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Building on the Monterrey Consensus:

The Growing Role of Public-Private Partnerships in Mobilizing Resources for Development

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Preface

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 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

Executive Summary

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[i]. 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 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 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,

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

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[ii]. 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

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 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, 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.[i] 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.[ii] 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.[iii] 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 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

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.

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.

[i] 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.

[ii] 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.

[iii] 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.).