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FIELD-SUPPORT LWA TECHNICAL PAPER

Improving Access to Health Care Products and
Services through the Commercial Private Sector

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Executive Summary

There is a strong rationale for health development practitioners to engage and promote the private sector in the delivery of health care products and services. Briefly, the private sector is often in a better position to assure the delivery of products and services in a sustainable manner than other actors and organizations whose continuing activities depend on donor support. For this and other reasons development organizations are looking more and more to the private sector as a vehicle towards improved health care products and services. One of the challenges however, is how to do this without distorting markets (which can take place when development organizations provide ongoing product subsidies or when they take on market functions that crowd out private enterprise).

This paper looks at three programs that are promoting the sustainable delivery of health products/services through the commercial private sector. These projects employed market development strategies that resulted in: 1) commercial sustainability in the provision of targeted healthcare products and services; 2) sustainable access to good quality products and services for at-risk or hard-to-reach target populations, and; 3) an increase in sustainable employment through growth of the private health sector. Some lessons learned from these projects include: 1) include a goal of commercial sustainability; 2) employ a value chain framework in program design, and; 3) facilitate interventions to improve the sustainable delivery of targeted health care products and services

The rationale for promoting the commercial private health sector has two main arguments. First, this sector already accounts for significant investment and provision of health products and services in most developing countries. Second, the commercial private health sector can provide many health products and services without the ongoing subsidy required by donors and national governments. There are times, however, when the promotion of commercially sustainable products and services may not be appropriate – such as with vaccination campaigns.

Opportunities to promote greater commercial sustainability in health care programs include:

- Coordination among donors to lessen distortions and encourage greater private investment in select markets for health products and services.
- Improving the policy and regulatory environment for the commercial private health sector to help promote its growth and outreach to hard-to-reach populations.
- Integrating a value chain/market development approach to help practitioners identify the full range of constraints and opportunities for sustainable delivery to target groups
- Developing strategies to encourage the commercial private health sector to expand coverage to hard-to-reach populations segments
- Reorienting social marketing programs from functioning as a supply chain actor to facilitating commercially viable supply and demand with private sector actors (thereby helping to assure that the impact of such programs endures beyond the direct support of donor funds).

I. Introduction

There is a strong rationale for health development practitioners to engage and promote the private sector in the delivery of health care products and services. Briefly, the private sector is often in a better position to assure the delivery of products and services in a sustainable manner than other actors and organizations whose continuing activities depend on donor support. For this and other reasons development organizations are looking more and more to the private sector as a vehicle towards improved health care products and services. One of the challenges however, is how to do this without distorting markets (which can take place when development organizations provide ongoing product subsidies or when they take on market functions that crowd out private enterprise).

The purpose of this paper is to explore approaches for working with the commercial private health sector that result in the commercially viable (i.e. profitable) delivery of health products and services, which could enhance the impact of many health sector programs by making their impact more sustainable. The paper focuses on programs that promote private sector actors who are engaged in the commercial sale of healthcare products or services, and who do not rely on continued support from public subsidies for their existence¹. These include:

- for-profit manufacturers, distributors, and retailers of health products
- privately practicing medical professionals (both trained and untrained)
- private firms involved in the health care industry (testing labs, teaching facilities, etc)
- not-for-profit organizations so long as their activities are wholly supported by the sale of their goods and services and not subsidized

Although this paper focuses on approaches for promoting commercial private sector actors, it is recognized that much debate continues as to the ability and suitability of the commercial private health sector to expand distribution to hard-to-reach populations, assure good levels of product or service quality, and be a vehicle for realizing certain public health objectives. This paper hopes to add to this debate by: 1) reviewing examples of health projects that have applied market-based approaches; 2) distilling lessons learned and key principles for designing/ implementing programs that work with the commercial health sector, and; 3) exploring the rationale for such programs. The paper concludes by discussing some of the challenges to promoting the commercial private health sector and highlights some opportunities for addressing these challenges.

II. Programs Promoting Sustainable Delivery of Health Products/Services through the Commercial Private Sector

This section looks at three examples of health development projects that have employed approaches that promote the sustainable (i.e. profitable) delivery of healthcare products and services to under-served populations. The projects are described in terms of their goals and objectives, the constraints and opportunities for the commercial provision of targeted products/

¹ These actors/organizations are referred to in this paper as “commercial private sector” actors

services, the facilitation strategies employed, and the results to-date. The descriptions are intended to illustrate different approaches to developing the commercial private health sector rather than serve as detailed case-studies.

