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Private Sector Participation (PSP) in German Financial Cooperation (FC)

1 – Private Sector Participation in Healthcare

- **Cooperation with the private sector ensures that FC projects are sustainable and successful**

Cooperation with private enterprises has become an important element in the preparation and implementation of FC projects. Private enterprises play a critical role in the efficient provision of services in developing countries. They can come in the form of a water system operator for a small town, a rural electricity supplier, a shareholder in a microfinance institution, or even a healthcare provider. Integrating private companies as service providers rather than mere suppliers is not a trivial undertaking. Structuring and implementing a successful PSP project involves complicated contractual arrangements. These contracts are often a delicate balance act where private and public interests must be aligned in a robust regulatory framework. “PSP in German Financial Cooperation" is a series of position papers that discusses the central topics and issues related to private sector participation in FC.

- **Cooperation with private partners - Characteristics of the health care sector**

Unlike in water, energy and telecommunications, the formal integration of non-government institutions in the healthcare industry of developing countries is still in its infancy. Private service-providers have always played an important role in healthcare, but mainly in the informal sector via trade in medical products from dubious channels or services from traditional healers. Affordable services and superior geographic coverage mean that informal healers and pharmacists are highly frequented by poorer population groups and account for a large share of their out-of-pocket expenses despite the lack of quality and efficiency. Donor financed programmes tend to be tied to governmental structures and are therefore unable to improve the quality of informal health care. What remains is the formal cooperation between public authorities and private enterprises or NGOs. However, due to the heavy competition for scarce public funds in the healthcare sector, public authorities are reluctant to allocate donor funds to private or civil organisations even though in many situations they are much better at providing services efficiently and tailoring them to the needs of target groups.

The large number of non-profit private or civil organisations is another distinctive feature of the healthcare sector. Unlike private utilities or telecom firms, they are not primarily interested in maximising market share and profits. They mainly pursue social objectives. This can generally be considered a positive feature and could create a major value-added in the relationship between public and non-governmental actors. On the other hand, many NGOs do no have the same level of professionalism and capacity as private service providers in other commercial sectors.

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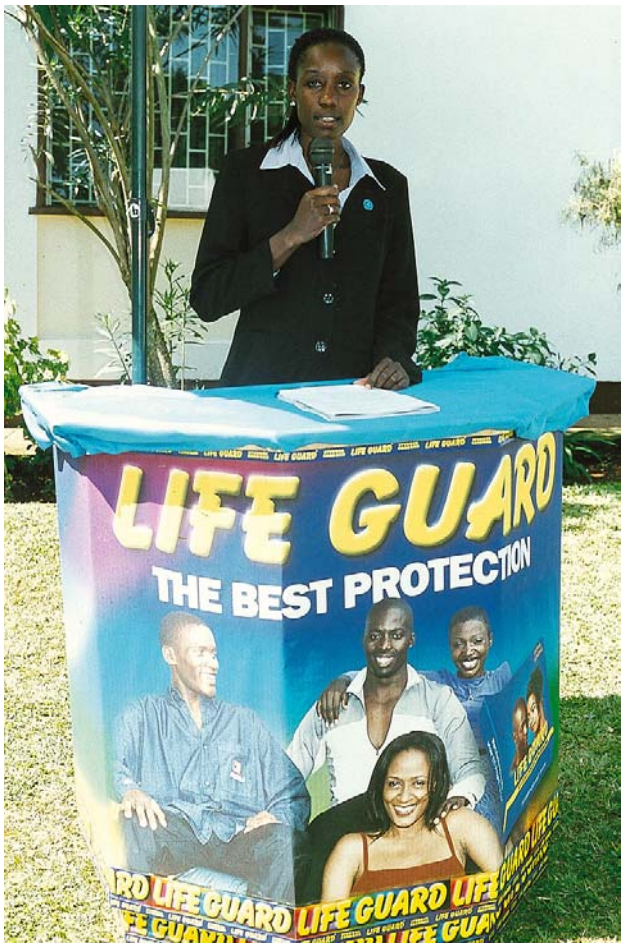

Advertisement of condoms in Uganda – Project: Family Planning and AIDS Prevention

- **PSP in the healthcare sector – Some promising approaches are gaining importance in German development cooperation**

In spite of the difficult conditions, promising approaches have been developed for the involvement of private healthcare providers in developing countries and some have already been implemented under German development cooperation. These approaches can be broken down into demand-oriented and supply-oriented initiatives:

The first group includes the so-called voucher schemes through which a selected target group (e.g. pregnant women, disabled war victims, disabled and chronically ill patients) is offered a predetermined package of services. Private enterprises or NGOs can take over the management of the voucher system. The vouchers can be exchanged for services at public or private licensed service providers. Thus, non-governmental enterprises and organisations play an important role. Within the framework of an FC project in Rwanda, disabled war victims are supplied with drugs and prosthesis by means of a voucher system. In Kenya, an FC-financed voucher system grants poor women access to reproductive health care services (prenatal care, birth assistance) and competent treatment of sexually transmitted diseases and offers assistance to victims of sexual violence.

