged in the CCM is often a complex process, and identifying an entry point is not always obvious to non-governmental and local players and is often the factor that discourages participation. The private sector has a variety of options to become involved, including contacting the CCM chair, who can be a representative of the local private sector, or other business, civil society or governmental CCM members. Some CCMs also have secretariats, whose main function is to act as liaison between CCMs and the external world. Contacting the CCM secretariat focal point is a further possibility.

Examples for collaborations are the expansion of local business workplace AIDS programmes in Zambia and the scaling up of a company-initiated malaria control initiative in Mozambique, South Africa and Swaziland. In addition to the co-investment strategies, the private sector could offer direct contributions in support of regional or country CCM processes or services to increase the effectiveness and efficiency of programmes. For example, in Swaziland, the private sector occupies the vice-chair position on the CCM, and has played a leadership role in helping the CCM provide implementation oversight by assessing bottlenecks.

As the range of in-country collaborations continues to grow, and CCMs and implementation partners gradually recognize the value of private sector engagement, the full extent of private sector contributions at the national and local levels can be realized. The Global Fund is beginning to stimulate concrete participation of private actors in CCMs and is supporting proposals that incorporate the full range of contributions that the private sector can make. For example, the GFATM provides for the possibility of co-investment with private sector partners. While this innovation holds particular promise, no such proposals have yet been approved.

Creating direct channels to the GFATM for PPP proposals and bypassing CCMs, while still requiring coordination and cooperation with the local public health authorities as part of the proposal process, would be another way to encourage PPPs. However, this avenue has not yet been successfully exploited.

#### 4.5.2 Challenges and Opportunities for Malaria PPPs

One area where increased focus on PPPs could be beneficial is malaria control. The objective of eradicating malaria is highly ambitious, and its attainment is probably not possible for the foreseeable future. The MDG is to reduce malaria deaths and cases by 50% by 2010. This requires a clear technical strategy and good coordination of a number of different actors taking various approaches including intervention at the environmental level, patient preventative and treatment activities, and by encouraging people living in endemic areas to make lifestyle changes such as the use of mosquito nets.

For these reasons a partnership approach is most suitable and probably essential to success. Malaria product development PPPs like the Malaria Vaccine Initiative (MVI), Medicines for Malaria Venture (MMV), or the CDA Product Development Partnership between the WHO, MMV and GlaxoSmithKline (see

#### Box 4.6

#### The CDA Product Development Partnership

The CDA Product Development Partnership is a PPP between the WHO, Medicines for Malaria Venture (MMV), and GlaxoSmithKline (GSK). Its objective is to develop chlorproguanil – dapsone- artesunate (CDA) as an affordable fixed dose artemisinin-combination therapy to treat uncomplicated *P. falciparum* malaria in Sub-Saharan Africa. CDA is being developed to ICH standards and to be able to achieve approval by the UK authorities as well those in Africa. The development team also has members from Liverpool University, Liverpool School of Tropical Medicine, and London School of Hygiene and Tropical Medicine. Most of the project costs are paid for by MMV, with GSK making some financial contributions and supplying human and intellectual resources. It is taking advantage of the learnings from the earlier and related Lapdap™ PPP, which resulted in the successful development and launch of this antimalarial in Africa in 2003-04. CDA will be made available by GSK, if successfully developed and approved, at preferential prices to the public sector in Africa.

The project is about to start the large-scale Phase III studies. It is also establishing a supply chain for the product utilising manufacturing sites in the developing world. Regulatory submission is expected in 2007.

Key learnings are that a partnership of academia, NGOs and industry working closely together can develop a drug quickly. Mutual trust, built over time, is essential and ultimately speeds up decision-making. The team has respect for each others' capabilities and strengths. One key improvement would be the greater involvement of the Roll Back Malaria Department of WHO. This would ensure that development decisions taken are always in line with evolving policy changes on malaria control.

Source: GlaxoSmithKline 2005<sup>xxxx</sup>



Box 4.6) have to date been laying the strong foundation for successful partnerships. Interim results are very encouraging. Yet the malaria public health PPPs such as the Roll Back Malaria (RBM) Partnership are unfortunately not living up to their potential. This is one major reason why progress on the ground is disappointing and the human malaria toll is actually increasing. The RBM Partnership could be considerably strengthened by:

- increasing the provision of resources by and the commitment of donor governments;
- strengthening of WHO host support for the RBM Partnership secretariat;
- expanding measures at endemic country, WHO regional and Geneva levels to increase partnership coordination effectiveness; and
- creating an independent RBM Trust Fund (similar to Stop TB's Trust Fund) to create a more reliable funding base.

A number of other factors have negatively influenced malaria PPPs including weak political support for PPPs resulting in frequent changes in governance and leadership, the lack of clarity on the technical strategy for control or eradication, and limited funding for PPPs compared to traditional vertical programmes. As a result, malaria today still kills at least one million people a year, yet it is treatable and largely preventable. Increased political attention and commitment, and new funding mechanisms for PPPs in malaria will be key to ensure these important partnerships can succeed in their missions and malaria is finally eradicated.

#### **4.5.3. Creating Viable Long-term Funding Models for PPPs**

Access to long-term funding is a common obstacle to the formation, sustainability and scale up of PPPs. Funding gaps are present at the international and regional level in nearly all health domains. Expert practitioners regard addressing these systemic funding gaps as a critical challenge.

Suggestions by roundtable participants included:

- Identify under-funded, long-term, global public-goods programmes that benefit the poor, such as global health research, and improving procedures to create a more informed approach to funding venture capital programmes (e.g., through the creation of additional public-private trust funds).
- Increase the length of available funding for PPPs that have proven to be successful such as Stop TB, GAVI/The Vaccine Fund, IAVI, and others.
- Develop accounting standards that more fully reflect the value of long-term investment in social development.
- Increase the availability of in-kind donations of partner services to support the process of partnership development and management.
- Expand coordinated investment by the public and private sector to improve access to equitable access and provision to health services (e.g., through the Global Fund or World Bank MAP programme).

Much can be learned from examining the experience of PPPs for drug and vaccine development. Commercially driven, long-term financing for the development of drugs and vaccines is mostly directed to opportunities in middle- and high-income countries. For low-income countries with diseases yet to be addressed by affordable vaccines and drugs, alternative funding arrangements are needed if the private sector is to become more involved in drug development. Exceptions to this exist for example in the case of HIV/AIDS vaccines where there is considerable research on new medicines and vaccines for conditions that affect low-income and middle-income countries and the market for such a product is likely to be robust.<sup>lxxxii</sup>

Beyond the significant scientific difficulty of creating a vaccine against HIV/AIDS – called the most complex

**Box 4.7****The Stop TB Partnership**

The Stop TB Partnership was established in 2001 to realize the goal of eliminating TB as a public health problem by 2050. It is a global movement, housed in the World Health Organization, to accelerate social and political action to stop the spread of TB around the world. The vision is a world free of TB and to ensure that worldwide every TB patient has access to effective diagnosis, treatment and cure.

The partnership shows how sustainable funding strengths including realistic needs and risk assessment and transparent accountability for the resources made available can be used to make the partnership successful over the long term. Good cash management, monitoring of financial positions and strict internal financial control are key to overcoming the challenges of how to effectively tap into global financial markets through innovative financial instruments, establishing credible low cost financing vehicles (addressed through the Stop TB Trust Fund) and developing new products targeted at old and new donor segments. Further challenges are how to better use funding mechanisms and how to market the partnership to avoid donor burnout while "competing" against other diseases that are also in need of funding.

More than 380 partners, from both the public and private sector, have coalesced into seven working groups to accelerate progress in key areas such as advocacy and communication, expanding access to DOTS (the global strategy to control TB) treatment, drug susceptible and resistant TB, TB-HIV, and the development of new drugs, diagnostics and vaccines.

Notable successes have been achieved: Partners are working towards the implementation of a joint Global Plan to Stop Tuberculosis – a comprehensive assessment of the action and resources needed to control TB. Efforts are supported by the Global Drug Facility, a special partnership initiative, which has dramatically reduced the cost of TB drugs, providing more than 4.5 million patient treatments worldwide. The Green Light Committee, another Stop TB initiative, has approved treatment for nearly 11,000 patients with MDR-TB in 28 countries.

The issue of TB control is now more firmly on the agenda than ever before with a recent World Health Assembly Resolution on Sustainable Financing for TB Prevention and Control and a commitment from the G-8, in the Gleneagles Communiqué, to help "meet the need identified by the Stop TB Partnership". Funding for the partnership flows through the Stop TB Partnership Trust Funds, housed at WHO and the World Bank.

Partners are currently writing the next Global Plan to Stop TB (2006-2015) to reduce the global burden of the disease (in terms of deaths and prevalence) by 50% relative to 1990 levels.

Source: The Stop TB Partnership 2005<sup>lxxxii</sup>

**Box 4.8****The Financing Arm of GAVI - The Vaccine Fund**

The Global Alliance for Vaccines and Immunization (GAVI) is a leading global health partnership dedicated to the mission of saving children's lives and improving people's health through the widespread use of vaccines. As a PPP, the Alliance's partners include national governments, UNICEF, the World Health Organization, the World Bank, bilateral donors, the Bill & Melinda Gates Foundation, the vaccine industry, public health institutions, and nongovernmental organizations. Collectively, the Alliance serves to expand the reach of immunization services, introduce new vaccines, and establish health systems and tools to promote sustainable financing in developing countries. The Vaccine Fund aims to build and maintain a source of financial support for GAVI, pioneering a new approach to ensure that children in the poorest countries are no longer denied access to vaccines with the potential to save millions of lives.

The governments of Canada, Denmark, France, Ireland, Luxembourg, Norway, the Netherlands, Sweden, the United States, the United Kingdom, as well as the EU and the Bill & Melinda Gates Foundation have also pledged their support.

As of December 2004, the Vaccine Fund had committed US\$ 1.19 billion over the next five years and disbursed US\$ 532.6 million. Approximately one third of Vaccine Fund resources have been directed towards strengthening health systems in the poorest countries supported by the Alliance. More funds are needed to realize the goals of reaching all children with current vaccines and accelerating the development and introduction of new vaccines.

The Fund is estimated to have averted 670,000 premature deaths among children born in 2001-2003. Among all Vaccine Fund eligible countries, an additional 9.7 million children had been reached with routine immunization (DTP3). In addition, more than 70.5 million children had been immunized with hepatitis B vaccine, more than 8.2 million with haemophilus influenzae type b (Hib) vaccine, and more than 7.6 million with yellow fever vaccine by the end of 2004.

After an initial five-year phase, GAVI is now entering a new ten-year phase to strengthen health systems across the poorest countries of the world and introduce additional new and underused vaccines.

Source: GAVI 2005<sup>lxxxiii</sup>

#### Box 4.9

#### The International Trachoma Initiative

Founded in November 1998, the International Trachoma Initiative (ITI) is dedicated to eliminating blinding trachoma, the world's leading cause of preventable blindness. More than 8 million people are visually impaired or irreversibly blind as a result of trachoma, over 84 million have active disease, and 55 countries, mostly in Africa and Asia, have been identified as trachoma endemic. Working in countries where the World Health Organization has documented widespread disease, ITI collaborates with government agencies (ministries of health, water resources, education and women's affairs), and private partners (international NGOs: Lions Club, Christopher Blinden Mission, Carter Center, Sight Savers International, Rotary Club, and Organization pour la Prévention de la Cécité, and several local NGOs) to achieve elimination by establishing and implementing sustainable trachoma control programmes in endemic communities. ITI is currently active in eleven countries: Ethiopia, Ghana, Mali, Mauritania, Morocco, Nepal, Niger, Senegal, Sudan, Tanzania, and Vietnam where national multi-year strategic plans have been implemented.

At the heart of ITI's success is the SAFE strategy, a comprehensive public health approach that includes Surgery to correct the advanced stages of disease, Antibiotics to treat active infection, Face washing to prevent disease transmission, and Environmental change to increase access to water and sanitation. To date, ITI-supported programmes have distributed over 23 million treatments of the Pfizer-donated antibiotic Zithromax, performed nearly 160,000 sight-saving surgeries, and provided health education to millions of people in endemic communities. The targeted implementation of the SAFE strategy is yielding measurable results: Morocco is at the threshold of eliminating blinding trachoma, and several other countries, including Ghana, Mauritania, and Vietnam, are on pace to eliminate the disease within the next five years.

Since the SAFE strategy requires a multi-sector approach, public-private partnerships are an essential ingredient to achieving a world free of blinding trachoma.