NetMark: Promotion of Insecticide Treated Nets for Prevention of Malaria

NetMark is an ongoing USAID funded project with the goal of “increasing the demand for and expanding the availability of insecticide treated nets (ITN)” as a means of combating malaria². It aims to expand the availability of ITNs through private sector market actors such as net manufacturers, importers and distributors and retailers. When it began in 1999, the project targeted the ITN markets in four African countries: Nigeria, Senegal, Ghana and Zambia and has since expanded focus into Mali, Uganda, Zimbabwe, Ethiopia and Cameroon.

The project’s private sector partners are manufacturers of ITNs and local distribution enterprises. Although many of these businesses saw ITNs as a good business opportunity, they were not entering or expanding into the market for the following reasons:

- In all target markets, there was a general lack of awareness of the benefits of ITNs.
- In many markets, there was low demand for commercial ITNs (priced at market rates) due to the presence of free or highly subsidized ITNs. Commercial brands were also subject to high import tariffs and other taxes in some countries, which further eroded their competitiveness.
- Many manufacturers (most of whom are multinational firms) did not enter the markets as they lacked access to reliable in-country commercial distribution channels.
- Manufacturers had greater incentives to expand their markets with institutional buyers like international assistance organizations and governments. Satisfying the large orders of institutional buyers was an easier operation than developing and maintaining relations with extensive distribution networks.

The facilitation strategies adopted by the project to assist their private sector partners overcome these constraints were of four types. The first concerns developing the demand for and awareness of commercially available ITNs. Activities here included raising public awareness with behavior modification and advertising campaigns and developing and promoting a NetMark brand of quality that was placed on all partners’ ITNs. The second targeted the capacity of its private sector partners to produce top quality ITNs and identify and establish relations with local distributors. The third focused on negotiating with local governments to improve the commercial opportunities for ITNs by eliminating tariffs and local taxes on commercial imports. The fourth strove to coordinate approaches between NetMark and other donor initiatives in order to carve out sufficiently attractive market segments for the private sector by better channeling subsidized ITNs to specific, at-risk, and smaller market segments.

Part of NetMark’s mandate for its second phase, which began in 2004, was to assure the provision of ITNs to at-risk populations who were unable to purchase ITNs at commercial rates. To protect and expand the market incentives and opportunities for commercial ITN providers,

² NetMark: A Case Study in Sustainable Malaria Prevention Through Partnership with Business, *Academy for Educational Development* (AED)

NetMark introduced a voucher program whereby members of the target population redeemed a voucher for an ITN at the store of a commercial provider, who is afterward compensated. Understandably, the efforts of so many donors and initiatives to supply ITNs to African populations can greatly distort the market and dissuade the private sector from investing in it. The voucher program was designed to target certain populations with ITNs while not undercutting the commercial sustainability of the private sector providers. It is not clear, however, once subsidies for ITNs abate, whether the target populations benefiting from vouchers will be willing or able to continue acquiring ITNs, and what the loss of this market segment will mean for the private sector providers.

Encouragingly, because of the project's activities and increases in volumes of ITNs sold, the commercial brands of ITNs promoted by NetMark were, in Zambia, cheaper than the social marketing (subsidized) brands. That the private sector can (even in one country) out-perform its subsidized competitors in terms of providing accessible and affordable products should raise the question whether this can happen elsewhere (if the private sector were not put at a competitive disadvantage with publicly supported products).

Overall, NetMark has achieved some impressive results. Some of them include dramatically increased sales of ITNs by its private sector partners, for instance, sales in 2005 were 66% over those in 2004. Also, commercially priced ITNs from its partners are now found on a national scale and awareness of ITNs has increased from 43% to 84% in all target countries.

Oral Rehydration Salts: Awareness and Use in Northern India

Commercial Market Strategies (CMS), a USAID-funded umbrella initiative built on its experience in India promoting commercial sources of low-dose oral contraceptives (OC) to promote commercial brands of oral rehydration salts (ORS). The following description looks closer at this project, which ran from 1998 to 2004.