Various health insurance models are also among the demand-oriented PSP approaches in the healthcare sector. Apart from commercial and social health insurances, which are generally not tailored to the needs and financial capabilities of poorer sections of the population, the municipal health insurance is particularly worthy of mention. This insurance targets poorer members of society through a principle of shared risk and consistently low premiums. Although these health insurances do not aim to make a profit, they should work on a break-even basis after the start-up phase. They can for example be managed by an NGO. Start-up financing and refinancing would be suitable instruments for German FC in this area.

Moreover, there is a connection between the access to microloans and the health of poorer population groups. Studies have confirmed that customers of microfinance institutions take better care of their health and are better able to recover from illness. This reduces the risk that loans are not repaid due to health problems. Microfinance institutions generally have a private or cooperative legal status. Like the health insurance approach, they are based on the principle of shared risk. Payments, however, are made retroactively while the insurance models constitute pre-payment solutions.

In supply-oriented approaches, private service providers can be involved in social franchising (SF) models. Similar to the widely known franchise principle of fast-food chains, private, for-profit doctors, health centres and pharmacies can act as franchisees on the condition that they fulfil certain criteria and use a uniform brand name. The franchiser is either an NGO or a public authority that controls quality standards, advertises uniform services, and implements national publicity campaigns. One of the best known franchise systems - the Green Star Network in Pakistan - was established with FC funds. In the Philippines, KfW and GTZ are currently pursuing a social-franchising approach for the sale of medicines.

The social marketing model is already very well known and is used in a large number of partner countries under German development cooperation, especially in Asia and Africa. However, unlike the other approaches described, it is not a "real" PSP model, because the private sector is only assigned certain services, such as the marketing of contraceptives, packaging and logistics, for a limited period of time. Generally, the commitment of NGOs or private enterprises directly hinges upon the provision of funds provided by development cooperation. Often the target client group cannot generate sufficient revenue to ensure medium to long-term cost recovery and consequently it is doubtful whether the system can be continued in the long term beyond the promotional period. In several larger countries such as Indonesia and the Philippines, however, the social marketing agencies are approaching financial break-even, which means that they are close to operating independently on a sustained basis. The involvement of private enterprises or NGOs brings value-added (marketing know-how, professional logistics, closeness to the target group), which is particularly relevant for the successful implementation of projects.

Contracting private service providers is a further supply-oriented approach. This model is similar to the PSP approaches in other service sectors such as water and power supply: A certain service, e.g. the operation of a hospital, is transferred to a private enterprise. This enterprise must fulfil performance indicators set out in a contract and payments are based on their fulfilment.

In order to actually be able to pass on efficiency and quality gains resulting from the involvement of private service providers to the target group, a functioning regulatory system is also needed. In almost all developing countries corruption and the resulting problems are commonplace in the healthcare sector. Even when clear rules exist for the performance of health-related services and the design of the interface between private and public actors, quality standards, price levels and the validity of licences are often inadequately controlled. The only remedy is a robust regulatory system. Therefore, regulation plays an essential role in the involvement of private actors in the healthcare sector – and again this is comparable with PSP approaches in other sectors.

Forms of private sector participation (PSP) in health care services in developing countries :

- Voucher systems
- Insurance and microfinance systems
- Social Franchising
- Social Marketing
- Contracting
- Regulation
- Cooperation with private service providers from the informal sector

Cooperation with private service providers from the informal sector poses a major challenge, but at the same time it holds tremendous potential. As mentioned at the outset, a large proportion of poor people turn to the informal sector — traditional healers, unauthorised vendors of medicine and mobile doctors without any qualifying degree — first and often exclusively. Through closer cooperation with these groups (instead of fighting or discriminating against them), it is possible to improve primary health services for a large

number of people. Successful approaches include training drug vendors and providing them with pre-packaged, properly labelled drugs.

Sale of condoms at a street kiosk in Pakistan – Project: Social Marketing

- **Challenges and opportunities**

The approaches mentioned and the models of private sector participation in the healthcare sector are set against a number of challenges and obstacles. One of these challenges are the extremely poor. When private or civil, non-governmental actors are involved in the provision of services, they need to be financially compensated by the target group in the medium to long term. If this is not the case, targeted public subsidies must be provided - which is difficult, yet not impossible (e.g. the voucher systems). Except for the social marketing approach, which is not a pure PSP model as mentioned, none of these approaches has been implemented on a large scale so far. Scaling up is a major challenge for the years to come. The limited capacity and professionalism of some NGOs will weigh down this process. With regard to the cooperation between public and private parties there is still a long way to go. Competition for donor funds and inadequate regulatory systems are further factors, whose (negative) consequences should not be underestimated. Finally, greater acceptance is still needed. Private services in social sectors would merit greater consideration in view of their potential value-added and project appraisals should look into the possible benefits of private sector participation.

A study commissioned by KfW entitled "Private Sector Participation in Health Sector Cooperation – Options and Experiences", the 8th Evaluation Report on Projects and Programmes in Developing Countries (focus: HIV/AIDS Prevention through Social Marketing) and further information on the subject may be ordered from the following contacts:

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