Source: ITI 2005<sup>lxxxiv</sup>

scientific challenge of our time – private sector investment in vaccine research and development is likely to remain low given the unfavourable risk-reward prospects. To change this balance, there is opportunity for publicly-funded combinations of product development subsidies and other research grants and for advanced purchase finance. Given the long time horizons of this work, there may well be a specific role for bond-secured finance of the type proposed for the International Finance Facility. Other parallel funding inputs such as seed money from the various global health funds – including the Global Forum for Health Research and the Bill & Melinda Gates Foundation – may also need to be a key feature.

#### 4.5.4. Adapting Inter-governmental Organizations to the Growing Importance of Health PPPs

Intergovernmental organizations such as the agencies and programmes of the United Nations system and multilateral development banks play typically play three broad roles with respect to PPPs:

- *Promoter* – of public-private partnering, encouraging the use of this modality in an ever

larger number of their country-level activities. Part of the strength of international organizations is that they evoke trust in member country governments, enabling collaboration between public and private sectors. The role of the international organizations in this situation can include activities such as acting as initial convener, providing funding (i.e., a subsidy that allows the business partners in the partnership to cross their investment hurdle, an incentive that is usually needed especially where the issue at stake is pro-poor R&D), third-party facilitation and mediation, and, of course, making sure that the PPP actually delivers the desired public good, that is, an R&D product that is in the public domain or, at least, affordable for the intended beneficiaries.

- *Facilitator* – of actions and knowledge among PPPs that have a complementary role to national-level development initiatives. For example, pharmaceutical and medical knowledge is what economists call a “non-rival” good: one person's consumption of the good does not diminish the availability of the good for other persons. So it is efficient and makes good sense for developing countries and their aid partners to join forces,

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across country borders, to promote pharmaceutical and medical R&D jointly – sharing the costs and enjoying the desired good for a fraction of the price they would have had to pay had they tried “to go it alone”. Examples of such joint global PPPs are, for example, the Medicines for Malaria Venture (MMV) or the International AIDS Vaccine Initiative (IAVI).

- *Funder, host and supplier* – everything from funding activities or studies on local partnerships to housing global partnerships and procuring drugs for partnerships on the ground.

Expert participants agreed that public sector agencies could be a potent force for harnessing PPPs to improve the international community's response to public health challenges if they begin to take this function more seriously, deliberately looking for collaborative solutions involving the private sector as an integral matter of policy and strategic planning. They identified a number of specific barriers in this respect:

As seen from the country office or national PPP perspective:

- inflexible procedures and difficulty in accommodating the objectives of others;
- skewed incentive structures for PPPs, e.g., transaction advisers funded for the public sector but not the private sector;
- poor communication between country offices and headquarters, leading to the priorities of headquarters overriding country priorities;
- poor appreciation of the need for private companies to have a strong commercial business case for engaging in anything other than philanthropic PPPs;
- inability to find common ground and work towards a common goal without conflicts of interest and by applying important and often needed business skills and expertise; and

- an absence of forums or funded formal grievance mechanisms where partners can meet each other, develop common strategies or resolve issues.

*As seen from the perspective of headquarters:*

- lack of uniformity of procedures, making cross-country comparisons and oversight difficult (often requested by funders);
- lack of coordination and unity with regional and country-level efforts, without which the control of communicable disease may remain an elusive goal;
- limited role scope and freedom to do the right thing for PPPs housed within inter-governmental organizations; and
- duplication of the processes of learning and gathering experience.

Intergovernmental organizations continue to be in a unique position to work with funders at the global level to encourage seed funding mechanisms and sustainable funding for successful PPPs. Their specialized technical knowledge remains indispensable. However, they should also view their core mission as also encompassing the job of scouting opportunities to form PPPs where market failures have occurred, facilitating interventions by all stakeholders as appropriate. The UN Secretary-General, heads of multilateral banks, and member national governments should work to ensure that the mandate and rules of engagement of relevant institutions are aligned with this challenge.

#### **4.5.5 Maximizing Impact on the Ground Through Incentives, Efficiency and the Local Private Sector**

Practitioners expressed frustration about how little assistance actually reaches the poorest and most marginalized. More serious consideration should be given to maximizing resources on the ground, which may mean that greater risks may need to be taken.

Local private sector partners may be able to provide more efficient project management and more

equitable implementation than local governments, specifically in remote and rural areas. However, integrating social considerations into PPPs poses distinct challenges that often grow in line with the geographical scope of a partnership. Projects in rural areas are likely to involve small-scale private enterprises in producing and distributing new technologies as well as delivering services. At the micro level, direct community participation was deemed essential in the design and monitoring of projects if they are to meet local needs and prove sustainable. Community involvement can be included as a contractual requirement, and an example for a successful partnership involving the community is the Community Based DOT (Directly Observed Treatment) Programme in Cape Town, South Africa (see Box 4.11).

The role of the private sector can also be crucial for augmenting local capacity and supporting clinical

research in Africa, as the Netherlands-African Partnership for Capacity Development and Clinical Intervention against Poverty-Related Diseases (NACCAP) illustrates (see Box 4.10). It is an example of a partnership seeking to maximize African capacity for better medications at the local level, including baseline studies and clinical trials. In addition, it is seeking to encourage the initial stages of product development in cooperation with private industry.

#### 4.5.6 Avenues for Further Exploration

The roundtable consultations posed as many questions as they answered, suggesting that there would be benefit in an ongoing process of public-private inquiry and problem solving. While global alliances are dominating much of the current PPP debate, the world of the smaller PPP, which often involves a single corporate partner, NGO and local

#### Box 4.10

#### The Netherlands-African Partnership for Capacity Development and Clinical Intervention Against Poverty-Related Diseases

The Netherlands-African Partnership for Capacity Development and Clinical Intervention Against Poverty-Related Diseases (NACCAP) is a cooperative effort among Dutch, African and European partners to address Africa's need for a stronger, high-quality research base. This base is vital if Africa is to develop clinical interventions that are safe effective and applicable under African conditions. NACCAP's objective is twofold:

- To develop clinical intervention against HIV/AIDS, malaria and tuberculosis in Sub-Saharan Africa and
- To strengthen research capacities based on existing Africa-Europe research partnerships.

NACCAP funds baseline studies, transnational research and clinical trials of African-Dutch research partnerships. Additionally it seeks to encourage the initial stages of product development in cooperation with private industry.

NACCAP is an initiative of the Department for International Development Cooperation of The Netherlands Ministry of Foreign Affairs in close cooperation with the Organization for Scientific Research (NWO) and the Netherlands Foundation for the Advancement of Tropical Research (WOTRO) with a total budget of €20 million, of which 80% of the funds are directly invested in high-quality multi-disciplinary partnership programmes in Sub-Saharan Africa, while the rest goes into commissioned projects and supportive activities.

All funding decisions are approved by the Steering Committee, which includes the CEO of a pharmaceutical company and a senior African representative. It represents the interests of various African and Dutch stakeholders (public health, industry, research, government and the European & Developing Countries Clinical Trials Partnership, or EDTCP). So far, 13 promising partnership-projects have been selected and contracts are expected later in 2005. One of the issues that surfaced early on in the process is that investment risks for private partners have to be taken into account and weighed carefully.

Source: Ministry of Foreign Affairs of the Netherlands 2005<sup>lxxxv</sup>

ministry and operates at the community level, is vast and fascinating. The creativity and variety of these models deserves further investigation and attention. The lack of healthcare infrastructure is a challenge for all, not just for governments. But because government agencies wish to demonstrate tangible, near-term results, they often concentrate their efforts on vertical, disease-related projects without paying enough attention to the need to strengthen underlying healthcare systems. How PPPs can play a more systematic role here is worthy of further investigation.

A number of additional areas would benefit from further collaborative work:

- *Innovation*: What new successful health PPP models can be created or applied in new areas?
- *Efficiency*: How should partnerships between the public and private sectors be structured for best results? Why is there so little effort to combat co-infectious diseases (developing the interface between HIV/AIDS, TB and malaria for example)?
- *Governance and accountability*: What checks and balances and accountability systems are most effective?

#### Box 4.11

#### The Community Based DOT (Directly Observed Treatment) Programme in Cape Town

This programme has been in place since 1999. It is a partnership aimed at making tuberculosis treatment as accessible as possible and at strengthening community capacity for managing Tuberculosis. It is, as such, of significant strategic support to local health services.

Partners include the Provincial Government of the Western Cape (funder), the City of Cape Town (local government and health service provider), TB Care Association (the NGO managing the process), and the Cape Town community (beneficiaries of the service).

##### The programme reaches:

- TB patients who benefit from access to DOT on the street where they live;
- the Community at large through increased awareness of TB;
- lay health workers who benefit from the financial incentives paid;
- the city health service whose caseloads are reduced by 40%;
- the provincial government with local responsibility for the National TB Control Programme; and
- the NGO committed to promoting community development.

##### Funding

Incentives of R30 per patient per month are paid to treatment supporters. The funder sets patient targets, based on facility caseloads. Salary subsidies are paid for NGO coordinators and area treatment supporters. Provision is also made for an 8% administration fee.

##### Achievements

Treatment outcomes have improved from an overall 64% cure rate in 1999 to an overall 71% in 2003. Some sub-districts are now achieving 85%-plus cure rates. The programme is creating jobs. In 2004, it had to introduce another level of lay worker (the area treatment supporter) to monitor teams of treatment supporters. The programme presently supports 50 area treatment supporters, 420 community-based TB treatment supporters, and a daily caseload of 3,700 patients.

##### Lessons Learned

Strict financial control, focused and effective training programmes and strong funder relationship management interventions are key to success.

Source: TB Care Association 2005<sup>[xxxvi]</sup>



- *Scaling up*: How can strong PPPs be scaled up?
- *Involving the private sector*: What financing models are most likely to unlock added private sector engagement? What are the policies and services already in place that enable employers to make positive contributions to diseases control? How successful have these policies been? How can they be improved and scaled up?
- *Financing*: How can global “coordinating” health PPPs better structure their funding? How can donor funds be channelled more effectively?
- *Public expenditure*: Can the justification for reallocating national resources to global public goods in health be articulated more clearly? What changes to legislation and policy will be needed to realize this reallocation of public expenditures? How will coordination be achieved between these new sources of funding and existing aid, domestic or philanthropic healthcare resources?

These and other questions merit both more multistakeholder practitioner and high-level discussion. There is clearly an appetite for discussion and change at the practitioner level. The time is right for the political commitment to foster a more systematic approach to health PPPs.

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## 5. Expanding the Role of PPPs in Mobilizing Resources for Water and Sanitation

This section is divided into four: *Section 5.1* provides an overview of the persistent development challenges in water supply and sanitation. *Section 5.2* discusses experience in water PPPs to date. *Section 5.3* has two parts and summarizes the insights gained mainly from the roundtable discussions and the recommendations that emerged from the discussions with practitioners. The first part outlines challenges that hinder public-private partnerships in water and sanitation and recommends approaches to those institutional, political and financial issues that are proving effective. The second part explores some of the less proven, yet high potential, applications of PPPs to improve access to water and sanitation.

The research and roundtable discussions presented here focused entirely on the Millennium Development Goal for safe drinking water and sanitation. PPPs for other water issues, such as watershed management or agricultural and industrial use of water, are not being addressed, which however would be well worth analysing in a separate project.

### 5.1 Development Challenges in Water and Sanitation

Improved drinking water and sanitation is highly important to a number of development-related issues ranging from water-related diseases to time – and productivity – lost through long-distance water collection. In addition, environmental contamination and over-use adversely affect the availability of water for productive purposes. While the global average for access to safe drinking water is 83% (including developing and developed countries), there is tremendous variation among regions with large pockets of unserved populations across all developing countries. For example, in sub-Saharan

Africa, only 58% of the population has access to improved water sources while in contrast, Northern Africa is close to achieving 90% coverage. With only 52% of the population using improved drinking water sources, Oceania has the lowest coverage worldwide. And of the 1.1 billion people in the world without access to safe water, nearly two thirds live in Asia, of which almost 300 million are Chinese.

Overall, progress towards the sanitation goal is very poor. An estimated 2.6 billion people worldwide are without improved sanitation facilities; and if the 1990-2002 trend holds, the sanitation target will be missed by half a billion people worldwide. Poor sanitation, particularly in the dense peri-urban settlements prevalent in the developing countries, in turn affects the quality of untreated groundwater used for drinking purposes – a unhealthy vicious cycle.