The CMS project aimed to increase awareness and use of World Health Organization (WHO) compliant formulas of ORS in northern India. The market at the start of the project was dominated by one supplier, whose brand was not WHO compliant. Overall use of the ORS by people affected by diarrhea in the targeted population was around 26%. The fact that the market was dominated by one supplier and that overall use was low, was one of the major constraints, or disincentives, for other private sector suppliers to enter the market. Part of the reason why use was so low was that medical professionals preferred other remedies for treating cases of diarrhea and/or were unaware of the benefits of ORS.

Six private sector suppliers ultimately agreed to work with the CMS project. The suppliers, as part of signed arrangements with the project, agreed to manufacture, package and distribute appropriate sized small packages of ORS that were compliant with WHO standards into northern regions of India targeted by the project. They also agreed to carry a WHO ORS logo on their packages. In return, the CMS project would actively promote the branded products through

advertising, behavior modification campaigns and detailing³ operations to medical professionals and pharmacists. No project funds were spent on the manufacture or distribution of ORS.

The project results showed steady, yearly increases in product use, sales, and availability. Use by the targeted population increased to 36% by the end of the first year and reached 60% by year-three. Product sales increased by 45% in the second year and another 20% a year later. One company, Merck, saw an impressive 90% increase in sales of its product in the second year of the project. By the end of the third year, 62% of pharmacies in the region carried ORS products, which was up from 23% when the project started. In addition, six firms were competing for market share in a market where one supplier dominated before.

PRISM: Promotion of Family Planning Services in the Philippines

Recently launched in 2005, the PRISM project, a USAID-funded initiative in the Philippines, has several components, one which promotes commercial oral contraceptives and another that promotes the private sector provision of family planning services. This description looks at the latter component. Because the PRISM project activities began only recently, results are not yet available.

The PRISM project identified several private sector actors for providing family planning services including midwives, nurses, doctors and pharmacists. Most project activities to date have focused on the channel involving midwives who face several constraints to providing family planning services on a commercially sustainable basis. The first, and perhaps most important, is that few midwives earn their income entirely from private sector activities. Most work for or through public clinics but provide private midwife services after hours. Most of the midwives lacked a sufficiently strong client-base to support their businesses and often lacked the business skills to operate successfully on a full-time commercial basis. In addition, most midwives lacked the latest information with regards to family planning products and techniques.

Working in conjunction with professional associations of midwives, the project developed a training package designed to address the management and technical needs of midwives, and help them to set up and manage private practices. They used the training package to conduct initial programs for interested midwives and also built the capacity of midwife associations to use the package to conduct training for their members. In addition, the project: 1) developed sample marketing and promotional materials (brochures, etc.) that the midwives could adapt and replicate for promoting their new private operations, and; 2) supported the launch of the midwives' private practices by holding community forums and discussions with potential clients.

³ Detailing refers to the practice of apprising medical professionals and sellers of medical products of new products and technology through direct visits and distribution of information materials.

III. Key Lessons and Principles

The health development projects described above employed market development strategies that resulted in:

- commercial sustainability in the provision of targeted healthcare products and services
- sustainable access to good quality products and services for at-risk or hard-to-reach target populations
- an increase in sustainable employment through growth of the private health sector

From these projects, certain lessons and common principles can be drawn, which are described in detail below. *These principles may not be applicable in all situations, but development practitioners can strive to apply them whenever possible.*

3.1 *Include a goal of commercial sustainability*

The first lesson is to include *commercial sustainability* of the delivery of products and services as a critical program goal. This means that by the time the program ends, the provision of a product (oral contraceptives, rehydration salts, etc.) or a service (midwifery, family planning, etc.) is assured by actors of the private sector and independent of continued donor support.

Health development programs that include such a goal can be differentiated from social marketing programs that promote subsidized products or services on a long-term basis, even though many may work with actors in the private sector. With social marketing programs, the availability of the promoted products and services, and the appeal of their brands, are often sustainable only as long as donor funding continues. In addition, programs that purchase and distribute products like oral contraceptives or water treatment kits are often playing critical functions in the supply chain. When the donor funding that supports these activities ends or fluctuates, there is a serious risk that the supply of the product in question will contract or cease all together.