Rural-urban disparities are also significant: Globally, 72% of rural dwellers in developing regions have access to improved drinking water sources and 37% to improved sanitation. In sub-Saharan Africa for example, the figures are 45% for safe drinking water and 26% for sanitation. In Southern Asia, the figures are 80% for safe drinking water and 24% for sanitation.<sup>lxxxvii</sup>

Annual investments in the water sector in developing countries lie between US\$ 27 billion and US\$ 30 billion of which 70-75% comes from the national public sector, 20% from ODA, 7-11% from the international private sector and 3-8% from the local private sector.<sup>lxxxviii</sup> To reach the water and sanitation MDG by 2015, the current investments will have to increase by between US\$ 52 billion and US\$ 55 billion annually.<sup>lxxxix</sup>

To date, hopes that development risk finance would catalyse greater private sector investment in developing countries have not materialized. And overall, multinational water company engagement in

the water sector in developing countries – which is already very low compared to other sectors – has declined dramatically.<sup>xc</sup> In the roundtable discussions, international water companies confirmed that they have retreated from developing countries and are focusing on the developed ones, with explicit guidelines restricting their equity investments outside developed markets. This turnaround in private sector water company interest in developing countries undermines the potential for public-private partnerships, requiring the official sector to rethink how best to engage private sector expertise and capital in developing country water projects. As one roundtable participant pointed out: “Commitment means investing equity. Otherwise it is a commitment to serve the poor at the private sector’s expense.”

A summary of some of the persistent development challenges in the water and sanitation sector is given in Box 5.1. Ways in which different forms of public-private partnership might respond to these challenges are discussed below.

## 5.2 The Status of PPPs in Water and Sanitation

The landscape of PPPs in water is marked by diversity and a high level of differentiation, as described in Section 2 of this report. PPPs in water are also referred to as private sector participation (PSP), private sector engagement or involvement, or simply contracting out by government. They typically involve a formalized relationship between public and private sector entities and often also involve donor funding and engagement. The full spectrum of water PPPs can be classified by the duration of the collaboration and the level of private sector engagement. PPPs include service and management contracts, lease contracts, Build-Operate-Transfer (BOT)/Build-Operate-Own (BOO)/Build-Own-Operate-Transfer (BOOT)/Build-Operate-Lease (BOL), concessions and privatization. In this context the private sector focus is on companies whose core competency is water (i.e., water companies) rather

than private sector entities that utilize water for their production processes as a core product (i.e., beverage producers) or as a by-product (i.e., mineral and mining corporations).

Development-driven PPPs in water face the challenge of being commercially and financially sustainable and achieving the social objectives of extending service to the poor. In the practitioner roundtables, the level of social responsibility of private companies was a controversial topic, especially as private sector companies have retreated from developing countries given high losses. On the one hand, many development practitioners called on the private sector to take the initiative in developing pro-poor projects and to integrate the expansion of services to the poor in their commercial investments. On the other hand, financiers see the commercial viability of a project as fundamental and believe that including large-scale “non-profit” projects undermines their ability to attract financing and survive as viable private sector entities. The companies themselves have in the past taken a two-tiered approach: they insist that any contractual requirements to supply services below cost should be fully covered by a funding source – such as government subsidies or donor grants. At the same time, several water companies engaged in dedicated pro-poor programmes in the context of their corporate social responsibility strategies. However, it should also be recognized that a commercial approach by private companies (meaning full-cost recovery) can also be valuable to poorer consumers. In addition to increasing the supply of potable – and thus healthier – water, the costs of such services are usually lower than those of informal-sector water vendors who provide untreated water.

A pivotal factor of the success of PPPs is the development of a partnership type appropriate to the size or scale of the project. Scale affects all aspects of PPP design, from the selection of the partners to the sources of financing. Differences in conditions in

**Box 5.1****Development challenges in water and sanitation****Millennium Development Goals for water and sanitation<sup>xci</sup>:**

- Goal 7, Target 10 - By 2015, halve the proportion of people without sustainable access to safe drinking water and sanitation
- Indicator 30 - Proportion of population with sustainable access to an improved water source, urban and rural
- Indicator 31 - Proportion of population with access to improved sanitation, urban and rural

**Definitions**

- **Improved drinking water sources:** Household connection, public standpipes, borehole, protected spring, rainwater collection
- **Unimproved drinking water sources:** Unprotected well, unprotected spring, rivers or ponds, vendor-provided water, bottled water (due to limitations on quantity), tanker truck water
- **Improved sanitation facilities:** Connection to a public sewer, connection to a septic system, pour-flush latrine, simple pit latrine, ventilated improved pit latrine
- **Unimproved Sanitation facilities:** Public or shared latrine, open pit latrine, bucket latrine

**Persistent challenges for national governments<sup>xcii</sup>**

- need to move the "sanitation crisis" to the top of their agendas
- need for increased public investments in water and sanitation, particularly for sanitation
- importance of utilities and regulatory reform running in parallel with aid and public investment
- investments should focus on sustainable service delivery, rather than construction of facilities alone
- local authorities and communities should be empowered with the authority, resources and professional capacity to manage water supply and sanitation service delivery
- users who can afford to pay should be charged, but care needs to be taken to cover the costs that poor households cannot meet
- innovation must be encouraged to speed progress

**Persistent challenges for donors<sup>xciiii</sup>**

- In the case of the poorest countries, substantially increased development assistance is needed.
- Within the context of national poverty reduction strategies, countries must elaborate coherent water resources development and management plans.
- Coordinating mechanisms should be put in place by donors to improve and assess the impact of country-level activities.

**Some emerging challenges and highlights<sup>xciiv</sup>**

- Improved drinking water and sanitation is a contributing factor to resolving a range of development challenges (i.e., water-related diseases, environmental contamination, time lost through long-distance water collection)
- Cost-benefit analysis by the WHO found that achieving the MDG targets for water and sanitation would yield an economic rate of return on investment of between 300% and 3,400%.
- 1.1 billion people worldwide lack sustainable access to safe drinking water. Progress toward the water MDG is especially slow in Oceania and Sub-Saharan Africa.
- Progress with sanitation is poor. An estimated 2.6 billion people are without improved sanitation facilities.
- Two thirds of the people using unimproved drinking water and unimproved sanitation live in Asia, mainly in China and India.
- Rural-urban disparities are significant. 72% of the rural and 95% of the urban population in developing regions have access to improved drinking water sources, and 37% of the rural and 81% of the urban population in developing regions have access to improved sanitation.
- With respect to household drinking water connections, 4% are connected in rural areas in Sub-Saharan Africa, compared to 39% in urban areas. In south-eastern Asia the figures are 8% and 45%.
- The Commission for Africa stated in its report that the view that infrastructure finance would be primarily provided by the private sector was a "policy mistake." Instead, recognition of the essential role of public finance for capital costs is now restored; the preferred role of the private sector is that of performance contractor, not investor.

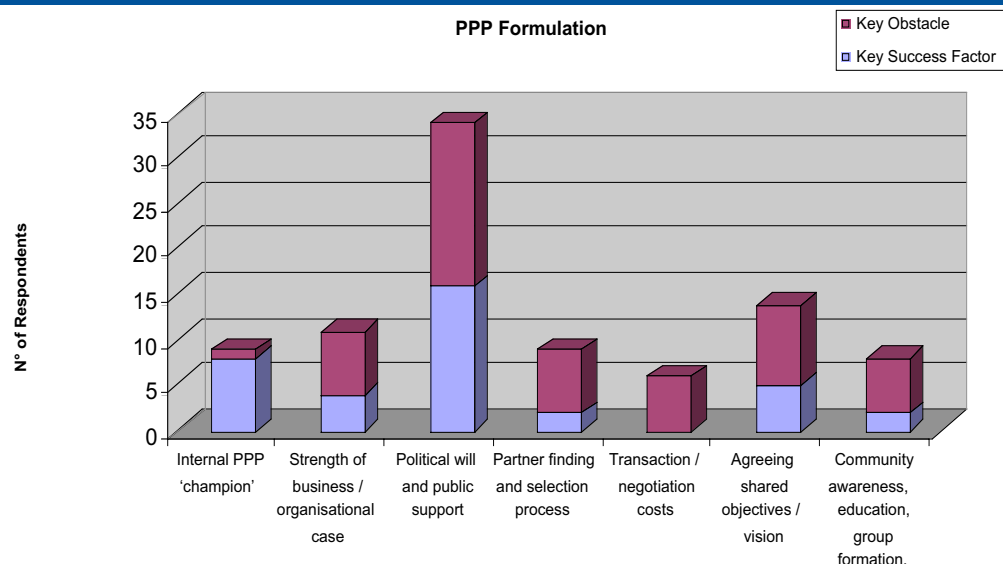
urban, peri-urban and rural areas can make it difficult to design projects that respond to the needs of all stakeholders living in such different conditions, although a strong view was expressed during the roundtables in favour of integrated approaches. Participants agreed that solutions could be found if all the relevant dimensions of the projects were taken into account and stakeholders had a strong base of common interests. Furthermore, across the PPP spectrum, partnerships may involve different combinations of actors. Projects in rural areas are likely to involve small-scale private enterprises in producing and distributing new technologies as well as delivering services. A critical factor for the success of PPPs in water is the willingness of the stakeholders to jointly work through the inevitable difficulties they encounter, particularly in the early phases of a project. Often the expectations of the population are high, the private companies complain about unforeseen issues arising from poor information during the bidding process, and political figures respond to popular sentiment. To enable realization of the longer-term benefits of PPPs, partners need to work to resolve short-term difficulties and disappointments.

### 5.3 Key Success Factors and Obstacles in the Partnering Process

During the two roundtables conducted on PPPs in water, practitioners were asked to indicate the main obstacles and key success factors to PPPs acting as a vehicle to overcome the persistent development challenges in the water and sanitation sector. They were provided with one chart reflecting the PPP formulation including specific angles of internal planning, negotiating agreements and detailed design; and with another chart concentrating on the PPP management including areas pertaining to the enabling framework, service delivery and overall governance/management. Aware that the results of the survey are by no means globally representative, selected outcomes are worth presenting as they indicate some strong tendencies in the sector.

As Figure 5.1 shows, roundtable participants identified “political will and public support” as the most important success factor for PPPs in the water sector. Given the substantial dimension to which water provision involves the interest, prioritization and according engagement of the public sector it is of little surprise that without the full attention and collaboration of public stakeholders the effectiveness of PPPs in the sector is stalled. On the other hand,

Figure 5.1 PPP Formulation: Outcomes of the Water Practitioners’ Survey



political leaders and public officials have pledged their commitment to the issue at various occasions including the recent meeting of the UN Commission for Sustainable Development (CSD) and the G-8 Summit in Gleneagles. What is urgently required now is action from governments and public officials.

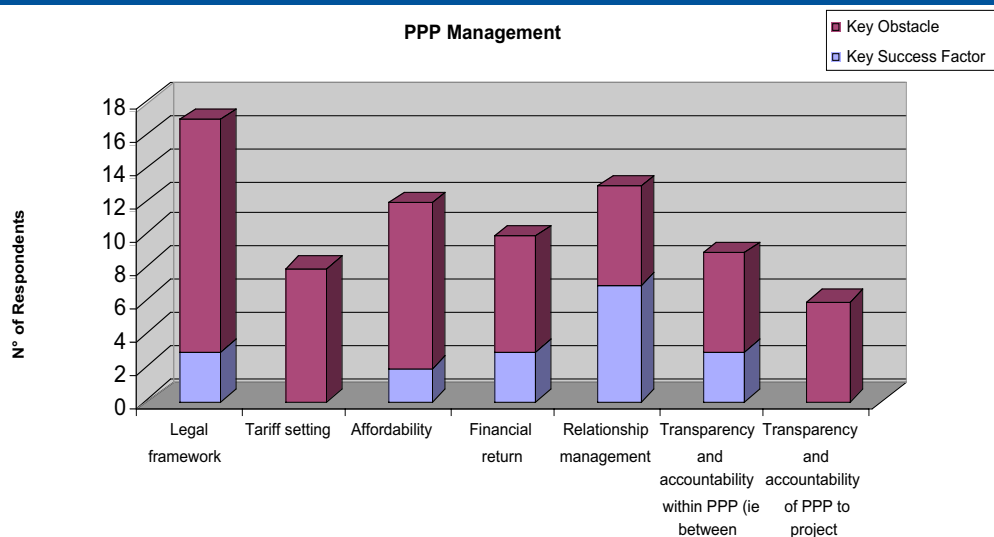
Second on the practitioners' list of success factors is "agreeing shared objectives/vision". Differing backgrounds, motivations and incentives in the water and sanitation sector make it even more crucial for public and the private partners to agree on a common goal. In a partnership, however, the partners can pursue individual interests. Hence, the participants identified "strength of business/organizational case" as the third most important success factor. When engaging in the water sector, the private sector expects a fair return on investment and considerations of corporate social responsibility or philanthropic engagement apply less than in other sectors such as food and beverage or retail and consumer goods. Also, other stakeholders like local governments require a strong need for an organizational case before engaging in a water or sanitation PPP as the time and money invested are substantial and effective outcomes are naturally desired.

As for the survey results in the area of PPP management (see Figure 5.2), it is apparent that the "legal framework" is of central importance to successful PPPs in the water sector. This is largely based on the fact that PPPs in the sector typically rely on formal contractual relationships. Furthermore, the relevance accorded to "relationship management" indicates the urgent need for jointly agreed governance structures and clear accountability especially as PPPs in water usually cover a medium- to long-term time horizon. On the other hand, the need for "affordability" and "financial returns" underscore that water projects require large investments and access to low-cost long-term capital.

A general conclusion of the roundtable participants was that water and sanitation is still a low priority for national governments, well behind health and education as a social sector focus. This is also reflected in the low profile of water and sanitation goals within most Poverty Reduction Strategy Papers (PRSPs). Although there is increased awareness of water and sanitation at the rhetorical level, this still has to be matched by concrete steps in many countries to update or develop national strategies for the sector, including the development of targets and performance indicators. Responsibility

Figure 5.2

PPP Management: Outcomes of the Water Practitioners' Survey





for water and sanitation provision in many countries has been devolved to the municipal level but national governments can still play an important role in encouraging improved performance. It was suggested that all governments could show their commitment to working towards the achievement of the MDGs concerning access to water and sanitation by raising the importance of these issues in national policy discussions and by developing the targets and indicators mentioned above.

Private sector players, from equity investors to lenders and business associations, emphasize that partnerships established during the 1990s transferred all risks to the private sector and that this had to change. While private sector players have been willing to take on commercial risk, which they feel well positioned to handle, they expressed their reluctance to be exposed to political, regulatory and

foreign exchange risk. Development banks put great emphasis on the risk transfer process and the necessity of a correct understanding of risk transfer by the public sector. This issue of risk sharing is complicated by the divergence in perceptions between public and private partners of the nature of risks incurred. Also in that context, private sector actors explained that while PPPs can lower the overall level of risk (both operational and financial) the responsibility for the viability of PPPs must remain with the public sector and should be explicitly recognized.

#### Box 5.2

#### Driving efficiency through home-grown solutions: The Ugandan National Water and Sewerage Corporation's IDAMC Model

In the last seven years, the Ugandan National Water and Sewerage Corporation (NWSC) has implemented a number of performance programmes. It has also undertaken two successive PPPs in Kampala water operations management involving JBG Gauff, Germany, and ONDEO Services, Uganda. Both contracts have since ended.

NWSC is currently implementing Internally Delegated Area Management Contracts (IDAMCs) in all its operating areas. The IDAMC is a unique home-grown public-public partnership which aims at achieving increased performance through local capacity building. It incorporates most of the managerial tenets of conventional management contracts involving private operators such as the use of managerial incentives, increased operational autonomy, clear separation of roles and responsibilities, and performance regulation.

The IDAMCs cover the 17 biggest urban towns in Uganda under NWSC and are two-year internal contracts between the area partnership and the head office. The IDAMCs are funded through a monthly management fee and a delegated capital development component. Most of the areas are able to meet all their costs including capital development. Only few get targeted investment subsidies to serve the poor. These programmes have built NWSC's capacity to absorb all investment funds including those related to internally revenue-generated and donor-related projects.

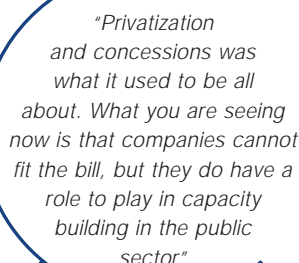
The IDAMCs have greatly improved the working culture of NWSC. Consequently, NWSC's financial position has improved from profit after depreciation of about US\$ 0.4 million in 2003 to about US\$ 4 million in 2005. The operating efficiency as measured by non-revenue water has dropped from about 38% in 2003 to about 33% in 2005. These results have led NWSC to conclude that "tailor made and home-grown programmes are more optimal, and staff can be very productive if given adequate incentives."

Source: National Water and Sewerage Corporation 2005<sup>xvii</sup>

## 5.4 PPPs in Water and Sanitation: Effective Approaches

### 5.4.1 Prompting Private Sector Investment in Parallel with Institutional Reform

The UN Millennium Project recommended that to meet the MDGs, global official development assistance should rise to US\$ 135 billion by 2006, and to US\$ 195 billion by 2015<sup>xv</sup>. A substantial part of these aid flows will be earmarked for water and sanitation, with some possibly to be used in the form of subsidies to leverage private sector investment. If the official community is successful in implementing this, a substantial increase in capital flows to water and sanitation projects along with increases in additional private flows is a real possibility. For highly aid-dependent countries, this raises the issue of the institutional absorptive capacity of government, utilities and municipalities. As one roundtable participant noted: "I fear an avalanche of aid is coming our way, and we're simply not ready."

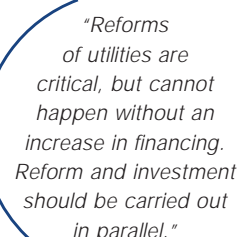


*"Privatization and concessions was what it used to be all about. What you are seeing now is that companies cannot fit the bill, but they do have a role to play in capacity building in the public sector"*

The urgent need for many low-income countries to increase their absorptive capacity makes a strong case for reassessing whether the conditionality incorporated into much of direct aid is efficient. Another option would be to encourage institutional capacity building in parallel with the use of aid. For service and management contracts, this would require extending the concept of performance-related returns to include performance with respect to building the institutional and managerial capacity of public utilities and municipalities. Drawing on the example of the National Water and Sewerage Corporation (NWSC) in Uganda, this could involve

setting performance targets and incentives for improving operational and financial performance – including collections and connection efficiency, for example. It could also include performance criteria for developing project preparation skills, potentially measured by new financing or contracts obtained.

As seen with the Ugandan NWSC, improving institutional performance can both increase the capacity of utilities or municipalities to absorb more public investment and aid, and enhance the attractiveness of the institution to future commercial investors by improving prospective returns on investment and reducing operational risks. It is worth noting that the NWSC has recently created an external service unit that provides for transfer of knowledge to other parts of Africa upon request. Whether engaged by the public sector as investors, construction contractors, or service operators, the private sector is an under-utilized resource for reforming public water utilities and improving their capacity to absorb increased levels of public expenditure and aid.



*"Reforms of utilities are critical, but cannot happen without an increase in financing. Reform and investment should be carried out in parallel."*

Development institutions involved in supporting the water and sanitation sector should consider shifting their policy of viewing institutional strengthening and utility reform as a prerequisite to private sector participation to allowing for its parallel development. In certain situations the two forms of development can and should run in parallel, integrated under the same PPP arrangement. The approach would benefit society by enhancing the ability of the local government to attract private investment *earlier*. With regard to construction contracts, one advantage of embedding performance requirements for institutional strengthening into contracts with private contractors is to ensure that even during this early

phase of a project a strong focus is maintained on service delivery and long-term financial viability.

#### **5.4.2 Improving PPP Project Preparation by the Public Sector**

Partnership arrangements in developing countries have in many cases emerged in an ad hoc manner. The importance of good project preparation is often overlooked, and the quality of advice for project preparation is often low. In many situations certain forms of PPPs with good potential are simply not considered. There also remains a general lack of capacity within utilities and municipalities to assess different PPP scenarios and to determine which are best suited to a given situation. Private financiers and developers pointed out that consultants often do not have the requisite practical experience in the sector to prepare projects, while developers themselves are unwilling to take on this role if the project is to be subjected to competitive bidding. Private financiers argue that this mix of up-front costs and uncertainty is often keeping private operators out of the PPP market. Some of the issues for consideration in project preparation frequently include:

- strategic up-front project design;
- sequencing different subsidy instruments and donor grant support to align with realistic scenarios for private sector participation;
- assessing credit risk ratings for different project options, including political risks;
- structuring robust and bankable and/or donor-fundable projects; and
- managing tendering procedures so that they yield the right balance between commercial returns and access to drinking water and sanitation.

At the national level, civil service and donor transaction advice and other donor-driven technical assistance are not always sufficiently proactive, often entering project preparation processes after the concept definition, the front-end engineering design and the key financing decisions have already been

taken. Furthermore, having a single point of contact and a single “client” on the government side, either at the municipal or central government level would help the private financiers. Development institutions active in the water and sanitation sectors should consider allocating parts of their budgets specifically to assist the public sector in project preparation. This would allow for undertaking benchmarking studies on which PPP scenarios are working best, development of “diagnostic kits” for determining feasible PPPs, and establishment of task forces to provide assistance and capacity building to potential public sector project sponsors. A variation of these task forces could be dedicated to the municipal level. The public sector can further help develop the PPP market by concentrating on improving the creditworthiness of municipalities and utilities and encouraging the development of credit rating systems before involving the private sector. New initiatives such as the IFC’s Municipal Fund need to be scaled up as critical catalysts in opening local markets to the private sector.

#### **5.4.3 Getting the Economic Regulation Right**

Economic regulation in the context of water supply and waste water disposal seeks to balance two goals of society: on the one hand, the wish for a reasonable quality of supply as well as environmental sustainability, and on the other hand, the desire for a financially sustainable, affordable provision of these services by an efficient supplier. The public sector is well placed to judge service and environmental standards that are acceptable to consumers and society as a whole. However, there is a tendency for government’s political leaders to limit any increase in tariffs to finance those goals and for them to restrict any financing from government budgets to overcome revenue shortfall. Similarly, water suppliers are tempted to over-invest in water production while employing too many staff and making only limited efforts to reduce leakage and collecting revenue from all customers. This situation is obviously exacerbated

when government policymaking and service delivery lie within the responsibility of the same institution. Involving a private operator delivers the necessary distance between policymaking and service provision. Some level of adjudication between the competing interests in the shape of regulation would however be essential for efficiency of service delivery.

The main features required for effective economic regulation in water and sanitation are:

- a reasonable degree of institutional independence from line ministries, municipalities and water suppliers to be able to deliver credible, impartial decisions, relatively free from vested interests;
- proportionality, transparency and accountability in regulatory decisions, to ensure public as well as provider support and confidence;
- public and political acceptance of the need for cost reflective tariffs to ensure long-term capital maintenance;
- incentives for the provider to become increasingly efficient over time, ideally coupled with efficiency goals delivered through comparators;
- systems for consumer involvement to ensure the range of customers' interests are taken into account in addition to acting as an appeals system for customer complaints.

To achieve these goals the process of regulation may be undertaken through an official, independent regulatory body. However, tariff and service adjudication can also be undertaken through service or concession contracts where the contract and the legal framework are adequate, through advisory or expert panels to avoid setting up any formal body, through other government departments such as monopolies and competition commissions and through performance agreements for public providers.

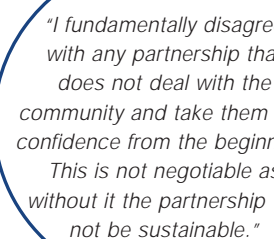
Especially in developing countries there is the particular question of regulating informal, small-scale providers, which in some cities serve almost half the population. The growth of small business is vital for

development and can provide good job opportunities. Where these providers operate in a competitive market of water carriers for example there may be little need for price regulation. However their role in serving the poor should be acknowledged through the regulatory process such that the on-selling price of water from the main provider does not unduly penalize poor customers. In other cases where small scale providers invest in their own pipe networks, or where carrier cartels seek to maintain unfair prices, some level of regulatory oversight could and should be introduced. However, with the goal of universal service provision, even in unserved, illegal slums and peri-urban areas, the emphasis should be on ensuring that the main water provider has sufficient finance to extend viable services to these areas, often through differentiated service provision, rather than on trying to regulate the existing situation.

#### 5.4.4 Managing Political Risk by Involving Civil Society

Many see direct community participation as essential in project design and monitoring to meet local needs and create sustainability. However, project financiers participating in the roundtables agreed that dealing directly with consumers adds risks and complexities that may threaten project viability, as changes in the agreed regulatory conditions and rule of law are likely to undermine profitability.