3.2 *Employ a value chain framework⁴ in program design*

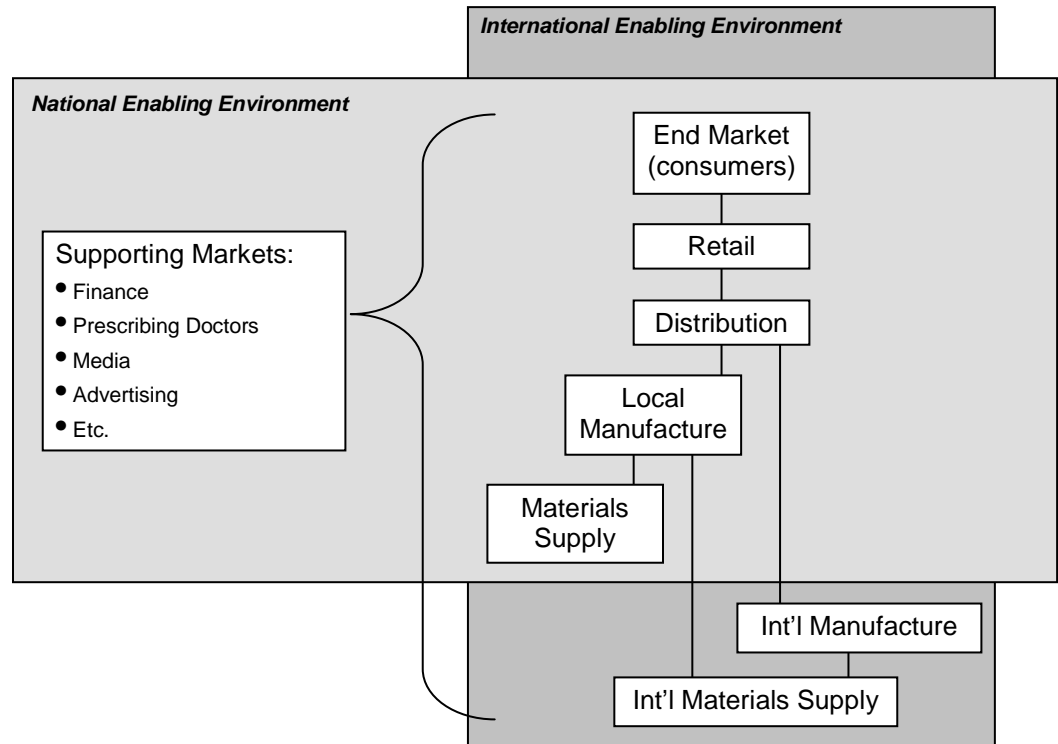
The second lesson for projects working to promote the sustainable delivery of healthcare products and services is to employ a value chain framework when designing programs. This framework allows program designers to analyze the constraints and opportunities of the market, or value chain, at both an industry-wide level and at the level of the specific private sector actors involved in the distribution and delivery. For example, through analysis of the value chain for ITNs, the NetMark project design team was able to identify a variety of issues that were inhibiting greater commercial sales. These included macro issues such as competition from subsidized ITNs, prohibitive import tariffs, and low market demand, as well as firm level constraints such as lack of relations with reliable distribution networks. The experiences of the

⁴ A ‘value chain framework’ looks at all the market actors that contribute to getting a product or service from inception to the final consumer. It also includes examination of the enabling environment.

projects highlighted in this paper, and of practitioners in the field of enterprise/market development have shown that a “value chain framework” can be useful to get at the full range of issues that affect growth and performance of a targeted product or service.

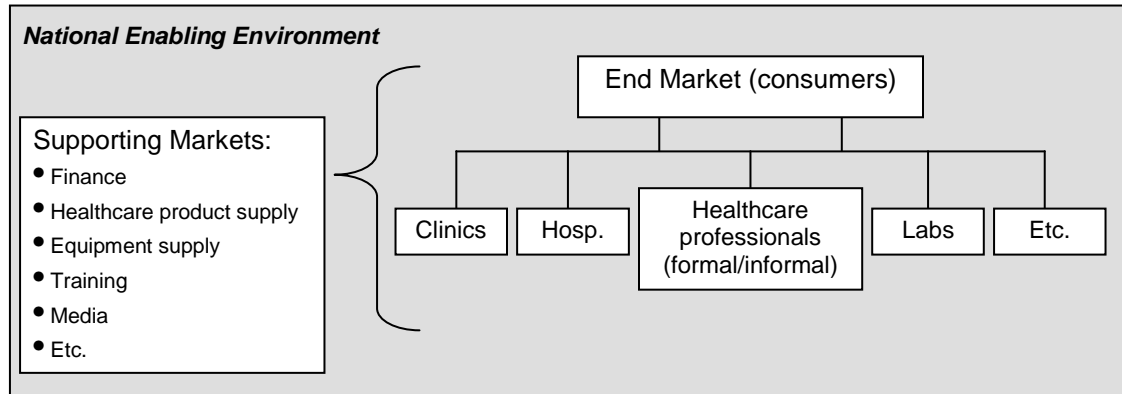
Generic (and summarized) value chain frameworks for the health sector are presented in the following diagrams. Diagram 1 portrays a framework for healthcare products and Diagram 2 portrays a framework healthcare services.