For the private sector, medium- to long-term involvement in water and sanitation projects carries political and operational risks. As noted in Section 2, early involvement of civil society, particularly the end-users, is one way of reducing these risks which may then reduce the need for additional development risk



*"I fundamentally disagree with any partnership that does not deal with the community and take them into confidence from the beginning. This is not negotiable as without it the partnership will not be sustainable."*

### Box 5.3

### Gram Vikas's Rural Health and Environment Programme

Gram Vikas is an NGO that works with adivasis (indigenous communities), dalits (untouchables) and other poor communities in the Indian state of Orissa. The organization launched the Rural Health and Environment Programme (RHEP) in 1992 to provide water supply and sanitation facilities to all the households in select communities.

In the sanitation programme, toilets and showers costing Rs 7,000 are jointly financed by Gram Vikas's subsidy of Rs 3,000 and a government subsidy of Rs 500, with people raising the remaining amount by contributing labour and raising local resources. For water supply systems, the government finances 90% of the costs and people contribute the rest. Attempts are also made to secure discretionary funds through local elected representatives.

Through RHEP, Gram Vikas, the government and the community work jointly towards a socially inclusive, gender-equitable, people-friendly and financially viable model of sustainable and holistic development. Before starting the programme, communities raise approximately Rs 1,000 from each family. The interest accruals from these funds can be used to extend the same subsidies to new households in future. People also pay a monthly maintenance charge for the upkeep of the sustainable, community-owned and self-managed infrastructure.

Presently, RHEP covers more than 16,000 households in 211 communities, which collectively have raised Rs 15.7 million. Impacts include an 85% reduction in water-borne illnesses, as well as significant improvements in the areas of education and women's empowerment. Gram Vikas aims to reach 100,000 households by 2010 and a million by 2020.

Source: Gram Vikas 2005<sup>xviii</sup>

finance. The key is to engage communities and future beneficiaries *as full and substantive partners* during project definition and planning, and sustain this participation throughout the duration of the partnership.

There is also merit to mainstreaming social audits and public hearings upfront and periodically throughout the life of the project. Experience in India suggests that such hearings and audits, if transparent, can reduce corruption, improve public accountability and create an ambience of commonality. International donors and their domestic counterparts should adjust the criteria used to appraise bids by private contractors, and include collaboration with communities and civil society organizations during both planning and implementation phases of the project as a requirement for financing.

### 5.4.5 Developing Political Will for Private Sector Participation

The practitioners' survey results emphasize the importance of political will and public support for private sector participation in water supply and sanitation schemes. Private operators emphasize that governments have often shown little commitment to meeting contractual obligations. Political changeover poses a particular threat to the stability of long-term PPPs as newly elected governments do not respect commitments made by their predecessors. Accusations of corruption have also undermined contract compliance and led to prolonged and contentious renegotiations, demonstrating the need for transparency in the awarding of PPP contracts.

*"Strikingly, political will is the biggest obstacle to successful PPPs – even though PPPs evolved to a large part because of government's failure to deliver..."*

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Wavering support from political leaders makes it all the more important for private operators to build strong relations with current and potential customers who may then be a source of support in any dispute with political leaders. Water is frequently a politicized issue, particularly since many user populations – rightly or wrongly – associate private sector involvement with increased costs for water services. More structured forms of communication, such as multistakeholder fora, are needed to allow all stakeholders to assess the merits of the available policy, technology and management options and reach a consensus on the way forward.

One platform for improved communication over water and sanitation policy and issues is to convene multistakeholder conferences, meetings, working groups, or to establish permanent multi-sector fora. These fora can service a number of functions:

- reaching a “consensus in society” on the principles underlying water supply and sanitation policies;
- developing a plan for meeting national and international development targets in water and sanitation, for example building on the “roadmap” for meeting the MDGs generated by the international Global Wash Forum in Dakar in December 2004;

- ensuring integration of national and regional level indicators for water and sanitation into national economic development and poverty reduction strategies;
- assessing the different options for financing network expansion and rehabilitation;
- establishing principles for tariffs, oversight and other contentious issues;
- providing continuity and policy stability in the face of changing political actors;
- establishing a platform for providing oversight, e.g. reviewing and disseminating periodic monitoring reports; and
- providing a platform for managing and addressing grievances.

The World Economic Forum’s Water Initiative is very active in engaging multiple stakeholders with the goal to stimulate PPPs in water management that improve water quality, quantity and availability for the community, the environment and businesses. In that context, building trust has proven to be one of the most crucial factors to ensure local ownership and acceptance of the private sector role in water related PPPs. Working with existing national and regional networks such as the African Ministerial Council on Water (AMCOW) and the Confederation of Indian Industries (CII) have proven to support effective matchmaking between potential partners.



#### Box 5.4

#### The World Economic Forum's Water Initiative

By stimulating public-private partnerships in water management, the World Economic Forum's Water Initiative encourages shared responsibilities in sustainable water and watershed management with the aim to improve water quality, quantity and availability for businesses, communities and the environment.

The Initiative has founded the Water Project Exchange, a match-making service for a network comprised of business, political and civil society leaders dedicated to sustainable water and watershed management. Partners include Alcan, Umgeni Water, SDC and UNDP, with RWE/Thames Water serving as a Committee Member. Together with WBCSD, the Initiative is working to build an inventory of potential corporate water projects in order to facilitate development of water PPPs.

The Water Initiative seeks to match industry interests with public sector requirements for water PPPs. This is done through grant proposals (for institutional capacity building projects), and through loans and guarantees (for more business oriented projects).

To date, the Water Initiative has helped form the National Business Alliances on Water in India and Uganda. The Water Project Exchange facilitates the identification, preparation, and funding of individual water partnership projects submitted by partners such as the Africa Ministerial Council on Water, Coca-Cola HBC, the Confederation of Indian Industries, Ethos Waters, KickStart International, the International Finance Corporation, Prem Durai Exports, RWE/Thames Water, Shell International, Umgeni Water, USAID, and Switcher SA.

##### Lessons learned

- Private sector participation is needed to solve water problems and to achieve long-term sustainability, and should be part of development assistance and poverty eradication policies.
- Building trust is as important as securing financial investments, technical expertise and sustainable water management experience.
- Public-private cooperation must be "bottom-up," leading from the local and national to regional levels.
- Public-private cooperation works best in environments where strong public institutions exist.
- Partnership should spur national or regional ownership and leadership of the water agenda.
- Starting national PPP task forces and business alliances on water and sanitation is the way forward.

Source: World Economic Forum Water Initiative 2005<sup>xviii</sup>

#### 5.4.4 Subsidy as a necessary ingredient to mobilize private finance for water

A wide variety of project financing instruments are available to the private sector for investment in water network expansion and rehabilitation projects. In addition, theoretically the water sector should be eligible for mainstream project finance activity in private sector markets, since water projects generally require high up-front capital expenditure followed by comparatively low operations and maintenance expenses and a secure revenue stream.

In many developing countries, however, the reality is different given a large array of political, regulatory, currency, project and payment risks. Here, the largest gaps in coverage for improved drinking water sources and sanitation are in peri-urban and rural areas. Not only are household income levels generally lower than average in these areas, but the cost of building infrastructure is also up to five times higher. This goes some way towards explaining why, for example, only 4% of rural

*"You simply cannot get water to the poorest without subsidies."*

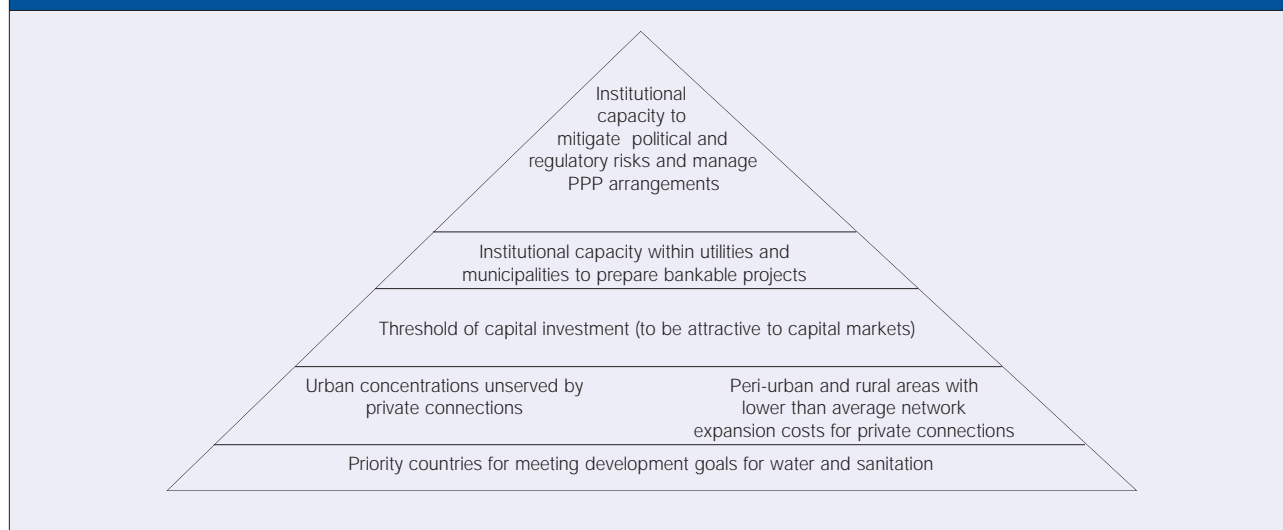
households in Sub-Saharan Africa have fixed in-house connections<sup>xcix</sup>, compared to 39% in urban areas. Together with the high political, regulatory and operational risks of doing business in these environments, fully risk-adjusted costs of private sector investments in peri-urban and rural areas of low-income countries are often not a realistic proposition.

There is a further complication. Achieving coverage in peri-urban and rural areas often involves utilization of public standpipes, boreholes, protected springs and rainwater collection. Yet many private companies with the capacity to invest or leverage investment are risk-averse and argue that they are not in a position to take on responsibility for anything other than connections to private premises, i.e., to individual households, agricultural estates, urban commercial and government offices. One reason is liability for water quality; the other is that private connections usually ensure tariff collection efficiencies and yield more profitable operations. Furthermore, they offer the potential for higher revenues as household incomes and business revenues increase over time.

It is unlikely that private companies will contribute finance to help meet outstanding infrastructure needs in water – especially in peri-urban and rural areas in developing countries – without subsidies

and risk mitigants. However, it needs to be recognized that subsidies for the private sector do not necessarily mean subsidies for the poor. This points out the need to direct subsidies to promoting economic livelihood activities which alternatively means improved payment capacities of consumers and can thus be an incentive for the private sector investment in provision of services. Subsidies must be designed carefully to ensure that they do not reduce the incentives for private service providers to operate efficiently. There is therefore an urgent need to identify the combination of subsidies and private finance that will work best for different developing countries and priority regions. Private and public sector advisory services need to collaborate with public water utilities and Ministries of Finance to undertake country scoping studies. These studies could explore different options for water and sanitation service delivery and should aim to rapidly identify the most promising geographic opportunities for allocating public subsidy to leverage private finance into the water and sanitation sector. The focus should be on peri-urban and rural areas. Subsidies can be directed towards operating or capital expenses. It should not be assumed that the government should cover all capital costs, but all subsidies should be transparent and explicit. A simplified hierarchy of suggested and possible criteria for evaluation in the studies is summarized in Figure 5.3.

**Figure 5.3 Suggested Criteria for Evaluating the Potential Impact of Subsidies in Meeting International Water and Sanitation Goals**



There is a diversity of ways in which subsidies or grants might be used. Some options are given in Box 5.5

However the risks associated with subsidies should not be underestimated. Tendering based on least cost subsidy can mean that bids come in too low, leading to greater pressures for future cost-cutting, such as delaying expansion into peri-urban areas. Cross-subsidies are sometimes inefficient and often benefit middle-income groups rather than the chronic poor. Delays in subsidy payments can also adversely affect cash flows of the recipients. Subsidies therefore raise new risks especially for investing companies and external project financiers.

If subsidies are applied, there is broad agreement that these should, at a minimum, have broad support from society and in particular the end-users, be transparent and clearly identifiable within project accounts, incentivize rapid roll-out of services to the poor, and encourage greater cost efficiencies so that less subsidy is required over time. Bilateral and multilateral donors are developing some innovative ways of providing the needed public financing for water projects. Via governments, bilateral and multilateral development finance institutions together should offer untied grants to companies dedicated to encouraging private investments in water facilities.

Several innovative structures (such as Output-Based Aid) have demonstrated how private sector infrastructure projects can be structured so that poor people can have the needed basic services with targeted subsidized tariffs from the official sector. The Dutch "ORET" grants offer another model: Managed by FMO, the Dutch development finance institution, on behalf of the Dutch Ministry of Foreign Affairs, ORET grants are available for up to 50% of total transaction volume (for transactions under €45 million) and is exercised through domestic governments. The grants are flexible and can be used either as direct payments to companies to partially offset investment costs, to pay for interest on a foreign currency loan, or as a contribution to a lease agreement. However, one of the difficulties is matching the available concessional funding to governments needs. Private companies in pursuit of projects are often the catalyst for developing viable projects and arranging funding from donors on behalf of government agencies.

#### 5.4.7 Overcoming the High Transaction Costs of PPPs in Water

In developing countries, the decline in interest of private sector investors in public water infrastructure projects is in part a response to the high transaction costs. Public utilities often lack the political

#### Box 5.5 Options for Using Subsidies and Grants to Leverage Private Participation in Water and Sanitation Provision

- As part of competitive bidding, e.g. least-cost subsidy.
- As cross-subsidy, e.g. as a percentage of returns from connections in more affluent areas.
- As part of capital costs for network expansion and rehabilitation, possibly earmarked for certain features of the project.
- As part of operational costs, e.g. to offset tariff charges or rates of tariff increase for lower income customers (i.e. direct bill subsidies based on income).
- As a means to enable reductions in household connection charges.
- As grants to support the involvement of civil society organisations in promoting low cost technologies for household connections.
- As a performance incentive to ensure coverage to peri-urban and rural areas within construction or concession contracts aimed predominately at more affluent urban areas, e.g. as part of the government's 'right-to-water' policy.
- As above, but for management and service contracts, with a compensation element for unpaid end-customer bills.
- As an initial quota of free water per (qualified) user entity.

autonomy to reach rapid decisions on the choice of the private sector partner or joint venture. Development finance institutions invariably have long and complicated financial planning and due diligence procedures. Negotiating with small-scale providers and the architects of community-based water and sanitation provision requires time and patience by all parties. In addition, due to the higher risks of investing or operating in emerging markets, private water companies often elect to undertake more detailed feasibility studies and wider ranging risk analysis to inform their decision-making.

Although public utilities frequently receive technical support from development assistance agencies in the form of transaction advisors and funds to support feasibility studies, the private sector rarely has support. In addition, few private companies wish to bear the start-up costs of initiating negotiations with public utilities and financiers, if, once a proposal is developed, it is put out to tender to those who have not shared in the early costs and risks. A persistent problem is the high transaction cost of negotiating larger-scale PPPs in the water and sanitation sector. A solution would be for donor institutions to make convertible grants available to the private sector as full or matched funds. These could be earmarked to cover the costs of protracted negotiations and feasibility studies, and repaid or converted into equity if negotiations are successful.

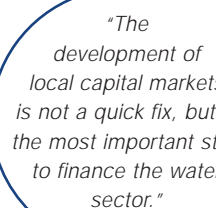
High transaction costs are also a feature of negotiations to bring pro-poor water and sanitation technologies into mainstream capital works and service contracts. Good multi-party and cross-sector brokering and facilitation skills can reduce the cost and time involved in designing pro-poor technical and management solutions that are acceptable to government, business, water users and banks.

## 5.5 PPPs in Water and Sanitation: Other High Potential Opportunities

For other areas in the water and sanitation sector the value added by public-private partnerships, though less clear cut, carries high potential. These approaches deserve experimentation before taking to scale.

### 5.5.1 Developing Local Capital Markets for Water Investments

Investments in water works typically have long-term payback periods (20-25 years) and large foreign currency components. This has often led to the risky mix of long-term foreign currency exposure. The payback periods can be shortened by up-front subsidies from local or foreign governments or by increasing the price of water, enabling a faster payback of the loans. As revenues are virtually always in local currency, the currency exposure is best mitigated by attracting funds locally.

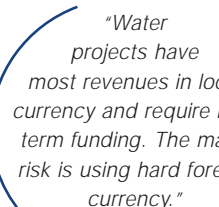


*"The development of local capital markets is not a quick fix, but is the most important step to finance the water sector."*

ODA is not sufficient to pay for the costs of delivering water and sanitation services.

Often grant funding is for initial investments, not for the recurrent costs of operations, maintenance, and reinvestments. Increasing water prices to meet such costs is often controversial, drawing intense political pressure to keep water prices

"affordable". Price differentiation based on income or consumption levels is an option, but has proved difficult to administer. Many companies also struggle with proper measuring, billing and collection systems.



*"Water projects have most revenues in local currency and require long term funding. The major risk is using hard foreign currency."*

Local currency is not always available at the scale – or for the long-term timeframe – that is required. In addition, water sector companies may have difficulty obtaining credit as they typically lack assets that can be used as collateral. Donors can help remedy this by providing guarantees to local banks for the long-term obligations of the water companies. This would allow the water companies to attract long-term funding and enable local banks to meet the requirements of central banks and/or multilateral development banks.

Additionally, many water companies are government-run rather than commercially run. The managers often lack the skills required for for-profit management, ranging from ‘hard’ skills required to make investment decisions to ‘soft’ skills relating to communications with customers. Technical assistance from international water operators could provide crucial help.

Such realities are part of the motivation behind the Water and Sanitation for the Urban Poor (WSUP) – an innovative partnership between the private, public and civil society sectors to provide more effective delivery of water supply and basic sanitation services. WSUP’s members are RWE Thames Water, Unilever, Halcrow, CARE, Water Aid, WWF and IWE, Cranfield University. A key feature of the initiative’s pilot water and sanitation project in Bangalore, India is to provide long-term opportunities for local private sector service providers<sup>c</sup>.

National governments in collaboration with development finance institutions need to strengthen local currency markets so that local investors interested in water supply projects have a realistic prospect of securing affordable capital. This could range from capital investments of many millions of dollars in big cities, to peri-urban, small towns and rural areas, to revolving SME equity and local currency loan funds in the \$10,000 to \$1million range. Raising funds locally avoids the risk of

devaluation which has compromised the financial viability of some water sector projects in the past. It also offers water investors and operators an alternative source of finance for water projects, either directly or through local private investors. Grants could be used to guarantee funds for these local loans for commercial risk, political risk and as tenor extension for local currency. Furthermore grants can also be used for technical assistance, to strengthen projects’ technical knowledge and financial management skills.

To help leverage local financial markets for water investments, donors should cooperate more, using donor money and financial knowledge to find the right financial solution for the range of financial problems and risks that water companies encounter. This includes providing finance at the sub-national level and also to private operators. Donors can also assist utilities, municipalities and provincial rural authorities to access bond markets and other local financial instruments. Donors should do more to help share recent successes in developing market based incentives and financing systems for water projects, including: tax free bonds in local currency, tied grants and micro-financing schemes, scaling up the credit rating of local governments and utilities, and encouraging development partners and national governments to engage with credit rating agencies. The private sector also plays a critical role in creating the enabling environment for water and sanitation PPPs, by developing local capital markets and resources needed for financing and successful project completion. Again, partnership with the official sector is needed to jump-start these processes.

### **5.5.7 Formalizing the Informal Water Vendors Services**

In many rural and peri-urban areas the poor are not serviced by reliable sources of potable water. Filling this void is often an informal, inefficient and high-

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priced pattern of private small-scale water vendors. While creating conditions for major capital investments in production capacity and network expansion - a process that takes many years in most developing country settings - an immediate measure is to reform this informal sector. Options for reform include:

- voluntary frameworks and operating principles to improve water quality, reliability and accountability of small scale providers (SSPs);
- micro-finance as an incentive for SSPs to participate;
- commitments by municipal water utilities to assure supply access points to small scale providers at reasonable cost;
- development of associations of SSPs to spread good practices, strengthen negotiation and lobbying capabilities with municipal utilities and regulators; and
- formally entering into contractual agreements with small scale local enterprises to manage and operate mini-networks on conditions that both give formal recognition to informal vendors, helping to improve their business conditions while providing better services to the consumer.

At present, statistics for measuring progress against the MDGs exclude specific consideration of support to the small-scale domestic private sector (including water vendors and truckers for both water supply and waste removal) (Goal 7, indicator 30, code 248<sup>c</sup>). Reform of the informal water sector could be explicitly designed to meet the thresholds for improved water supply and sanitation under the MDGs, whereby the objectives of the reform should be to encourage and promote the participation of SSPs, while avoiding unnecessary regulations. This would enable small-scale providers to make a positive contribution to achieving national and international development goals, rather than being seen as part of the problem. For example, it could prove useful to conduct a survey of the informal sector's impact in order to identify opportunities for

greater efficiencies, legitimacy and accountability; provide financial support (either micro-finance via NGOs, or risk capital via SME finance facilities or intermediaries); and encourage the integration of small-scale provider enhancement schemes into sector budget support.

The policy reform relevant to small-scale water providers should be supported by public utilities, national governments and donor institutions. For greater reliability, quality and economies of scale to be realized, provision for small-scale providers will need to be incorporated within the capital investment plans of public utilities. The utilities may also need to challenge dysfunctional monopolies (e.g. inefficient and overpriced truck providers as the only alternative), provide a degree of legitimacy to the SSPs, establish units dedicated to their management, and possibly offer to outsource sub-networks to them if they can reach thresholds of quality and reliability (see Box 5.6).

### ***5.5.3 Improving the Efficiency of the Rural Groundwater Borehole Industry***

Dispersed rural settlements in many low and low-middle income countries are dependent on surface waters for drinking water: ponds, dug-outs, springs, streams and rain-water harvesting. But these sources carry an increasing risk of contamination and are frequently host to water-borne disease. Groundwater abstraction, in particular the borehole industry, offers one particular alternative.

Meeting the needs of rural dwellers for reliable and accessible potable water through ground water abstraction will likely require substantial investments in the borehole industry. Yet the rural borehole industry is often unregulated and inefficient, both in economic and environmental terms. Reform is needed. In order to address the industry's image problem and become a force for responsible groundwater abstraction and water management,



#### Box 5.6 Small-Scale Private Providers Partner Kenyan Utilities to Improve Water Services for the Poor

In the sprawling informal settlement of Kibera in Nairobi, Kenya, more than 500,000 slum-dwellers have little or no access to the utility water supply. Instead, water is provided through a burgeoning informal market, in which more than 650 local entrepreneurs sell water through kiosks scattered throughout the settlement. A ground-breaking partnership (brokered by the Water and Sanitation Programme, Africa) between kiosk vendors and the publicly owned commercialized utility is moving to improve services to poor households by creating a transparent marketplace for kiosk operators and building an effective public-private partnership.

The context for these service improvements are substantial sector reforms undertaken by the Kenyan government since 2003 and which created the Nairobi Water and Sewerage Company with independent accountability for water service provision to Kenya's capital city. Separately, local water kiosk owners created themselves into an association of local water providers (Maji Bora Kibera) to give the otherwise disparate and invisible small-scale entrepreneurs an accessible "voice", to enable vendors to act in unison and, thereby, to promote self-regulation, improve their credibility and develop relations with the utility. In joining the association, individual vendors agreed to a code of conduct (see association member commitments on the kiosk tank). In 2005 the association entered into an agreement with the Nairobi utility. The result is a better business environment for the providers, less leakage for the utility, and most importantly, greater accountability to customers - all important steps in developing better water services for the poor.

This initiative shows that developing an interface between the domestic private sector providers and the utility is an essential, practical step in improving services to the urban poor.

Source: Water and Sanitation Programme Africa 2005<sup>cii</sup>

associations of borehole contractors, suppliers and operators should be promoted to uphold common standards and codes of conduct. The associations would provide a platform for the development and dissemination of best practice skills and technology (e.g. smaller rigs) and offer an interface with government and aid agencies.

Development institutions working with municipal water authorities, environmental regulators, social entrepreneurs and technically-competent NGOs need to facilitate greater dialogue between these organizations and the private borehole industry. The aim should be to jointly explore "pro-poor", low-cost, and low environmental-impact solutions. In addition, development finance institutions could do more to provide financial support to rural borehole companies, either directly through targeted SME financing facilities, or indirectly through financial intermediaries.

#### 5.5.4 New Forms of PPPs for Water Supply between Municipalities and Local Industry

Where existing water and sanitation infrastructure is insufficient, many companies install their own schemes. These are often for exclusive use by the factory, facility, plant or labour camp. At the same time, companies often need to secure and sustain a social license-to-operate with local communities, and to position themselves favourably with the government for the long term.