Diagram 1: Generic Value Chain Framework: Private Sector Healthcare Products



This framework highlights the following:

- **End markets** - the consumers of healthcare products, which can be broken down by market segment, geographical area, etc.
- **Vertical linkages** - the commercial relationships between market actors with different functions in the value chain
- **Horizontal linkages** - the cooperative relations of market actors typically with the same function in the value chain (e.g. retailers, manufacturers, etc.)
- **Supporting markets** - products and services that are instrumental to the success of the value chain and its actors
- **National and international enabling environments** - the policy and regulatory environment that governs how businesses operate and how healthcare products are controlled; includes national government agencies, international institutions and agreements, the international donor community, etc.

Diagram 2: Generic Value Chain Framework: Private Healthcare Services

This framework shows a much flatter structure than the framework for healthcare products. As such, the horizontal linkages between service providers and their access to numerous supporting markets are likely to comprise the primary business relationships.

Each of these frameworks can be a useful tool for development practitioners to visually take in the full range of actors in the value chain and identify critical points or inter-firm relations that are important for the commercial sustainability of the delivery of the product or service and its growth. Absent, however, from either of the above diagrams are any of the public and not-for-profit entities that often mirror the functions of the private health sector or replace it entirely. Identifying these entities, their role in the value chain and inter-relations with the private health sector actors is also required for the successful employment of a value chain framework.

3.3 Facilitate interventions to improve the sustainable delivery of targeted health care products and services

This third lesson pertains to how health development programs intervene with private sector actors to promote improved delivery, quality and commercial viability of the targeted products and services. As seen in the above cases, the project interventions focused on facilitating linkages between private sector actors in the value chain and between private sector actors and consumers. The following are examples of some of these interventions:

- developing the demand and/or awareness of a target population for a particular health care product or service (e.g. the market demand for ITNs, ORS or midwife services)
- building the capacity of private sector actors to produce and deliver quality, cost effective products and services that are affordable to the targeted population group (e.g. capacity of midwife clinics to operate profitably, the ability of ITN manufacturers to access reliable, in-country supply networks, etc.)
- promoting government policies that can make it easier for market actors to provide needed products and services
- facilitating market actors' access to support services such as finance and technical training

Such interventions, or facilitation strategies, are generally meant to conclude once the project ends. They strengthen the supply of products and services and develop demand in such a way

that does not distort commercial markets but rather fosters private sector actors' commercial incentives. Such facilitation strategies are also effective at leaving behind commercially viable market actors who can provide products and services at costs that are affordable to the targeted end users.

IV. Rationale for Promoting the Private Health Sector

The rationale for promoting the commercial private health sector has two main arguments. First, this sector already accounts for significant investment and provision of health products and services in most developing countries. As such, this sector is a logical partner for health development programs aiming to expand the availability of health products and services to many segments of a country's population.

Second, the commercial private health sector can provide many health products and services without the ongoing subsidy required by donors and national governments. Donors, from publicly funded institutions to private foundations, cannot be expected to support the delivery of products and services indefinitely - their interests and their funding strategies rarely extend that far. Also, many national governments, notably those in developing countries, lack the capacity to provide needed health products and services to all of the population at large or the harder-to-reach segments of the country. Finally, NGOs, particularly those whose continued activities rely on support from donors or governments, are unlikely to be sustainable providers for the reasons cited above.

There are times, however, when the promotion of commercially sustainable products and services may not be appropriate – such as with vaccination campaigns. There are also potential pitfalls if companies abuse monopolistic situations. There are, however, numerous instances where the commercial private health sector can complement and support public health objectives for expanding the availability of needed products and services - at attractive prices and satisfactory quality - to underserved populations.