Some companies are thus beginning to look for ways to extend their visible positive social and economic impact on society by linking operational infrastructure with community investment. Community investment programmes, along with training, employment and locals business support schemes, are common ways in which companies seek to extend local benefits. Relatively untested is the role of PPPs in aligning the operational water

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supply and sanitation infrastructure of manufacturing plants and mining facilities with the infrastructure plans and budgets of district and regional government authorities.

For this approach to be successful a range of interests need satisfying: those of the company for timely completion of capital works and reliable water supplies; those of water end-users for levels of water quality higher than that needed for industrial purposes; and those of public utilities and private or NGO providers for control over sub-networks. Development institutions might play a number of catalytic roles in new forms of water PPPs between municipalities and local industry:

- facilitating negotiations between factory or site managers and district planners;
- providing grants to cover the transaction costs and feasibility studies for the parties;
- underwriting the risks to the private sector of expanding its operational infrastructure to the local population;
- incentivizing local government and companies through grant schemes; and
- integrating these arrangements within financing agreements.

### **5.5.5 Combining Mainstream Urban Water Supply Contracts with Pro-Poor Technologies**

In urban and peri-urban areas, much of the political risk for companies in water projects stems from the frequent charge that in order to secure viable financial returns, networks are not extended to the poorest. Private sector and public utilities counter-argue that connections are not always possible because, for example, people living within the core urban area lack land titles, and peri-urban settlements are characterized by a disorganized layout prohibitive to efficient engineering solutions and economies of scale.

However, there are many examples of NGOs, small and medium-sized private companies and municipal utilities who, using appropriate technology, have found cost-effective ways to connect very low-income customers. Technologies include metered standpipes, community constructed and owned "last-mile-infrastructure", very low cost household connections such as five-day water tanks built from discarded vehicle tires, and community-managed revenue collection and infrastructure maintenance. Providing technical assistance to utilities would facilitate greater application of pro-poor technologies in urban water and sanitation projects. It is especially important that knowledge of pro-poor technologies be brought into the design process at an early stage. Accordingly research on existing and replicable technologies is as important as a practical assessment of their local applicability.

This will require expanding the skill-set used in project design to combine conventional business and financial planning with community management, multistakeholder negotiation, and the integration of non-financial contributions into financial models and management systems that can cope with complex performance monitoring. UNDP's Growing Sustainable Business Initiative already possesses many of the "softer" skills required for multistakeholder partnership facilitation and brokering; these could be transferred more broadly to other donor project preparation services.

Key success factors in these new arrangements include:

- capability of public utilities, private companies, NGOs and community representatives to negotiate and reach agreement on the most suitable technologies;
- finding technical and contractual solutions to integrate pro-poor technologies into contracts that do not undermine the financial viability of the core investment;

- integrating community-managed maintenance, billing and revenue collection services with those of public utilities; and
- establishing effective oversight mechanisms acceptable to all parties.

The popular view that water and sanitation projects are too risky for private sector involvement does not do justice to the huge variety of PPPs that have been implemented in developing countries, nor to the many options that can be developed to bring the private sector back into the mainstream. From the sophisticated financing structures for utility bond issues to the use of simple technologies in rural areas, private and public actors can find successful arrangements for the delivery of water services to consumers and for extending service to the poor. Recent debate on private sector involvement in public services including water and sanitation in developing countries has tended to focus on the necessity to find a new model following the decline of investor's interest in emerging-market PPPs. However, the research conducted and the

discussions held at the two roundtables suggest that the official sector needs to reengage the private sector, drawing from the success stories to date. Well-established PPP models with good track records already exist. And the environment within which a PPP is created along with the expectations of partners and the ability to understand and commit to each other are pivotal determinants of success or failure. The research has also established that management models that are akin to local conditions and adequately incorporate local capacity are potential efficiency drivers in developing countries. At the same time, the debate has broadened to include public sector reforms and the exploration of ways to engage communities to match project and consumer needs and to avoid social and political backlash.

Overall, the emphasis for the future of the water sector should be to have many more PPP-type projects implemented - solving the problems as they arise and adapting support mechanisms from the development community to suit each case.

#### Box 5.7 Raising Household Income Levels through KickStart's Technologies for the Poor

KickStart (formerly ApproTEC), the award winning social enterprise working to end poverty in Africa, SC Johnson and the Pyrethrum Board of Kenya (PBK), a parastatal agency that manages the pyrethrum business in Kenya, have formed a unique public-private-partnership to grow Pyrethrum, a plant similar to a daisy that contains natural insecticide. SC Johnson uses it in its household insecticide products, preferring natural, biodegradable pyrethrins to synthetic ones. KickStart develops and promotes technologies for poor but entrepreneurial people to increase productivity and incomes. Its human-powered MoneyMaker micro-irrigation pumps are uniquely suited to small-scale farmers.

The objectives of the partnership are to:

- Introduce and promote micro-irrigation technologies to pyrethrum farmers as a means to boost their production levels, income, and social condition;
- Increase the long-term reliability and quality of the pyrethrum supply; and
- Strengthen Kenya's role as the world leader in pyrethrum production.

Kenya supplies over 60% of the world's pyrethrum with 200,000 subsistence farmers growing the crop, supporting more than a million people. Yet many of these farmers survive on less than a dollar a day, so SC Johnson provides funding to KickStart to market their micro-irrigation pumps to these farmers.

Over 500 pumps were sold to pyrethrum farmers during the 1st year of the partnership. The expected positive impact on their lives will be quantified during the 2nd year of the partnership, but already these 500 families have started to diversify their income by growing additional crops, such as tomatoes, kale, spinach, carrots, and cabbages. People who buy/use these pumps can get water more often – which inevitably means they have a cleaner, healthier and more sanitary home environment.

Historically, KickStart has found that farmers who use its technologies to start small businesses have increased their net farming income ten-fold, lifting families out of poverty into the middle class, where they are able to send their children to school, build new houses, and pay for healthcare.

Source: KickStart 2005<sup>ciii</sup>

# Conclusion

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This project was undertaken to assess whether PPPs have a substantial role to play in advancing development in the basic education, public health, and water and sanitation sectors. As the project concludes, we believe the answer to that question is yes, based on the large number of successful PPPs underway in developing countries. There is growing appreciation of the importance of engagement with the private sector in development work, so much so that the very concept and practice of development appear set for a transformation. All key actors – many public, private, and NGO leaders – are now advocating a major expansion of multistakeholder collaboration from strategic planning to programme implementation. A more concerted effort by governments and companies to scale up the use of PPPs in poor countries could help to fill a significant part of the MDG resource gap – possibly by several billion additional dollars a year.

To bring about this transformation, however, significant effort is needed by all stakeholders to facilitate the development of new and broader partnerships, build capacity and support for their

effective execution, and evaluate their results. More effort is needed to fully refine and target PPPs as a tool, and many issues related to the PPP operating environment including social, institutional and policy factors need to be addressed. The degree of diversity and innovation among PPPs indicates that the evolution of new models and approaches is likely to continue, requiring new financing and innovative policies and management. Ultimately, broad efforts are needed to institutionalize the role of PPPs in providing skills, goods and services that are essential to development.

The challenges to the successful implementation and scaling up of PPPs are still significant. If progress is achieved in meeting these challenges, PPPs may come to play a major role in extending the reach and effectiveness of development efforts.

# Acknowledgments

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Initiative, John F. Kennedy School of Government, Harvard University; **Sabine Durier**, Principal Strategy Officer, International Finance Corporation; **Bettina Ungerer**, Policy Adviser, Ministry of Foreign Affairs of the Netherlands; and **Steven C. Phillips**, Medical Director, Global Issues and Projects, Exxon Mobil Corporation.

For the education section, we are indebted to **Eduardo Chaves**, Professor of Philosophy of Education, State University of Campinas, Brazil; and **Donald Mackenzie**, Senior Policy Advisor, Office of Education, USAID.

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# Acknowledgments

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## Overseas Development Institute

The **Overseas Development Institute** is Britain's leading independent think-tank on international development and humanitarian issues. Its mission is to inspire and inform policy and practice which lead to the reduction of poverty, the alleviation of suffering and the achievement of sustainable livelihoods in developing countries: <http://www.odi.org.uk/>



The ODI programme on **Business and Development Performance** works to align business policy and management practices with public policy instruments, with the aim of enhancing the development performance of corporations operating in developing countries. The programme is managed by Michael Warner: e-mail [m.warner@odi.org.uk](mailto:m.warner@odi.org.uk). Details at: [http://www.odi.org.uk/PPPG/activities/country\\_level/odpci/index.html](http://www.odi.org.uk/PPPG/activities/country_level/odpci/index.html)





# ANNEX 1. Corporate Donations

Survey Data for Selected 'Fortune 500' Companies and Extrapolation	
	BusinessWeek (2003) Special Report: Philanthropy, BusinessWeek - <a href="http://www.businessweek.com/magazine/toc/03_48/B38600348giving.htm">http://www.businessweek.com/magazine/toc/03_48/B38600348giving.htm</a>
	The Guardian (2004) The Giving List, The Guardian - <a href="http://society.guardian.co.uk/givinglist/0,10994,579376,00.html">http://society.guardian.co.uk/givinglist/0,10994,579376,00.html</a>
	Data direct from company reports

Fortune ranking	Company Name	Total Revenues (US\$ million)	Corporate Donations	
			Cash (US\$ million)	In-Kind (US\$ million)
2	BP	232,571.0	67.11	5.34
3	EXXON MOBIL	222,883.0	97.20	1.30
4	ROYAL DUTCH / SHELL GROUP	201,728.0	102.00	
5	GENERAL MOTORS	195,324.0	49.80	15.10
6	FORD MOTOR	164,505.0	129.80	1.20
7	DAIMLERCHRYSLER	156,602.2	21.30	
9	GENERAL ELECTRIC	134,187.0	71.90	
12	CHEVRON TEXACO	112,937.0	60.90	
18	CITIGROUP	94,713.0	77.75	
19	INTERNATIONAL BUSINESS MACHINES	89,131.0	31.30	108.90
24	HEWLETT-PACKARD	73,061.0	16.60	45.00
26	MCKESSON	69,506.1	4.20	
28	VERIZON COMMUNICATIONS	67,752.0	75.00	0.42
40	ALTRIA GROUP	60,704.0	113.40	24.90
42	AVIVA	59,719.4	7.37	0.43
47	HSBC HOLDINGS	57,608.0	69.00	7.20
49	VODAFONE	56,844.5	17.76	0.07
50	CARDINAL HEALTH	56,829.5	4.00	
55	KROGER	53,790.8	36.90	
56	FANNIE MAE	53,766.9	8.09	
59	TESCO	51,570.2	18.53	1.43
69	UNILEVER	48,318.4	50.15	31.96
70	TARGET	48,163.0	87.20	
71	BANK OF AMERICA CORP	48,065.0	72.30	0.29
77	PFIZER	45,950.0	73.80	528.00
83	TIME WARNER	43,877.0	55.00	
84	ROYAL BANK OF SCOTLAND	43,757.6	46.63	21.16
92	JOHNSON & JOHNSON	41,862.0	121.80	406.90
96	SBC COMMUNICATIONS	40,843.0	100.00	
102	MARATHON OIL	37,137.0	2.98	
107	HBOS	36,023.6	15.64	35.92
108	SAFEWAY	35,552.7	31.00	60.00
109	PRUDENTIAL	35,472.6	7.35	
111	ALBERTSON'S	35,436.0	65.00	

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114	GLAXOSMITHKLINE	35,050.9	142.03	87.06
116	AT&T	34,529.0	47.00	24.00
121	UNITED PARCEL SERVICE	33,485.0	38.40	0.20
130	MICROSOFT	32,187.0	39.94	207.11
134	LOCKHEED MARTIN	31,844.0	18.00	
135	WELLS FARGO	31,800.0	82.30	
136	BT	31,668.6	16.34	5.00
142	BARCLAYS	30,843.0	50.97	0.29
146	INTEL	30,141.0	73.40	25.49
150	CENTRICA	29,312.9	10.31	0.23
152	J. SAINSBURY	29,034.6	3.01	7.41
155	NORTHROP GRUMMAN	28,686.0	12.40	
162	PRUDENTIAL FINANCIAL	27,907.0	35.00	0.23
173	PEPSICO	26,971.0	26.40	
183	AMERICAN EXPRESS	25,866.0	31.00	
188	LLOYDS TSB GROUP	25,378.0	60.62	0.41
191	INTERNATIONAL PAPER	25,179.0	20.00	
192	BEST BUY	24,901.0	15.82	0.40
198	WACHOVIA CORP.	24,474.0	46.50	
204	DUKE ENERGY	23,483.0	16.21	0.24
206	HONEYWELL INTERNATIONAL	23,103.0	10.80	
215	JOHNSON CONTROLS	22,646.0	6.20	
216	BELL SOUTH	22,635.0		2.90
222	MERCK	22,485.9	58.00	575.00
229	ALCOA	21,728.0	34.80	
251	WEYERHAEUSER	19,873.0	12.74	
253	BRITISH AMERICAN TOBACCO	19,684.1	22.78	
262	ROYAL & SUN ALLIANCE	19,259.1	2.85	0.04
268	CISCO SYSTEMS	18,878.0	46.30	21.20
269	ASTRAZENECA	18,849.0	21.00	1.00
274	HARTFORD FINANCIAL SERVICES	18,733.0	4.93	
275	ANGLO AMERICAN	18,637.0	38.97	1.45
276	WASHINGTON MUTUAL	18,629.0	37.40	
280	SARA LEE	18,291.0		22.11
281	3M	18,232.0	20.80	22.90
286	COMPASS GROUP	18,072.0	2.08	1.69
304	OLD MUTUAL	17,145.4	9.49	
315	ANTHEM	16,771.4	5.00	
316	TENET HEALTHCARE	16,746.0	10.88	
326	SUNOCO	15,930.0	3.70	
329	GAP	15,853.8	4.70	8.20
338	LEGAL & GENERAL GROUP	15,729.7	3.05	0.11
339	XEROX	15,701.0	12.60	
341	BHP BILLITON	15,608.0	34.60	2.49
347	AMERICAN ELECTRIC POWER	15,441.0	7.64	
351	NATIONAL GRID TRANSOCO	15,300.7	5.56	
352	FEDERATED DEPARTMENT STORES	15,264.0		3.00
369	HILTON GROUP	14,599.2	0.68	0.18
373	KINGFISHER	14,536.4	1.97	

# ANNEX 1. Corporate Donations

376	FLEET BOSTON FINANCIAL	14,442.0	25.00	
379	ALLIANCE UNICHEM	14,384.7	0.16	
382	SCHLUMBERGER	14,278.8	3.50	
391	MARKS & SPENCER	14,061.6	9.11	0.81
399	BAE SYSTEMS	13,710.7	2.39	
413	DELTA AIRLINES	13,303.0	6.50	9.00
423	BRITISH AIRWAYS	12,805.6	0.72	6.26
424	UNION PACIFIC	12,792.0	11.00	9.00
425	GUS	12,785.3	2.31	0.86
433	ELI LILLY	12,582.5	48.32	204.76
437	OFFICE DEPOT	12,358.6	3.10	24.28
441	FIRST ENERGY	12,317.7	5.20	0.08
448	EDISON INTERNATIONAL	12,156.0	3.70	0.28
449	DOMINION RESOURCES	12,078.0	8.00	
464	SOLECTRON	11,700.4	1.50	
472	DIAGEO	11,537.6	27.14	2.17
478	SUN MICROSYSTEMS	11,434.0		0.50
488	PG&E CORP.	11,221.0	3.94	0.13
494	ABBEEY NATIONAL	11,041.2	3.07	0.52
	<b>Total revenues (US\$ mil)</b>	<b>4,154,284.9</b>		
	Total revenues (for companies with data)		4,086,660.9	2,431,913.2
	Total (cash/in-kind):		3,178.57	2,574.53
	No. of companies:	102	98	59
	Average cash/in-kind donations as % of revenues		0.0778%	0.1059%
	Fortune Global 500 total revenues <sup>2</sup>	<b>14,873,026.8</b>		
	<b>Extrapolation of total donations for Fortune 'Global 500'</b>		<b>11571.2</b>	<b>15750.5</b>
			<i>US\$ 11.6bn</i>	<i>US\$ 15.8bn</i>

US Philanthropic and Official Engagement with Developing Countries		
Source	US\$ Billions	%
US Official Development Assistance	16.3	12
US Other country assistance	1.5	1
US private assistance		
Foundations	3.3	3
Corporations	2.7	2
Non Profit Organisations	6.2	5
Universities and Colleges	2.3	2
Religious Organisations	7.5	6
Individual Remittances	40.1	31
US Private Capital Flows	51.0	38
US Total Economic Engagement	<b>130.9</b>	<b>100</b>

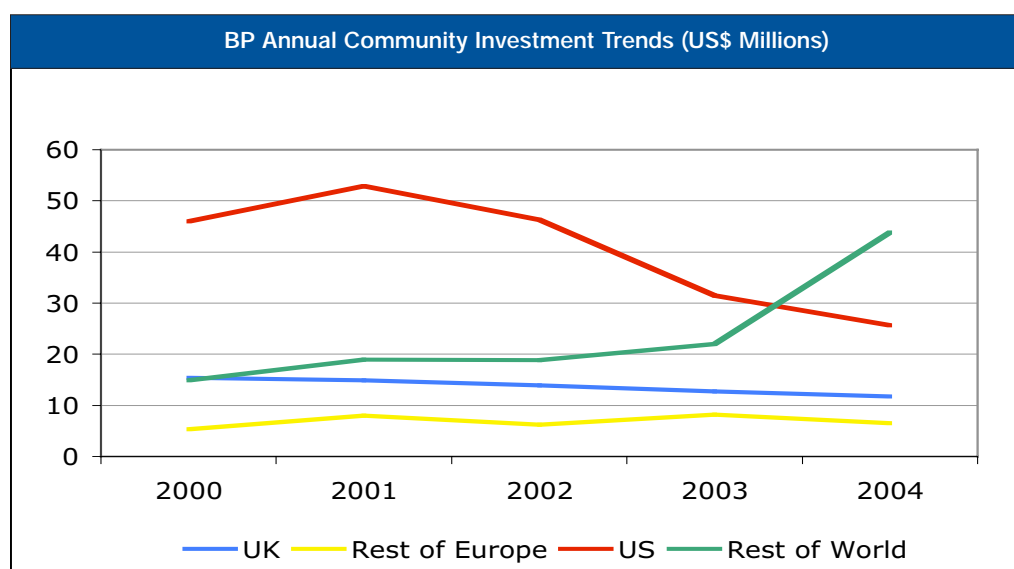
Source: Adelman et al (2005)<sup>3</sup>

# ANNEX 1. Corporate Donations

Sample of Corporate Philanthropy by Companies Domiciled in Developing Countries						
Company	Country	Low Income Country	Lower Middle Income Country	Revenues (US\$ Billions)	Cash Donations (US\$ Millions)	Notes
Pakistan Telecom	Pakistan	✓		US\$ 1.24bn	US\$0.92m (0.07%)	Telecoms. US\$ 460k to Telecom Foundation (assumed charitable), US\$ 460k to President's Drought Relief Fund.
Tata Group	India	✓		US\$ 14.25bn (2.6 per cent of the country's GDP)	US\$390m (2.74%)	Conglomerate (steel, mining, etc.). Through its trusts and companies, spends about 30 per cent of its profits after tax on social-uplift programmes
Lihir Gold Ltd	Papua New Guinea	✓		US\$ 0.235bn	US\$ 0.34m (0.14%)	Mining. 16.3% owned by Rio Tinto (who have a significant management presence on the board). Listed on multiple stock exchanges.
East African Breweries Ltd	Kenya	✓		US\$ 0.395bn	US\$ 0.62m (0.15%)	Alcoholic beverages. 49.6% (est.) owned by Diageo. Cash donation estimate based on EABL board commitment to give a minimum of 1% of profits after tax towards Foundation activities.
Cadbury Nigeria plc	Nigeria	✓		US\$ 0.164bn	US\$ 0.17 (0.10%)	Confectionery. 46.3% owned by Cadbury Schweppes.
Hayleys Limited	Sri Lanka		✓	US\$ 0.193bn (1.3 per cent of country's GDP)	US\$ 0.47 (0.24%)	Conglomerate (rubber, agriculture, transportation, etc.). US\$ 432k of the 2004 donation was an exceptional one-off response to the Asian tsunami.
PTT Public Company Limited	Thailand		✓	US\$ 15.9bn	US\$ 1.8m (0.01%)	Oil and gas - Thailand's national energy company. 52% owned by Thailand's Ministry of Finance. Cash donation includes 50.4m baht of tsunami relief and 60m baht energy saving campaign. Size of cash donations is likely to be larger (not all activities are costed in annual report).
Tiger Brands	South Africa		✓	US\$ 2.0bn	US\$ 2.1m (0.11%)	Food and healthcare. Minor presence in other countries.
Petrobrás	Brazil		✓	US\$ 37.4bn	US\$ 133m (0.36%)	Oil and gas company with presence in other South American countries.

Source: Various (2004)<sup>4</sup>

# ANNEX 1. Corporate Donations



Source: Various (2004)<sup>5</sup>

## ANNEX 2. Roundtable Participants

### **Education Roundtables**

Eric Rusten	Senior Programme Officer	Academy for Educational Development (AED)	USA
Gib Bulloch	Leader, AOP Programme	Accenture Development Partnerships	United Kingdom
Mario Fleck	Chairman	Accenture Development Partnerships	Brazil
Caroline Arnold	Senior Programme Officer, Education	Aga Khan Foundation	Switzerland
Lorena Zamora-Rivas	Representative	American Chamber of Commerce	Nicaragua
Victoria P. Garchitorena	President	Ayala Foundation	Philippines
Diaz C. Fuensanta	Head, Project Finance in the Americas	Banco Santander Central Hispano	USA
Lucia Frey	Policy Adviser	Basic Education Coalition	USA
Karen Merkel	Director, Education	BBC World Service Trust	United Kingdom
Ahmed Manzoor	Senior Research Fellow	BRAC	Bangladesh
Samir R. Nath	Senior Research Fellow	BRAC	Bangladesh
Brian Whittaker	Chief Operating Officer	Business Trust	South Africa
Simon Peters	Education Consultant	Cambridge Education	United Kingdom
Khadijah Fancy	Research Director	CAMFED International	United Kingdom
Anne Jellema	Advocacy Coordinator	Campaign for Education	South Africa
Andre Roberfroid	Consultant	CARE International	France
Michelle Selinger	Education Specialist	CISCO Systems	United Kingdom
Tae Yoo	Vice-President, Corporate Affairs	CISCO Systems	USA
Flavia Neves	Communications Manager	Coca Cola	Brazil
Virgilio Juvane	Chief Programme Officer, Basic Education and Teaching Profession	Commonwealth Secretariat	United Kingdom
Andreas Cox	Resident Consultant	Computer Associates	Jordan



## ANNEX 2. Roundtable Participants

Gene Sperling	Senior Fellow	Council on Foreign Relations	USA
Richard Corriette	Vice-President, Corporate Citizenship Unit	DHL	Belgium
Xavier Delacrois	Director	Edelman	France
Joyce Malyn-Smith	Strategic Director	Education Development Center	USA
Vivian Guilfooy	Senior Vice-President; Center for Education, Employment, and Community	Education Development Center	USA
Elie Jouen	Deputy Secretary- General	Education International	Belgium
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## ANNEX 2. Roundtable Participants

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## ANNEX 2. Roundtable Participants

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Alice Armitage	Contact for Middle East Partnership Initiatives	US Department of State	USA
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### **Health Roundtables**

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Nomalanga Makwedini	Director, HIV/AIDS	Department of Health of South Africa	South Africa
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Steve Wignall	Country Director	Family Health International	Indonesia
Richard Howard	Private Sector Specialist	Family Health International	Indonesia
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Therese Lethu	Director, European Office	Global Business Coalition on HIV/AIDS	Paris
Richard Feachem	Executive Director	Global Fund to Fight AIDS, Tuberculosis and Malaria	Geneva
Petra Heitkamp	Principle Officer	Global Partnership to Stop TB (WHO)	Geneva
Joe Madiath	Executive Director	Gram Vikas	India
Johann Peter Steinmann	Director	GTZ / Indo-German Health Programme	Germany / India
Stefaan Van der Borgh	Medical Adviser	Heineken	Netherlands
Andrea Fischer	Director, Health, Nutrition and Ethics	Institute for Organisational Communication (IFOK)	Germany
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Vinod Diwan	Professor, Epidemiology and Chairman, International Research and Training Committee (KIRT)	Karolinska Institute	Sweden
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### Water Roundtables

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# Endnotes

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- <sup>lv</sup> SPDC (2003): Annual Report. [http://www.shell.com/static/nigeria/downloads/pdfs/annualreport\\_2003.pdf](http://www.shell.com/static/nigeria/downloads/pdfs/annualreport_2003.pdf)
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