V. The Problematic Goal of Commercial Sustainability

The biggest challenges in applying market development approaches in health development programs have less to do with implementation than with setting commercial sustainability as one of the project's goals in the first place. Many of these challenges find their roots in the funding priority of donors, in the perceptions and experience of the health development community regarding the commercial private health sector and in the incentives of the commercial private health sector itself. These challenges are outlined below.

Funding Priorities for Health Development Programs

Donor funding priorities tend to support programs that focus on limited categories of health products or services (e.g. family planning, anti-malaria, HIV/AIDS prevention) and expect to achieve rapid results targeting specific population segments. Such priorities tend to favor

projects that promote subsidized products and/or services that are delivered to a target population. These projects have demonstrated their ability to reach specific population segments and achieve healthcare results in a fairly short timeframe.

Such programs, however, are usually not conducive to promoting commercial sustainability for two reasons. The first, discussed earlier, concerns the difficulty for commercial private actors to compete with subsidized products and services. In some instances, commercial private actors may be unwilling to even enter such markets or may limit their investment to high value products or services, which compete less with subsidized ones. For example, a sister project to CMS's promotion of ORS in India that promoted OC, the *Goli ke Hamjoli* project, witnessed just this difficulty. In this case, commercial and subsidized OC products were promoted simultaneously. As a result, the market shares for both subsidized and commercial OC grew, but the commercial manufacturers later retreated to higher price points (and higher-end users) for their products as they could not earn enough revenue with the limited volumes sold in competition with subsidized products.

The second reason is that such projects, by limiting support to a narrow range of products or services, do not address the need of market actors to develop a broader range of products and services that will enable them to be commercially viable overall. For example, private medical clinics tend to earn more from curative services than preventive ones like family planning. However, the ability of such clinics to expand and service hard-to-reach populations may best be supported through efforts that focus on all of their services and building their capacity to achieve overall cost-effective delivery.

Mistrust and Limited Experience Working with the Commercial Private Health Sector

Health development practitioners and local governments are oftentimes uneasy about addressing consumers' and patients' need for health products and services through profit-seeking entities⁵. There is concern that these entities do not share the same commitment to quality and equity of access. These concerns are sometimes justified. Market forces are not always ideally suited to address public health needs. However, there are also many instances where the commercial private sector is the ideal channel for satisfying consumers' needs and reaching greater segments of the population than the public sector, especially when sustained delivery is important.

Uneasiness working with private sector actors can also be attributed to limited experience working with them, as well as an absence of or lack of confidence in regulatory regimes to effectively control the quality of their products and services.

The Commercial Private Health Sector's Own Misgivings

Commercial firms can also have mistrust - in their case of public sector and donor funded programs. For example, a commercial manufacturer of OC may be reluctant to invest in marketing, increased capacity or lower price structures based on a development program's

⁵ Entities that earn money by providing a good or service that others consider valuable

promises to promote increased demand. The commercial opportunity could be attractive but the risk may be too high if the manufacturer has little experience (or negative experience) with development programs or does not fully understand the nature of a public-private partnership. Building the confidence of commercial private partners for such arrangements often takes time and cultivation of personal relations.

VI. Opportunities for Promoting Commercial Sustainability

These challenges, however formidable, do not diminish the rationale discussed earlier for pursuing the commercially sustainable delivery of health products and services for underserved populations. The following are some proposed opportunities for addressing these issues.

1. Coordination among donors to support the commercial private health sector can lessen distortions and encourage greater private investment in select markets for health products and services.
2. Improving the policy and regulatory environment for the commercial private health sector can help promote its growth and outreach to hard-to-reach populations. Examples include building the capacity of governments to work with the commercial private health sector and developing their capacity to regulate the private sector's performance, especially with regard to quality control.
3. Integrating a value chain/market development approach to analyzing the markets for targeted health products and services can help practitioners identify and address the full range of constraints and opportunities for sustainable delivery to target groups.
4. Innovative facilitation strategies by development programs can help encourage the commercial private health sector to expand coverage to hard-to-reach populations segments by the following:
 - fostering commercial incentives to invest in new markets by developing demand
 - building the capacity of market actors to achieve cost-efficiencies and linkages with sources of new technology, finance, inputs, etc.
5. A reorientation of social marketing programs from functioning as a supply chain actor to *facilitating* commercially viable supply and demand with private sector actors could help assure that the impact of such programs endures beyond the direct support of donor funds.

VII. Acknowledgements

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